Stock Code: 992

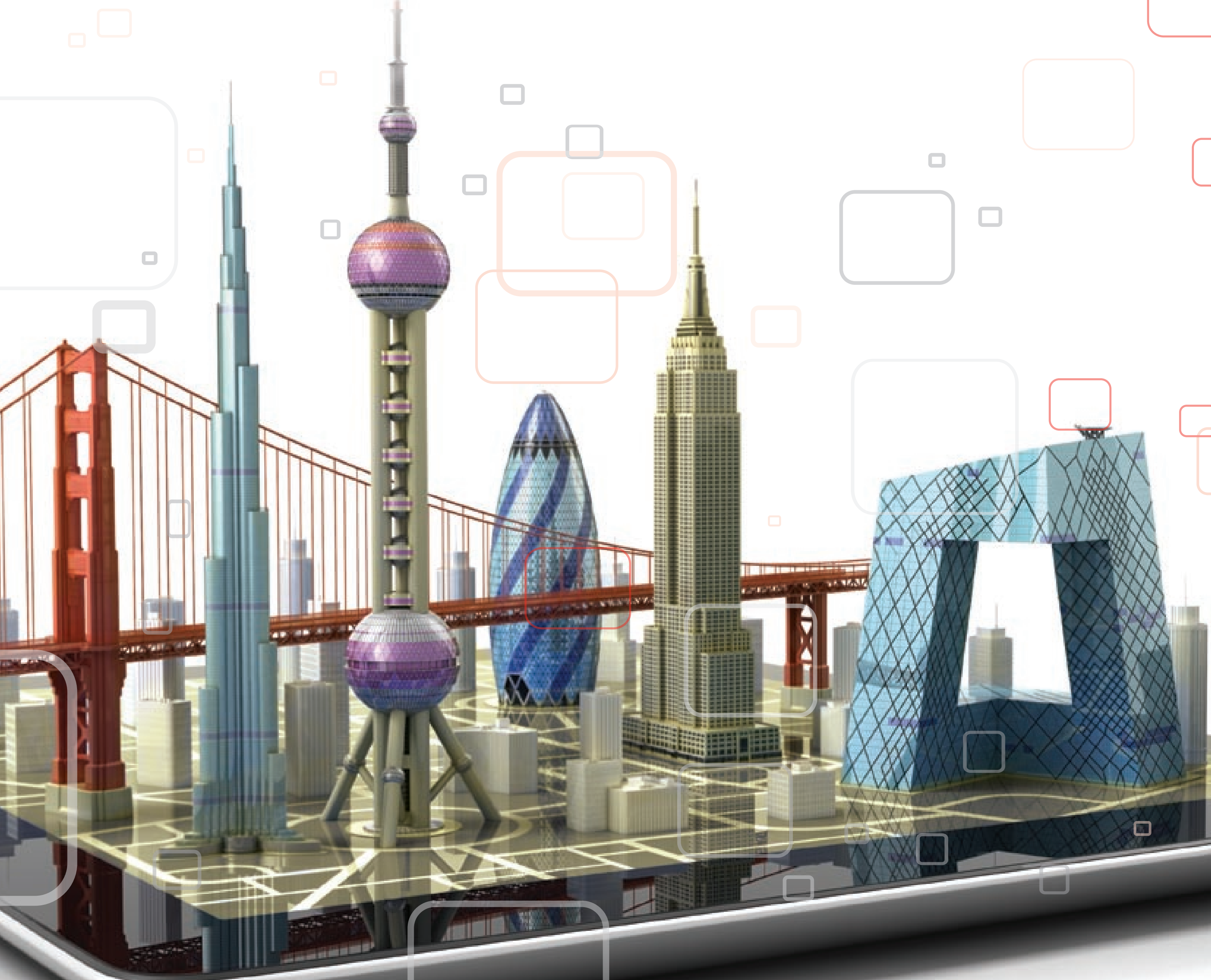
Journey from PC to **PC+**

2011/12 Annual Report Lenovo Group Limited

lenovo FOR THOSE WHO DO.

About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$30 billion personal technology company – and the second largest PC company in the world, serving customers in more than 160 countries. Dedicated to building exceptionally engineered PCs and mobile internet devices, Lenovo's business is built on product innovation, a highly efficient global supply chain and strong strategic execution. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the Company develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial PCs and Idea-branded consumer PCs, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones. Lenovo has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina.



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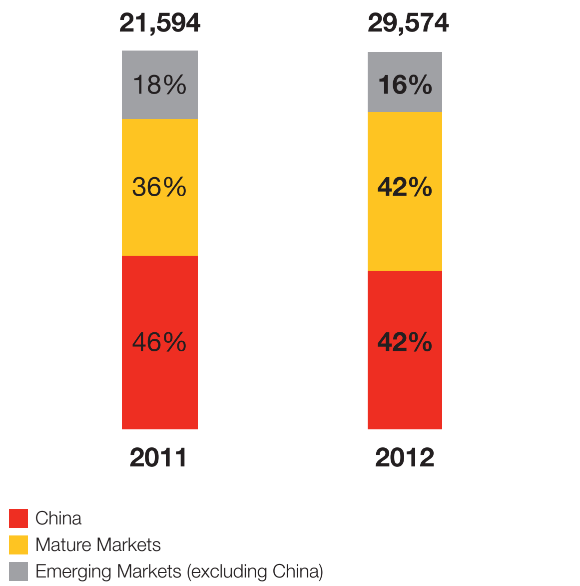
FINANCIAL HIGHLIGHTS

For the year ended March 31	**2012 US$ million**	2011 US$ million	Year-on-year Change
Group Results			
Revenue	**29,574**	21,594	37%
Gross profit	**3,446**	2,364	46%
Gross profit margin (%)	**11.7**	10.9	0.8pt
Operating expenses	**(2,862)**	(1,982)	44%
Expense-to-revenue ratio (%)	**9.7**	9.2	0.5pt
EBITDA[1]	**821**	603	36%
Pre-tax income	**582**	358	63%
Pre-tax income margin (%)	**2.0**	1.7	0.3pt
Profit attributable to equity holders of the Company	**473**	273	73%
EPS – basic (US cents)	**4.67**	2.84	1.83
EPS – diluted (US cents)	**4.57**	2.73	1.84
Interim dividend per share (HK cents)	**3.8**	2.6	1.2
Final dividend per share (HK cents)[2]	**10.0**	5.0	5.0
Total dividend per share (HK cents)	**13.8**	7.6	6.2
Cash and Working Capital			
Bank deposits and cash and cash equivalents	**4,171**	2,997	39%
Total bank borrowings	**(63)**	(272)	(77%)
Net cash reserves	**4,108**	2,725	51%
Cash conversion cycle (days)	**(19)**	(28)	9

Note:
1 Excluding restructuring charges and other income, net.
2 Subject to shareholders' approval at the forthcoming annual general meeting.

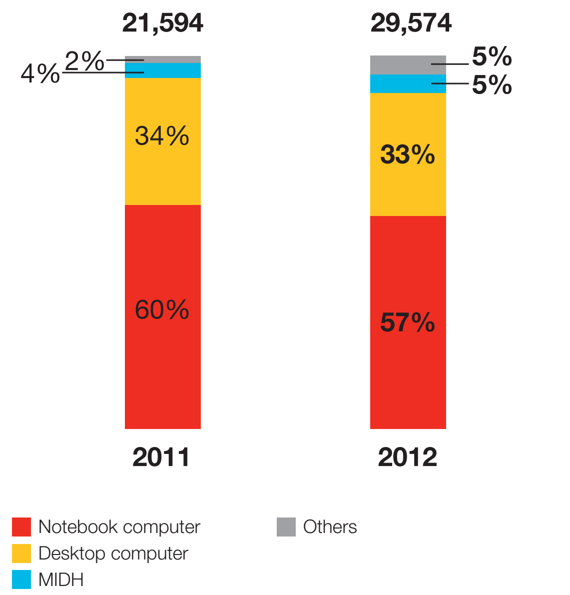
SALES ANALYSIS BY GEOGRAPHY

for the year ended March 31 (US$ million)



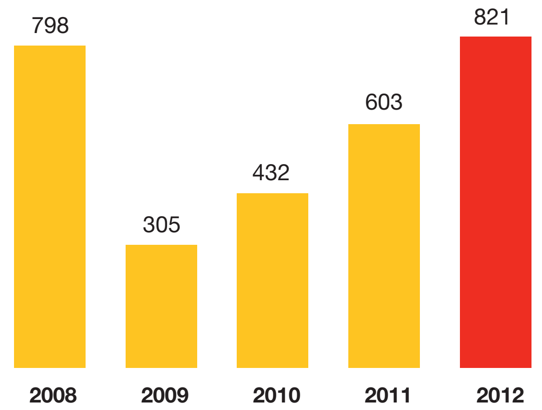
SALES ANALYSIS BY PRODUCT

for the year ended March 31 (US$ million)



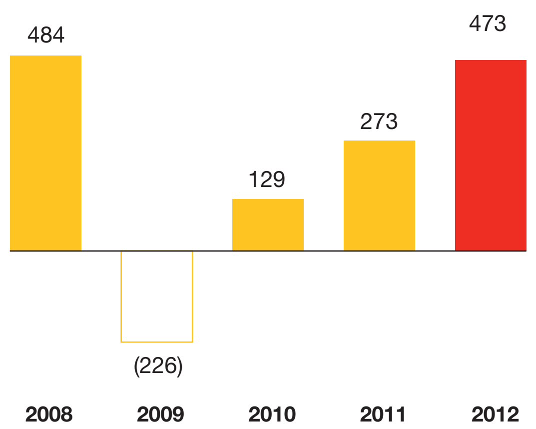
EBITDA CONTINUING OPERATIONS[1, 2]

for the year ended March 31 (US$ million)



PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

for the year ended March 31 (US$ million)



Notes:

1 Excluding discontinued operations for the period from April 1, 2006 to March 31, 2008.

2 Excluding restructuring charges and other income, net.


lenovo

REDEFINE
PC INNOVATION

CHAIRMAN AND CEO STATEMENT

Since I became CEO in 2009, Lenovo has been focused on the balance between driving outstanding near-term performance and building a solid foundation to ensure long-term success. This year, I am pleased to announce that Lenovo completed the best year in our history, and our future is brighter than ever.

During this past fiscal year, we achieved numerous records and positioned ourselves for even stronger growth as we look forward. Our impressive achievements include:

- Lenovo was the fastest growing major PC company every quarter during the fiscal year.
- Lenovo's worldwide market share reached an all-time high for the third straight year. This record was achieved by gaining share in every geography and every segment. Our strong, balanced performance included record performances across the world.
  - In China, we set another record for market share as we further solidified our market-leading position in the world's largest PC market.
  - We strengthened our position as the leader in global emerging markets.
  - We set new market share records in key markets such as the United States, India and Russia.
- We set all-time records for unit shipments and sales, with sales surpassing US$29 billion.
- Our profitability again grew substantially thanks to strong, balanced performance worldwide and continued scaling of expenses.
- We successfully launched a joint venture with NEC PC in Japan – making Lenovo the number one PC company in the world's third-largest PC market. The JV enjoyed historic success, gaining share and growing profitability immediately, without any loss or slowdown in the business.
- We completed an acquisition of Medion AG in Germany, significantly boosting our consumer presence in Western Europe and adding critical new talents to our team.
- We opened a new production, research and development center in Chengdu, China, and created a joint venture with Compal. Both ventures will help further provide products to our customers in faster, more efficient ways while enhancing Lenovo's global supply chain and strengthening our integrated innovation capabilities.
- Our Mobile Internet Digital Home (MIDH) Group had a strong performance in its first year. We are very close to double digit market share in China. In tablets, we are already the clear number one provider of Android tablets in China. We will build on this momentum to grow even stronger in smartphones and tablets in the year ahead, and also launch Smart TV in China.
- We launched our "For Those Who Do" brand campaign, gaining substantial improvements in our brand recognition worldwide, with an 86% increase in consumer brand consideration across our key markets.

Clearly, we performed at a world-class level in the past year. And our success demonstrates that we have the right strategy and are delivering strong execution.

FOUNDATION OF OUR SUCCESS

Our strong performance was driven by the following key factors:

- **A clear strategy that delivers short-term results balanced with reaching long-term objectives:** We continued to protect our core markets in China and worldwide Commercial sales, while attacking and gaining both share and improved profitability in Emerging Markets, Consumer sales and Mobile Internet device sales. This clear strategy drove strong execution worldwide.
- **Our commitment to and investment in innovation that differentiates our products.** Lenovo consistently wins awards and gets excellent reviews for the quality, design and functionality of our products. At this year's Consumer Electronics Show, we won a record 23 major awards, more than our top 5 competitors combined. Our products deliver the reliability and durability that meet our customers' needs.
- **Our efficient, end-to-end business model.** Our unique, dual-business model serves global, large enterprise customers through our relationship model and small-to-medium businesses and consumers through our transaction model. In the last year we invested to further strengthen our business model by enhancing our vertical integration.
- **A strong global leadership organization** that combines a diverse, experienced leadership team with an organizational structure that enables frequent consultation, leading to thorough, effective decision-making. This allows our leaders to apply their expertise, insight and perspective at the speed necessary to lead in our fast-paced, global industry.
- **Our culture of commitment.** Our teams around the world have embraced The Lenovo Way, living the idea that "We do what we say and we own what we do." Our strong culture helps us operate with even greater speed, leading to a clear competitive advantage.

These key strengths will continue to be the foundation of our success in the years ahead, helping us drive strong growth as we push to become one of the world's leading personal technology companies.

LEADING IN THE PC+ AGE

Our industry continues to change rapidly. In addition to traditional PCs, smartphones and tablets, along with Smart TV, are creating what we call the "PC+ Era." All of these devices can be used to create and consume Internet content, while also running different screen sizes, different applications and offering different user experiences. The traditional PC will continue to be the critical component in the future, and Lenovo will continue to lead the PC's evolution through innovation.

Lenovo completed the best year in our history, and our future is brighter than ever

Lenovo has been preparing for this industry change for several years. Our MIDH Group is driving our expansion into these new devices, and we have made good progress. We have made our strongest gains in China, where our focus is to transform Lenovo into a full PC+ company in the year ahead. Outside of China, we will adopt 2-step strategy. We first will work to further strengthen our brand and continue to attack in the consumer space and enhance our channel, brand and ecosystem as a first step, before expanding further into the PC+ space. With a firm foundation in PCs, we will push ourselves even harder in the years ahead to ensure that our leadership in PCs transitions into leadership in the PC+ Era.

PRIORITIES FOR THE YEAR AHEAD

In the year ahead, Lenovo will focus on these priorities:

- **Strategy:** Our "Protect and Attack" strategy has led our success and growth for the last three years, and will continue to guide our execution. In the year ahead, we will protect our strengths in China and relationship sales, focusing on strengthening our leadership position and improving profitability. We will continue to attack in Emerging Markets and Consumer sales. And we will maximize our advantages to expand our server/workstation business and expand our Services business.
- **Win in the PC+ Age:** We will continue to attack in the Mobile Internet space, pushing for rapid growth in smartphones and tablets, and expanding into Smart TV.
- **Innovation:** Our continuing investments in innovation will drive further breakthroughs on our core PC products, creating a better user experience and driving differentiation. In addition, we will make our products Cloud Ready and Cloud Easy. And we will bring better design, smoother user interface, killer applications, and a great customer experience to all our products.
- **Brand:** We will continue to invest in our "For Those Who Do" campaign, to further increase awareness in our brand and drive growth worldwide. The continued strengthening of our brand will make us more competitive in the consumer space and enhance the value of our products, leading to improved profitability.
- **Business Model:** We will continue to invest in our end-to-end business model, particularly in enhancing and executing our vertical integration. This means enhancing our in-house manufacturing capability, and building closer partnerships with strategic suppliers, helping us to define the specifications of key components, and develop exclusive core components, thereby driving more product differentiation.
- **Organized to Keep Growing:** To support the execution of our strategy, we have rearranged our organizational structure into four geographies: China, North America, Europe-Middle East-Africa (EMEA) and Asia-Pacific Latin America (APLA). This means we can further tailor our strategy to address each geography and drive even greater growth.
- **Execution:** Strong execution of our strategy has been the key to our growth. We will drive even greater success by continuing to focus on controlling costs and scaling expenses to further enhance our competitiveness.

Lenovo's accomplishments in the last year have put us in the position to become the leading PC company in the world. But we will not stop there. We are focused on what we need to accomplish to keep growing in the PC+ Era and on reaching our long-term objective of becoming one of the world's leading personal technology companies – a company respected and admired around the world, and a company that will last for generations. Our strong execution is led by our 27,000 people across the globe, who are fully committed to continuing our strong momentum. I have great confidence in our strategy and our team, and believe we are well positioned to continue to grow in the years ahead.

Yang Yuanqing
Chairman and Chief Executive Officer

Hong Kong, May 23, 2012


lenovo

CLOUD READY AND CLOUD EASY

LENOVO MANAGEMENT TEAM

YANG YUANQING
Chairman & Chief Executive Officer

HE ZHIQIANG
Senior Vice President and
Chief Technology Officer

PETER D. HORTENSIUS
Senior Vice President and
President of Product Group

GIANFRANCO LANCI
Senior Vice President and
President of EMEA

LIU JUN
Senior Vice President and
President of Mobile Internet and
Digital Home Business Group

QIAO JIAN
Senior Vice President, Human Resources

GERRY SMITH
Senior Vice President, Global Supply Chain

MILKO VAN DUIJL
Senior Vice President and
President of APLA

WONG WAI MING
Senior Vice President and
Chief Financial Officer


DALE HIGH FLIERS
ThinkPad

PC+ EVOLUTION ACROSS FOUR SCREENS

BUSINESS REVIEW

FY12 is a year of records for Lenovo: record shipments, record market share and became world's number two PC maker through solid execution of "Protect and Attack" strategy

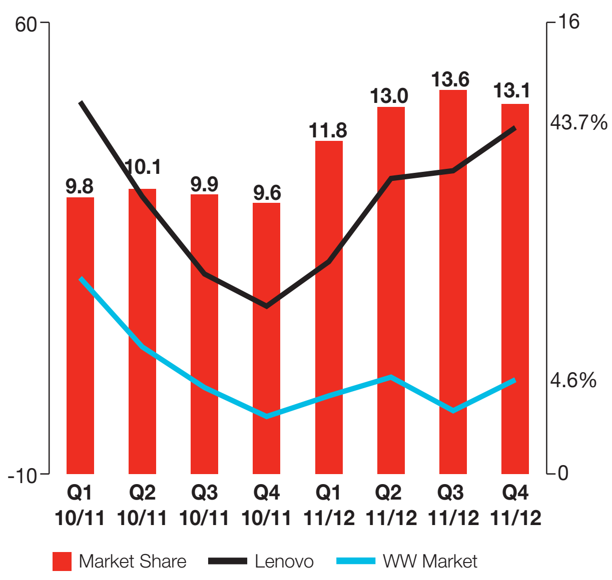
Fiscal year 2011/12 was a year of records for Lenovo. With the "Protect and Attack" strategy driving strong execution, Lenovo continued to outperform the markets with balanced, strong growth in all geographic segments covering China, Emerging Markets (excluding China) and Mature Markets, as well as in 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.

LENOVO WW MARKET SHARE AND PC SHIPMENT YTY GROWTH (%)



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.

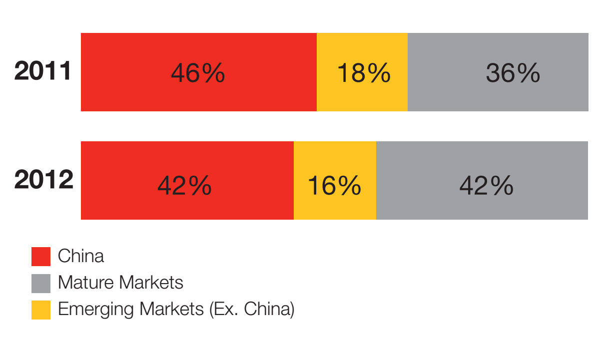
Operating expenses increased by 44 percent year-on-year to US$2,862 million, with an expenses-to-revenue ratio of 9.7 percent. The Group continued to enjoy good scaling benefits from its strong shipment growth, but as it needed to continue its investments in product innovation, branding, MIDH business 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

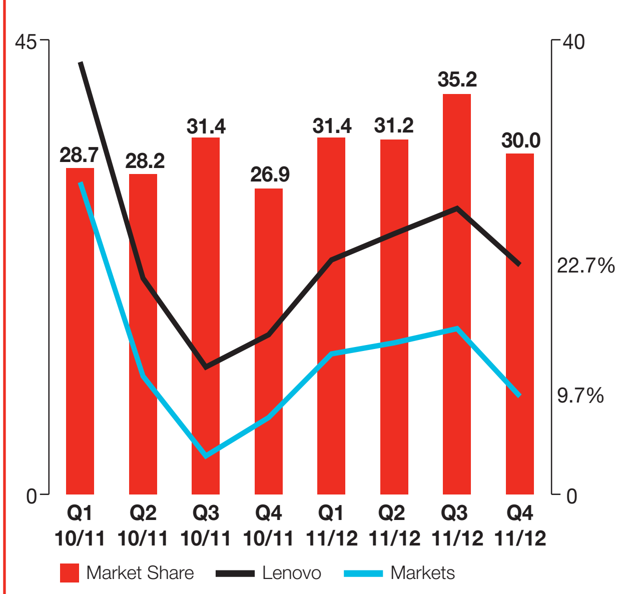
During the year ended March 31, 2012, Lenovo achieved strong performance in all geographies where it has operations, gaining PC market share across the board in China, Emerging Markets (excluding China) and Mature Markets. The Group achieved record high PC market share in China, Mature Markets and Emerging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

REVENUE BY GEOGRAPHY (%)



LENOVO CHINA MARKET SHARE AND PC SHIPMENT YTY GROWTH (%)



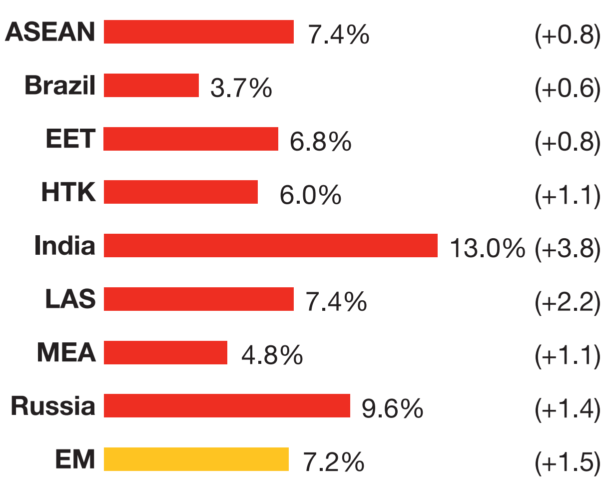
China

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 percent in the fiscal quarter four and its tablet products had a dominant position of about 50 percent 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.

LENOVO SHARE GAINS IN ALL EMERGING MARKET REGIONS IN FY12



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 percent market share; once 10 percent 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.

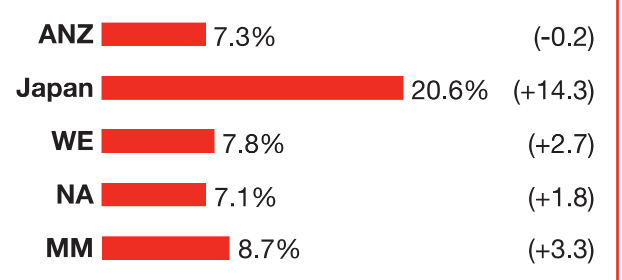
Mature Markets

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 small-to-medium business (SMB) 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.

LENOVO MARKET SHARE BY MATURE MARKET REGION IN FY12



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

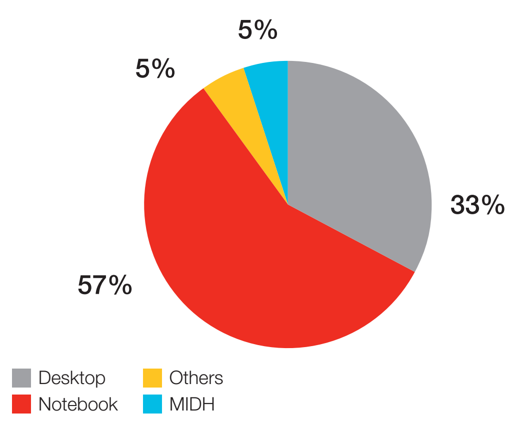
During the fiscal year 2011/12, Lenovo achieved strong and balanced unit shipments growth in both commercial and consumer PC products, as well as in both desktop and notebook PC products. The MIDH Group also made good progress in its first full year since being established. It has rolled out a wide range 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 SMB 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.

REVENUE BY PRODUCT IN FY12



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 Ultrabook™, 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.

A60

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.

IdeaPad Tablet

GLOBAL SUPPLY CHAIN

Flooding in Thailand in 2011 led to a shortage of HDDs and drove higher HDD costs for the industry in the second half of the fiscal year under review. Responding to this industry crisis, the Group took immediate actions to mitigate the impact of the HDD supply shortage, including demand conditioning, direct communications among senior management teams at Lenovo and key HDDs suppliers, allocation of HDD supply to high margin products and strategic customers. The Group successfully turned the industry crisis into an opportunity to continue outperforming its industry peers. Lenovo secured product supplies adequate to meet demand of the vast majority of its customers, while making profitability its first priority. The Group mitigated cost impact through flexible and effective strategies, as well as stringent cost control, and scaling benefit arising from strong shipment growth.

Smart TV Launch Event in Beijing

The overall industry continued to face some supply constraints on availability of HDD due to flooding in Thailand. Lenovo managed these challenges well and the impact of this natural disaster on our business and customers has now passed. Product availability and delivery lead times have returned to normal. HDD costs have stabilized although they remain higher than before the shortages began late last year. Other key components' are expected to remain stable in terms of supply, with moderate upward trend on prices for the next few quarters. Lenovo will continue to closely monitor the industry situation and will leverage its stronger scaling benefits to continuously improve its supply chain efficiency and profitability.

Lenovo's global supply chain also strengthened its operational foundation to support future growth and product line expansion. The Group's new facility in Chengdu, Sichuan Province in western China commenced operations in December 2011. The new facility will substantially increase Lenovo's overall production capacity, while improving operational speed and efficiency of the supply chain network. Meanwhile, with the aim of strengthening Lenovo's ability to deliver innovative products with faster time-to-market, the Group signed an agreement with Compal Electronics, Inc. in September 2011 to form a joint venture company that will build and operate a new product development and manufacturing center in Hefei, China. The implementation plans of Hefei facility are proceeding and the project is on schedule to begin production at the beginning of calendar year 2013. Lenovo announced in May the establishment of the Lenovo (Wuhan) Industrial Base. The site will include integrated facilities for mobile internet product R&D, production and sales, and it will help drive Lenovo's innovation capability in the field of mobile internet and optimize its global supply chain. The new facility will begin operations in October 2013.

BRAND BUILDING

The Group launched its global "For Those Who Do" branding campaign last year, taking the next step in asserting its position as a global leader. The campaign is aimed at expressing the essence of who Lenovo is as a company; attracting a wide range of customers with a compelling message; and highlighting how Lenovo's innovation and technology are built to serve and inspire the world's greatest creators, innovators, and thinkers – the DOers.

Lenovo Smart TV

The campaign has substantially improved the Group's brand recognition worldwide. According to a third party measurements, Lenovo's consumer brand consideration has grown 86% year-on-year across its key markets (including U.S., India, Russia, Japan and Germany) where Lenovo increased investment to enhance its brand presence. The Group will continue to demonstrate its innovation leadership in the year ahead by launching more bold products – particularly in the mobile internet space – to provide "Do Machines" that inspire its customers to pursue their passions.

TALENT AND CULTURE

The Lenovo Way: Ensuring high levels of performance and employee engagement

Lenovo recognizes that it is in a unique position as a next generation global company with roots in East and West, employees in many countries and from many cultures, and customers around the world. Building a cohesive global culture is critical to driving the speed, efficiency, innovation and execution that separates Lenovo from the competition. The Group believes that building a strong culture is in many ways just as important as building outstanding products or developing an effective business model. A company without a strong culture cannot survive. At the heart of its cultural DNA is what it calls The Lenovo Way. At its core, The Lenovo Way is about commitment and ownership and is centered around a simple but powerful value that "We do what we say. We own what we do". Those beliefs are captured in what the Group refers to as the 5P's:

- We **PLAN** before we pledge
- We **PERFORM** as we promise
- We **PRIORITIZE** the company first
- We **PRACTICE** improving everyday
- We **PIONEER** new ideas

These values resulted in an enterprise wide set of behaviors that has built a culture of accountability, commitment, trust and excellence. It has created a cohesive and consistent approach to its work, its company, its products, its marketplace and its people and has become a cornerstone of its success.

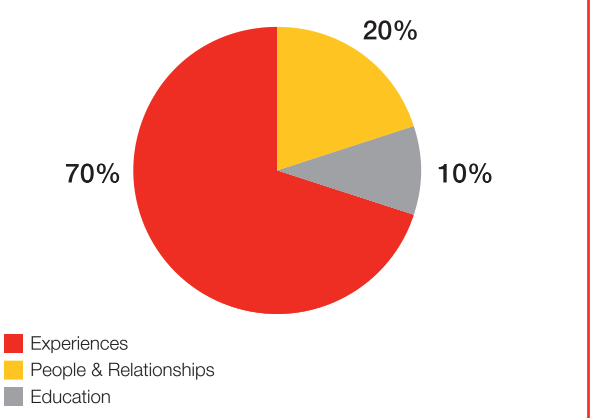
The Group measures the effectiveness of The Lenovo Way not only by its business results but also by seeking the insights of its employees worldwide through its annual Lenovo Listens Employee Engagement Survey. It helps us measure how well it is building its culture of commitment and ownership and how much it is increasing employee engagement globally, regionally and locally. This effort was launched last year and continues annually so the Group can analyze the data, create meaningful action plans and measure its overall effectiveness. In the 2011 survey, the Group launched during the fiscal year, it learned that its worldwide employees are: (1) proud to work for Lenovo and feel deeply connected of its culture; (2) they feel supported by their managers and (3) as a whole Lenovo prioritizes the company first to get things done. As a result of the survey feedback, it had over 5,600 Manager and Individual action plans and created two worldwide executive task forces to build upon its Lenovo Way culture of commitment and ownership by focusing on enhancing both innovation capabilities and operational efficiency around the world. These efforts would help Lenovo not only continue to win in PCs, but also prepare it to compete effectively in the PC+ era where it is bringing many new and innovative devices (tablets, smartphones, Smart TV, etc.) to market around the world.

Talent: Become recognized as one of the best companies to work for

At Lenovo, it is committed to its investment in talent development and has a robust and systematic approach to employee, manager and executive development. During the fiscal year, it completed its formal "Organization and Human Resource Planning" reviews for each business unit and function around the world. Through this process it reviewed its leadership pipeline and not only strengthened its existing leadership team, but has now also identified the next generation of Lenovo leaders so it can continue to build on its momentum, address the new opportunities beyond the traditional PC space that will drive growth, and ultimately achieve its longer-term goals.

Its development agenda is targeted at building people and organizational capability through three primary ways:

LENOVO LEARNING AND DEVELOPMENT FRAMEWORK



(1) Through experiences on the job. Learning while doing. This is how 70% of all learning occurs.

(2) Through other people and the relationships Lenovo has built with them. Mentors, guides, coaches, managers. Lenovo learns through their successes, failures, guidance and advice. It's how 20% of learning occurs.

(3) Through education. Formal training in the classroom or online that teaches key principles and puts them into action. This is how 10% of learning occurs.

Its systematic approach combines all three to maximize learning and includes formal employee and leadership education programs, targeted people planning and international rotations, Global Leadership Project Teams, Women in Lenovo Leadership Forums, formal executive coaching networks, informal mentor programs, 360-degree feedback processes and a variety of additional assessment and development tools. For example, to effectively prepare its managers and executives to lead in a challenging macroeconomic environment, it has created the Learning @ Lenovo series of formal education to target the most senior executives (Leading @ Lenovo), people managers (Managing @ Lenovo) and look to launch an online suite of training tools and resources for all employees in the coming year called Contributing @ Lenovo. It has also launched a series of customized learning programs targeted to drive local business unit and functional certification needs. As a result of these integrated efforts, it has been honored in the last year as one of 2011's top 50 places to work for Engineers/IT professionals by Universum, an employer branding company. Lenovo was also named one of Asia's best managed technology companies by Finance Asia and one of the world's most reputable companies according to Fortune's Global Rep Trak 100.

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

For the year ended March 31	2012 US$'000	2011 US$'000
Revenue	**29,574,438**	21,594,371
EBITDA[1]	**821,497**	603,202
Profit attributable to equity holders of the Company	**472,992**	273,234
Earnings per share (US cents)		
– Basic	**4.67**	2.84
– Diluted	**4.57**	2.73
Dividend per ordinary share (HK cents)		
– Interim dividend	**3.8**	2.6
– Proposed final dividend	**10.0**	5.0

Note:
[1] Excluding restructuring charges and other income, net.

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. 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 revenue by segment are set out in Business Review.

	2012		2011	
For the year ended March 31	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**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
	29,574,438	**811,544**	21,594,371	508,273

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.

For the year ended March 31	**2012 US$'000**	2011 US$'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	**1,938,256**	1,431,218
– long-term incentive awards	***66,418***	*41,375*
Rental expenses under operating leases	**63,252**	52,670

FINANCIAL POSITION

The balance sheet position of the Group remained strong, bank deposits and cash and cash equivalents increased by US$1,174 million as compared to March 31, 2011. Total assets and total liabilities of the Group increased by 48 percent and 51 percent respectively which is mainly attributable to the formation of the NEC JV and the acquisition of Medion during the year. Further analyses of the Group's major balance sheet items are set out below:

Non-current assets	2012	2011
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

Property, plant and equipment and Prepaid lease payments

Property, plant and equipment and prepaid lease payments increased by 85% is mainly due to the completion of the business combination activities during the year amounted to US$121 million. The completion of the manufacturing plant in Chengdu, China also contributed to an increase of US$50 million.

Construction-in-progress

Construction-in-progress comprises mainly the Group's investments in the headquarters in Beijing, China and the information technology systems.

Intangible assets

Intangible assets comprise goodwill and other intangible assets including trademarks and trade names, and internal use software. During the year, the Group completed the formation of the NEC JV and the acquisition of Medion. Goodwill and other intangible assets including trademarks and trade names and customer relationships of US$581 million and US$349 million were recognized respectively.

Deferred income tax assets

Deferred income tax assets as at March 31, 2012 amounted to US$332 million, representing an increase of 32 percent over last year, which is mainly attributable to temporary differences in relation to provisions, accruals and deferred revenue arising in the normal course of business.

Current assets	2012	2011
Inventories	1,218,494	803,702
Trade receivables	2,354,909	1,368,924
Notes receivable	639,331	391,649
Derivative financial assets	62,883	13,295
Deposits, prepayments and other receivables	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

Inventories
Inventories of the Group maintained at a stable level over the year. The significant increase at March 31, 2012 when compared to last year represents the inventories brought in by the NEC JV and Medion of US$352 million.

Trade receivables and Notes receivable
Trade receivables and notes receivable increased in line with the increase in activities during the year. The new customers brought in from the formation of the NEC JV and the acquisition of Medion increased the trade receivables of the Group by US$723 million.

Deposits, prepayments and other receivables
Majority of other receivables of the Group are amounts due from subcontractors for part components sold in the ordinary course of business. The 43% increase when compared to the last year is partly due to the new receivable balances from subcontractors of US$204 million brought in by the NEC JV.

Non-current liabilities	2012	2011
Warranty provision	**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

Warranty provision
The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The aggregate current and non-current amounts of warranty provision increased by 46% when compared with last year. The increase is partly attributable to the increase business activities of the year, and the amounts brought in from the formation of the NEC JV and the acquisition of Medion totaling US$158 million. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Retirement benefit obligations
The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. During the year, upon formation of the NEC JV, the Group assumed the cash balance pension liability and end-of-employment benefit obligation for all employees from the then NEC personal computer division and pension commitment for the two Medion's management board members, totaling US$116 million.

Other non-current liabilities
Other non-current liabilities mainly represent the present value of the contingent consideration payable of US$429 million in connection with the arrangements with the respective former shareholders of NEC JV and Medion with reference to certain performance indicators.

Current liabilities	2012	2011
Trade payables	**4,050,272**	2,179,839
Notes payable	**127,315**	98,964
Derivative financial liabilities	**49,253**	39,223
Provisions, accruals and other payables	**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

Trade payables and Notes payable
Trade payables and notes payable increased in line with the increase in activities during the year. The new vendor balances brought in from the formation of the NEC JV and the acquisition of Medion increased the trade payable of the Group by US$601 million.

Provisions, accruals and other payables
Provisions comprise warranty liabilities (due within one year), restructuring and environmental restoration. Accruals also include the allowance for billing adjustments relates primarily to allowance for future volume discounts, price protection, rebates, and customer sales returns. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Provisions, accruals and other payables increased by 39% when compared with last year. The increase is partly attributable to the increase business activities of the year, and the amounts brought in from the formation of the NEC JV and the acquisition of Medion totaling US$725 million.

Bank borrowings
The US$200 million term loans have been repaid in March 2012.

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.

At March 31	**2012 US$ million**	2011 US$ million
Bank deposits and cash and cash equivalents	**4,171**	2,997
Less: total borrowings	**(63)**	(272)
	4,108	2,725

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.

FUTURE PROSPECTS

Lenovo is entering a new era in technology – the PC+ Era, and Lenovo will continue to set the standard for PC+ evolution across four screens through innovation

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.

Lenovo's FY13 China Kickoff Event

PROTECT AND ATTACK FY12/13

PROTECT		ATTACK	
CHINA	1. Protect PC Leadership 2. Drive Profitability	CONS/SMB	1. Expand number of double digit share countries 2. Attack EM SMB/Consumer & move to profitability 3. Grow mature share through retail channels
REL	1. Deliver steady profits in all regions 2. Drive share gain across the board	MIDH	1. Grow Tablet and Smartphone in China & Launch Smart TV 2. Expand cloud offerings worldwide
PROFIT POOLS	1. Increase Peripherals & Monetization 2. Expand Close-to-box services attach	ENTERPRISE SYSTEMS	1. Drive workstation globally 2. Grow server in China & expand global reach

INNOVATION LEADERSHIP

- **Product Offerings & User Experience | Global Branding | Quality focus | Business Model**

SUSTAINABLE & EFFICIENT BUSINESS MODEL

- **Build efficient consumer business model | Improve E3E speed | Focus on customer voice | LSS focus**

GLOBAL CULTURE

- **Meet commitments/Take ownership | Build a world class organization**

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.

STRATEGY FOR PC+

IN CHINA – WIN IN PC+

PC Market Leader

Strong consumer foundation
- Market leader in China consumer PC area
- Has been in the market for 28 years

Attack PC+

Breakthrough PC+ with a promising start in MIDH
- Smartphone reached double digit market share in China
- No. 2 player in China tablet market

OUTSIDE OF CHINA – 2-STEP STRATEGY

Expand in Consumer

Expand consumer business aggressively first
- Channel
- Brand
- Ecosystem

PC+ Next

- Win in PC+ once our consumer base is solidified

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 APLA, 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.


THRUST DISPLACEMENT
ThinkPad

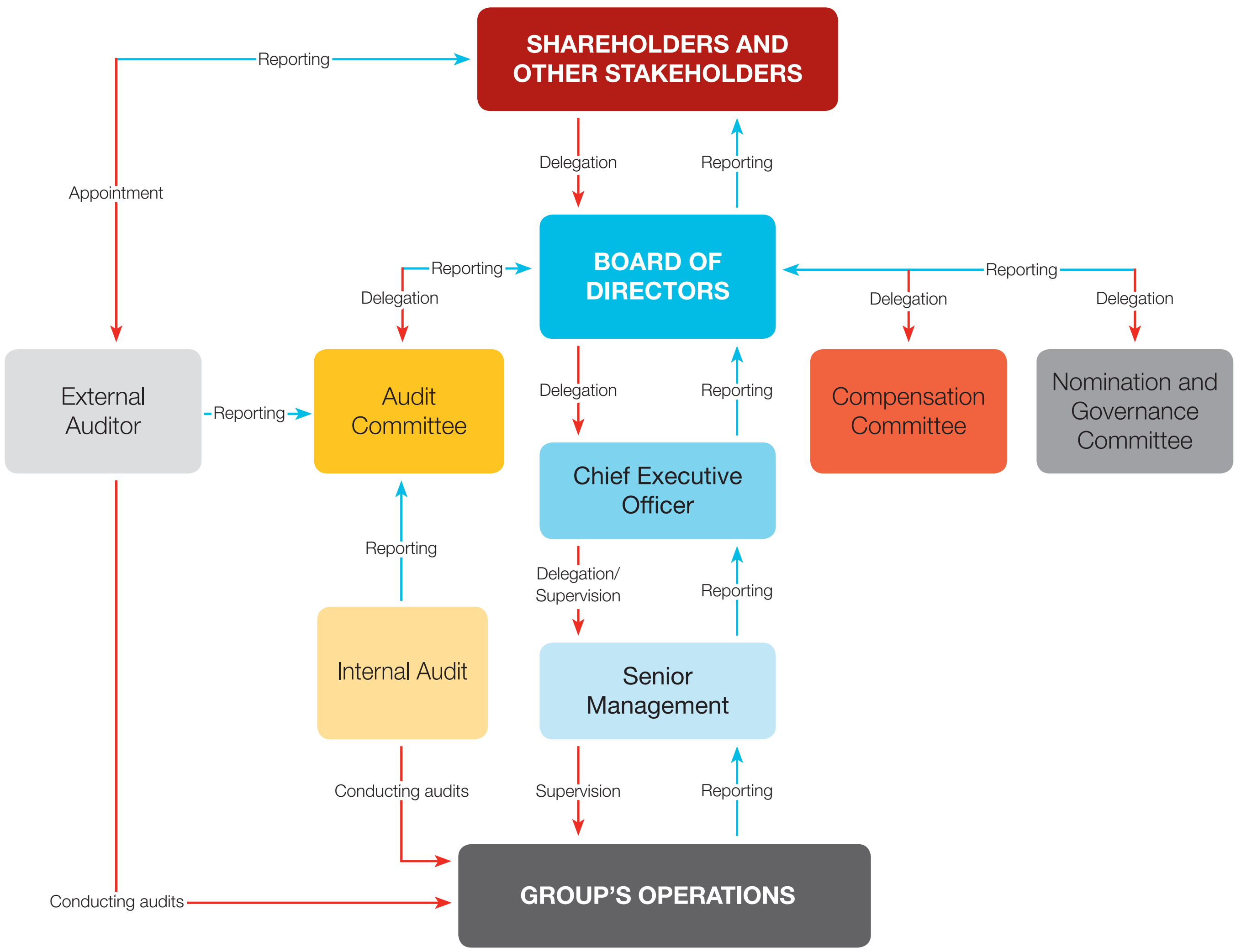
DO DOESN'T STOP DOING

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

Corporate Governance Structure



CORPORATE GOVERNANCE CODE COMPLIANCE

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**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), 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 separated and should not be performed by the same individual. Following the resignation of Mr. Liu Chuanzhi on November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been appointed as the chairman of the Board (the "**Chairman**") and has performed both the roles as the Chairman and chief executive officer of the Company (the "**CEO**"). 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 (the "**Articles of Association**").

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.

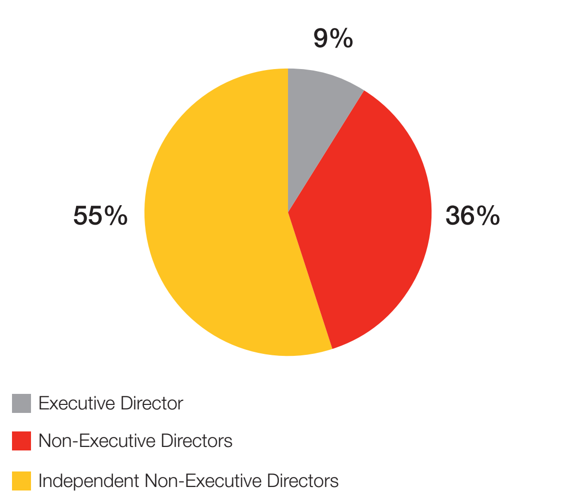
Apart from the foregoing, the Company met the recommended best practices in the CG Code as disclosed in the respective sections of this report. Particularly, the Company published quarterly financial results and business review in addition to interim and annual results. Quarterly financial results enhanced 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.

THE BOARD

Board Composition

As at the date of this annual report, there were eleven Board members consisting of one executive director, four non-executive directors and six independent non-executive directors. Accordingly, non-executive directors accounted for a vast majority of the Board members whereas the independent non-executive directors represented more than one-third of the Board members, thus exhibiting a strong independent element which enhanced independent judgement. Mr. Nicholas C. Allen, an independent non-executive director of the Company, has the appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules.

Board Composition



The biographies and responsibilities of directors and senior management are set out on pages 89 to 91 of this annual report. The Company has also maintained on its website and Hong Kong Exchanges and Clearing Limited's website (the "**HKEx's website**") an updated list of its directors identifying their roles and functions and whether they are independent non-executive directors. Independent non-executive directors are also identified as such in all corporate communications that disclose the names of directors of the Company.

Mr. Zhu Linan and Mr. Zhao John Huan, non-executive directors, also serve on the board of directors of Legend Holdings Limited, the controlling shareholder of the Company. Save for the relationships (including financial, business, family, other material and relevant relationships) as detailed above and in the biographies of directors set out on pages 89 to 90 of this annual report, there is no other relationship among the Board to the best knowledge of the Board members as at the date of this annual report.

Chairman and Chief Executive Officer

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives and ensures that all directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information, in a timely manner. CEO has delegated authority of the Board to take direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. Both the Chairman and CEO positions are currently held by Mr. Yang. The Board believes that the current governance structure, with a combined Chairman and CEO and a vast majority of non-executive directors provides an effective balance of power and authority for the management of the Company in the best interests of the Company at the present stage.

Independence of Non-executive Directors

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. On May 22, 2012, the Nomination and Governance Committee of the Board has conducted an annual review of the independence of all independent non-executive directors of the Company. Having taken into account the factors as set out in rule 3.13 of the Listing Rules in assessing the independence of independent non-executive directors, the Nomination and Governance Committee (with the relevant committee member abstained from voting on the resolution concerning his own independence) concluded that all the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

On February 8, 2012, Mr. William O. Grabe ("**Mr. Grabe**") was re-designated from a non-executive director to an independent non-executive director. Although Mr. Grabe was appointed as a non-executive director in 2005 following the closing of a transaction between the Company and certain private equity investors, including the General Atlantic group, whose interests were represented by its senior executive, Mr. Grabe, the Board is satisfied and has demonstrated to the satisfaction of The Stock Exchange of Hong Kong Limited (the "**Exchange**") that the re-designation of Mr. Grabe as an independent non-executive director is justified for the following reasons:

1. The General Atlantic group converted and disposed of all its remaining interests in the Company on November 15, 2010. Following the disposal, the General Atlantic group ceased to hold any equity interests in the Company;

2. Mr. Grabe retired from all his duties with the General Atlantic group in 2010; he has thereafter ceased to represent the interests of the General Atlantic group and has been sitting on the Board solely in his personal capacity;

3. To the best knowledge of the directors of the Company, Mr. Grabe has not relied on the remuneration given by the Company and he is independent of any connected person and substantial shareholder of the Company;

4. The Company believes that Mr. Grabe is able to exercise his professional judgment and draw upon his extensive knowledge in information technology, investment, employees compensation and corporate governance matters for the benefit of the Company and its shareholders as a whole and, in particular, the independent shareholders; and

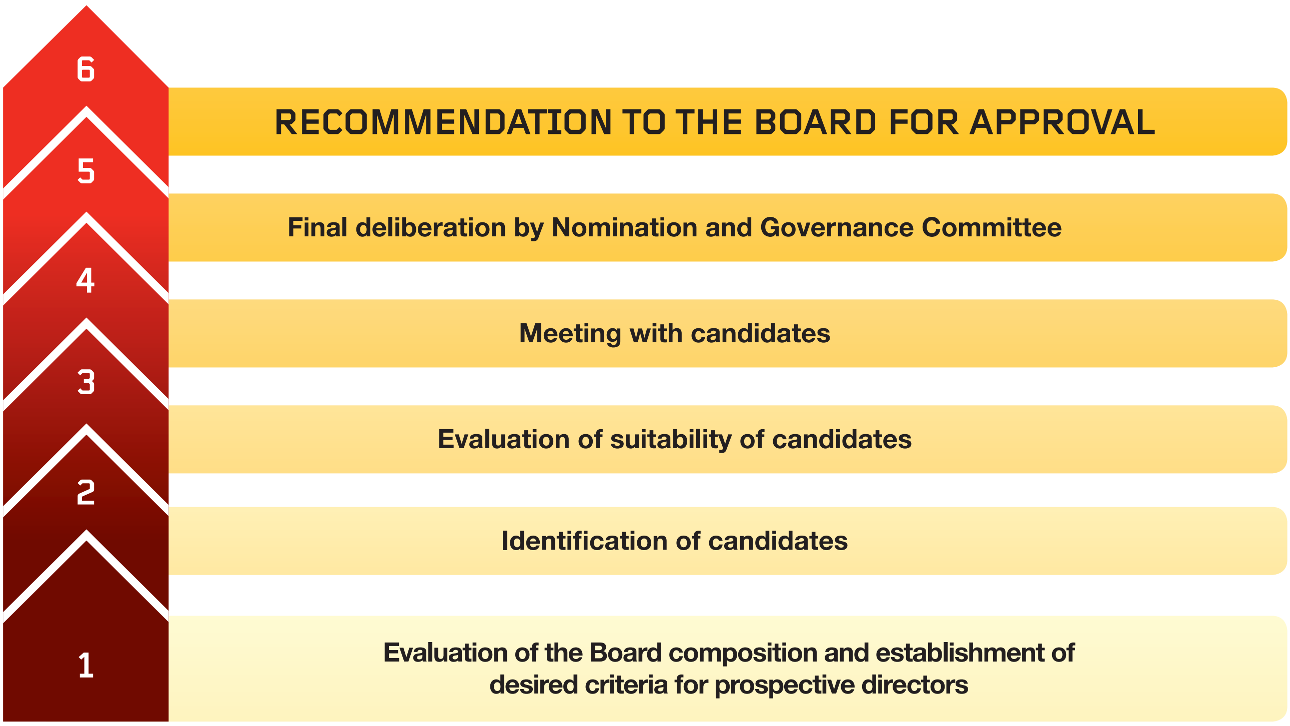
5. Mr. Grabe confirmed his independence to the Exchange in respect of each of the factors set out in rule 3.13 of the Listing Rules that the Exchange takes into account in assessing the independence of a non-executive director.

In light of the above, notwithstanding Mr. Grabe's relationship with the Company as a non-executive director prior to his re-designation as an independent non-executive director, the Company is of the opinion that his current connection with the Company will not affect his independence as an independent non-executive director and he will be able to carry out his duties as an independent non-executive director impartially and independently.

Appointment and Election of Directors

Board appointment process

There is a formal and transparent procedure for the appointment of new directors to the Board, the primary responsibility of which has been delegated to the Nomination and Governance Committee. The structure, size and composition of the Board will be reviewed from time to time by the Nomination and Governance Committee to ensure that the Board has a balanced skill and expertise for providing effective leadership to the Company.



Board tenure

In accordance with the Articles of Association, all directors are subject to retirement by rotation. At each annual general meeting, one-third of the directors for the time being shall retire from office. The retiring directors shall be eligible for re-election. New appointments either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company at the next following annual general meeting of the Company.

All non-executive directors (including independent non-executive directors) have entered into letters of appointment with the Company for a term of three years. Their terms of appointment shall be subject to the retirement from office by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

The Company agreed that the independence of directors is an important principle of the Company. In line with the best practices on corporate governance, the Board adopted the principle that each term of an independent non-executive director of the Company shall not be more than three years and shall, subject to re-election by shareholders at any subsequent annual general meeting of the Company, be renewable for additional three-year terms up to a total of nine years. At the recommendation of the Nomination and Governance Committee, the Board may invite an independent non-executive director to serve for an additional three-year term extending up to a total of twelve years subject to re-election at any subsequent annual general meeting of the Company. Under A.4.3 of the CG Code, any further appointment of an independent non-executive director, who has served the Board for more than nine years, shall be subject to a separate resolution to be approved by shareholders. The Company will set out in the document accompanying the notice of the 2012 annual general meeting the reasons why the Board considers the individual continues to be independent and the recommendation to shareholders to vote in favor of the re-election of such independent non-executive director.

Directors' commitments

All directors are committed to devote sufficient time and attention to the affairs of the Company together with its subsidiaries (collectively the "**Group**"). Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the directors in their letters of appointment. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner and bi-annually confirm to the Company of any changes of such information. In respect of those directors who stand for re-election at the 2012 annual general meeting, all their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the 2012 annual general meeting.

Director induction and professional development

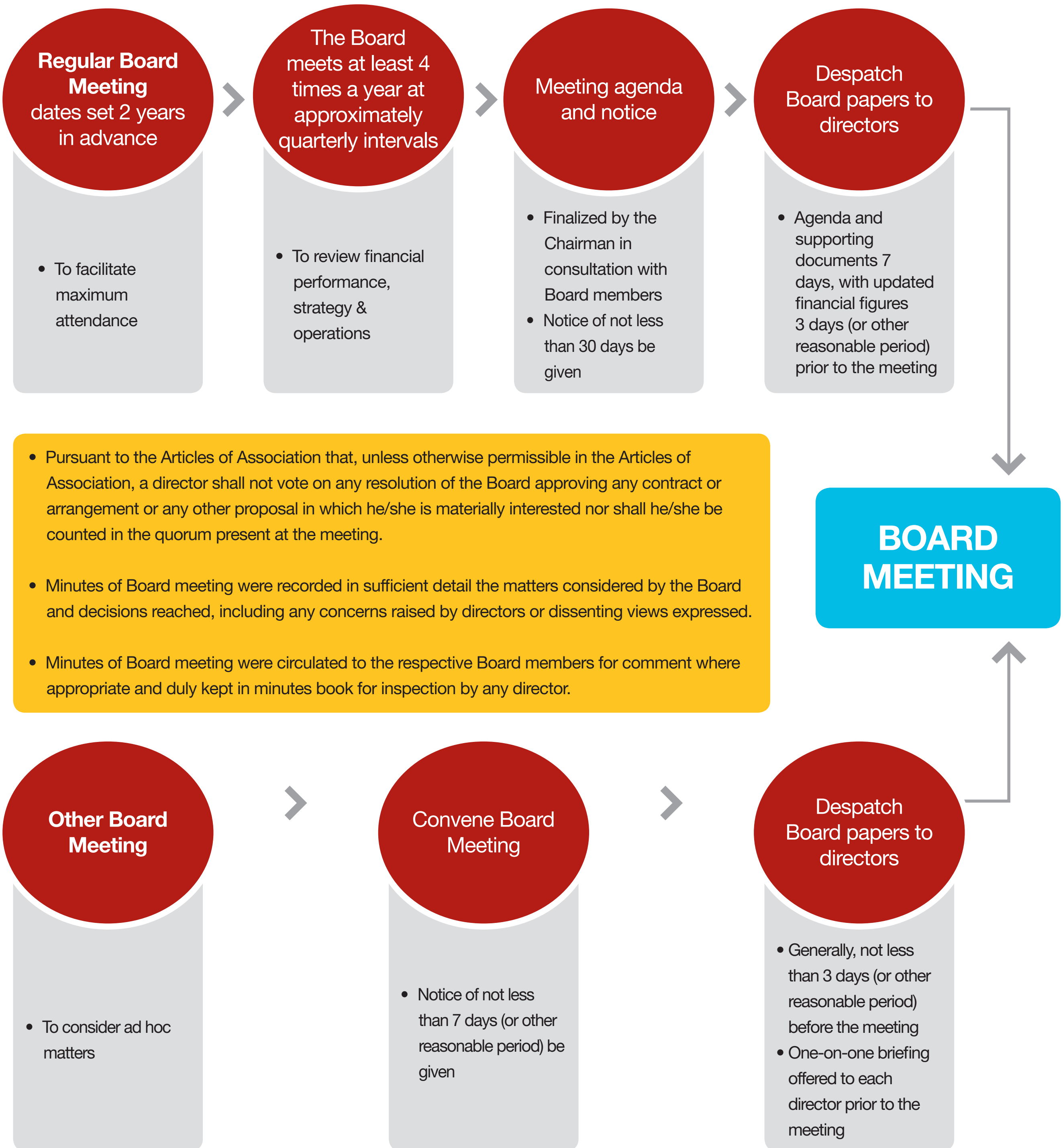
Every newly appointed director receives a comprehensive induction package on appointment to ensure that he/she has a proper understanding of the operations, business and governance policies of the Company. In addition, the new director also receives training by external lawyers to ensure he/she is fully aware of the responsibilities as a director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements. During the year, the Company arranged new directors to visit Lenovo Innovation Center and manufacturing plant in Beijing to enhance their understanding of the operations of the Company.

In addition to Board meetings, during the year, the Company also arranged independent non-executive directors of the Company to attend certain culture and finance function activities and visit some of the overseas management offices to enhance their understanding of the culture and operations of the Company. The directors are also regularly updated and apprised of any new regulations and guidelines, as well as any amendments thereto issued by the Exchange and the Hong Kong Companies Registry, particularly the effects of such new or amended regulations and guidelines on directors specifically, and the Company and the Group generally. On an ongoing basis directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate.

The Company is aware of the requirement to regularly review and agrees with each director their training needs. The continuing professional training program of the Company for directors will be reviewed on an ongoing basis by the Nomination and Governance Committee.

Board Process

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



Other Key Features of Board Process

- The directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. Bi-monthly updates (changed to monthly update from April 2012) of the financial performance of the Company were furnished to the Board between regular Board Meetings.
- Senior management are invited to attend Board meetings, where appropriate, to report on matters relating to their areas of responsibility, and also to brief and present details to the directors on recommendations submitted for the Board's consideration. Additional information or clarification may be required to be furnished, particularly in respect of complex and technical issues tabled to the Board.
- Separate executive sessions were arranged for the Chairman to meet with non-executive directors in the absence of management to discuss matters relating to any issue or other matters such persons would like to raise.
- All directors have direct access to the General Counsel and Company Secretary of the Company who are responsible for advising the Board on corporate governance and compliance issues.
- Written procedures are in place for directors to seek, at the Company's expenses, independent professional advice in performing directors' duties. No request was made by any director for such advice during the year.
- The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules from time to time and devised based on the principles of the Model Code a comprehensive and operative company policy to govern securities transactions by directors and designated senior management of the Company. All the directors of the Company have confirmed, after specific enquiry, their compliance with the required standard during the year.

DELEGATION BY THE BOARD

Role of the Board

The Group is controlled through the Board who is responsible for steering the success of the Group by overseeing the overall strategy and directing and supervising its affairs in a responsible and effective manner. The Board has formulated a clear written policy that stipulates the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review the policy.

The specific responsibilities reserved to the Board for its decision and consideration cover: annual budget, major capital and equity transactions, major disposals and acquisitions, connected transactions, recommendation on appointment or reappointment of auditor and other significant operational and financial matters.

The Board considered and/or resolved the following major non routine matters during the year:

- Acquisition of shares in Medion AG
- Formation of a joint venture with Compal Electronics, Inc.
- Appointment of Mr. Nobuyuki Idei and Mr. Zhao John Huan as directors
- Resignation of Mr. James G. Coulter and Mr. Liu Chuanzhi as directors
- Re-designation of Mr. Grabe from a non-executive director to an independent non-executive director
- Amendments to the terms of reference of the Audit Committee, Compensation Committee and Nomination and Governance Committee
- Amendments to the Articles of Association
- Adoption of the shareholders' communication policy of the Company (the "**Shareholders' Communication Policy**")
- Disbandment of the Strategy Committee
- Adoption of a Board principle on the term of independent non-executive directors

Board Committees

As at the date of this annual report, the Company has preserved three board committees ("**Board Committees**") with defined terms of reference (which are posted on the Company's website and HKEx's website) – Audit Committee, Compensation Committee and Nomination and Governance Committee (formerly known as Governance Committee). The terms of reference of Audit Committee, Compensation Committee, and Nomination and Governance Committee reference those set out in the CG Code prevailing from time to time.

BOARD OF DIRECTORS

Chairman and Executive Director
Mr. Yang Yuanqing *(CEO)*

Non-executive Directors
Mr. Zhu Linan
Ms. Ma Xuezheng *(Non-executive vice chairman)*
Dr. Wu Yibing
Mr. Zhao John Huan

Independent Non-executive Directors
Professor Woo Chia-Wei
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe

AUDIT COMMITTEE

Chairman: Mr. Nicholas C. Allen

Members: Professor Woo Chia-Wei
Mr. Ting Lee Sen
Ms. Ma Xuezheng

COMPENSATION COMMITTEE

Chairman: Mr. William O. Grabe

Members: Professor Woo Chia-Wei
Mr. Ting Lee Sen

Observers: Mr. Zhu Linan
Ms. Ma Xuezheng

NOMINATION AND GOVERNANCE COMMITTEE

Chairman: Mr. Yang Yuanqing

Members: Mr. Nobuyuki Idei
Mr. William O. Grabe

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

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

Audit Committee

The Audit Committee is authorised by the Board to perform its duties within its terms of reference. Details of the Audit Committee, including its membership, terms of reference and work done during the fiscal year 2011/12 are summarized in the Audit Committee Report as stated on pages 59 to 61 of this annual report.

Compensation Committee

The Compensation Committee is authorised by the Board to perform its duties within its terms of reference. Details of the Compensation Committee, including its membership, terms of reference and work done during the fiscal year 2011/12 are summarized in the Compensation Committee Report as stated on pages 62 to 71 of this annual report.

Strategy Committee

Membership

The Strategy Committee (defined as "**Committee**" in this section) was disbanded on February 8, 2012. Its strategy and performance related responsibilities were taken over by the full Board and the Nomination and Governance Committee respectively. Prior to its disbandment, the Committee was composed of Mr. Yang Yuanqing *(Committee Chairman)*, Mr. William O. Grabe *(Member)* and Ms. Ma Xuezheng *(Observer)*.

Responsibilities and summary of work

The Committee was responsible for assisting the Board in determining the vision, the long-term strategy and intermediate targets for the Company and reviewing the annual targets of the Company. The Committee was also responsible for the assessment of the performance of the CEO and making proposals to the Compensation Committee.

The Committee held three meetings during the period from April 1, 2011 to February 8, 2012 to review the business performance and business strategy of the Group and assess the performance of the CEO for FY2010/11.

Nomination and Governance Committee

Membership

The Nomination and Governance Committee (formerly known as Governance Committee) (defined as "**Committee**" in this section) is currently composed of Mr. Yang Yuanqing *(Committee Chairman)*, Mr. Nobuyuki Idei and Mr. William O. Grabe.

Responsibilities and summary of work

The Committee is to assist the Board in overseeing Board organization and senior management succession planning, developing its corporate governance principles and policy, assessing the independence of non-executive directors. The Committee is also responsible for assessment of the performance of the chairman of the Board and/or CEO and making proposals to the Compensation Committee. The chairman of the Committee will not chair the committee meeting if it is dealing with the appointment of a successor to the chairman.

During the year ended March 31, 2012, the Committee held one meeting and passed circular resolutions in which the following activities were considered and/or resolved:

- Recommendation to the Board on appointments of Mr. Nobuyuki Idei as independent non-executive director and Mr. Zhao John Huan as non-executive director
- Assessment of the independence of Mr. Grabe pursuant to the rule 3.13 of the Listing Rules and recommendation to the Board for his re-designation
- Review of and recommendation to the Board for adoption of Shareholders' Communication Policy
- Review of the structure, size and composition (including skill, knowledge and experience) of the Board and Board Committees
- Review of and recommendation to the Board for the amendments to the terms of reference of the Committee
- Review of the standard form of letter of appointment for non-executive directors
- Review of and recommendation to the Board for adoption of the Board principle regarding the term of independent non-executive directors

Board and Committee Meetings and Attendance

The number of meetings the Board and Board Committees held during the financial year are shown below together with attendance details:

Name of directors	Board *(Note 1)*	Attendance/Meetings in the year Audit Committee *(Notes 1 & 2)*	Compensation Committee *(Note 1)*	Nomination and Governance Committee *(Notes 1 & 10)*	Strategy Committee *(Notes 1 & 11)*
Executive director					
Mr. Yang Yuanqing *(Chairman & CEO) (Note 3)*	4/4	–	–	1/1	2/3 *(Note 9)*
Non-executive directors					
Mr. Liu Chuanzhi *(Note 4)*	3/3	–	–	–	3/3
Mr. Zhu Linan	4/4	–	–	–	–
Ms. Ma Xuezheng	4/4	4/4	–	–	–
Mr. James G. Coulter *(Note 5)*	2/2	–	–	–	1/2
Dr. Wu Yibing	4/4	–	–	–	–
Mr. Zhao John Huan *(Note 6)*	1/1	–	–	–	–
Independent non-executive directors					
Professor Woo Chia-Wei	4/4	4/4	6/6	–	–
Mr. Ting Lee Sen	4/4	4/4	6/6	–	–
Dr. Tian Suning	4/4	–	–	–	–
Mr. Nicholas C. Allen	4/4	4/4	–	–	–
Mr. Nobuyuki Idei *(Note 7)*	2/2	–	–	1/1	–
Mr. William O. Grabe *(Note 8)*	3/4	–	6/6	1/1	2/3

Notes:

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

(2) Representatives of the external auditor participated in every Audit Committee meeting held during the year.

(3) Mr. Yang Yuanqing was appointed as the Chairman on November 3, 2011.

(4) Mr. Liu Chuanzhi resigned as the Chairman and non-executive director on November 3, 2011.

(5) Mr. James G. Coulter resigned as a non-executive director on September 27, 2011.

(6) Mr. Zhao John Huan was appointed as a non-executive director on November 3, 2011.

(7) Mr. Nobuyuki Idei was appointed as an independent non-executive director on September 28, 2011.

(8) Mr. William O. Grabe was re-designated as an independent non-executive director on February 8, 2012.

(9) For corporate governance reason, Mr. Yang Yuanqing was required to excuse himself from the Strategy Committee meeting to avoid conflict of interest.

(10) The name of the "Governance Committee" was changed to "Nomination and Governance Committee".

(11) The Strategy Committee was disbanded on February 8, 2012.

During the year, the Chairman held two executive sessions with non-executive directors (including independent non-executive directors), the first one being a session attended by only human resources management to review the organization human resources planning of the Company while the other was without the presence of all the senior management to discuss future Board meeting matters.

Management Functions

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. The management is responsible for the daily operations and administration function of the Group under the leadership of the CEO. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to management include implementation of the strategy and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements will be reviewed periodically to ensure that they remain appropriate to our needs. The list of senior management and their biography are set out on pages 90 to 91 of this annual report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board is also responsible for the preparation of financial statements for each financial year which gives a true and fair view of the state of affairs of the Group on a going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on page 103 of this annual report.

Internal Control

The Board acknowledges its responsibility to ensure the Company maintains sound and effective internal controls. This is achieved through a defined management structure with specified limits of authority and defined control responsibility to:

- Achieve business objectives and safeguard assets against unauthorized use or disposition;
- Ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- Ensure compliance with the relevant legislation and regulations.

To achieve this, the Company has established an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework.

While management is responsible for the design, implementation and maintenance of internal controls, the Board and its Audit Committee acknowledge responsibility to ensure Lenovo maintains sound and effective internal controls.

Management of Internal Controls

Essential to the internal control system are well defined policies and procedures that are properly documented and communicated to employees. The Corporate policies form the basis of all company guidelines and procedures and set out the control standards required which guide employees' everyday work within Lenovo business entities. The policies cover those required for administrative and operating activities such as performance monitoring, employee health and safety, delegation of authority, personnel administration, information security, and business continuity management.

Additionally, the Company's Code of Conduct demonstrates Lenovo's commitment to an environment of uncompromising integrity and ethical behavior. The Code also helps employees determine when to ask for advice, and where to obtain it. All Lenovo employees are required to comply with the company's Code of Conduct, which is available in seven languages and is accessible on the Company's website as well as on Lenovo's intranet, and to participate in regular training to reinforce the Company's commitment to compliance and to conducting business with integrity. Lenovo regards any violation of the Code as a serious matter and is committed to following up on all reported concerns. Furthermore, in keeping with best practices, Lenovo has developed and implemented an Anti-Bribery and Anti-Corruption Policy which reinforces the message in the Code of Conduct and provides additional specific guidance regarding compliance with rules and laws related to bribery and corruption.

The internal control system of the Company covers every activity and transaction. Within this framework, management performs periodic, enterprise-wide risk assessments and continuously monitors and reports the progress of action plans to address the key risks. Management also tracks and reports on the implementation of strategic initiatives, business plans, budgets and financial results. As part of the focus on financial integrity, all relevant senior executives regularly verify the accuracy and completeness of the quarterly financial statements and compliance with key internal controls.

Lenovo recognizes the importance of self testing of key controls by management in order to ensure that the internal controls are working as intended or that necessary actions have been taken to address control weaknesses. To further assist management with monitoring controls Lenovo has established a Global Business Process & Controls organization. As part of its mission, the Global Business Process & Controls organization helps to clearly communicate control requirements across all organizations and process owners, design processes, and evaluate the operating effectiveness and efficiency of designed processes and controls in order to help to mitigate risk.

While management is responsible for the design, implementation and maintenance of internal controls, the Board and its Audit Committee oversee the actions of management and monitor the effectiveness of the established controls. To assist the Audit Committee in its oversight and monitoring activities, the Company maintains an independent, worldwide Internal Audit function which provides objective assurance to the Audit Committee that the system of internal controls is effective and operating as intended. The mission of Internal Audit is to provide the Board and Lenovo management with:

- Independent and objective assessment of Lenovo's system of internal controls;
- Guidance in managing and controlling risks for Lenovo stakeholders;
- Proactive support to improve Lenovo's control posture; and
- Independent investigations regarding allegations of fraud and violations of Lenovo's Code of Conduct and other company policies.

To enable it to fulfill its mission, Internal Audit has unrestricted access to all corporate operations, records, data files, computer programs, property, and personnel. To preserve the independence of the Internal Audit function, the Head of Internal Audit reports directly to the Audit Committee on all audit matters and to the Chief Financial Officer on administrative matters. The Head of Internal Audit is authorized to communicate directly with the Chairman of the Board and other Board members. To help ensure the quality of the Internal Audit function and provide assurance that the Internal Audit function is in conformity with the standards of the Institute of Internal Auditors, Internal Audit has implemented a comprehensive and continuous quality assurance program covering all Internal Audit activities. In addition, the Audit Committee periodically commissions an independent, external quality assurance review of the Internal Audit function.

In selecting the audits to perform each year, Internal Audit uses information collected throughout the year from process owners, the risk assessment team, senior executives, external auditor and the Board. Using this information Internal Audit develops a risk based audit plan, focusing on areas with significant risks or where substantial changes have been made. The audit plan is reviewed by the Audit Committee, which is also given quarterly updates on the performance of the plan and key findings. In keeping with best practices, Internal Audit regularly monitors the status of management action plans with respect to audit findings to closure in order to ensure completion and reports to the Audit Committee. Reporting also includes identified key controls issues as well as potential controls issues in order to provide the Audit Committee full visibility into the status of Lenovo's control environment. Ad hoc reviews of areas of concern identified by management or the Audit Committee may also be performed. During the year, Internal Audit issued multiple reports covering most of the operational and financial units worldwide.

Furthermore, Internal Audit is responsible for investigating any allegations of potential violations of Lenovo's Code of Conduct, the Anti-Bribery and Anti-Corruption Policy, or any other company policies as appropriate. Internal Audit partners with Legal, Ethics and Compliance, Human Resources, and subject matter experts where necessary to ensure the appropriate expertise when performing these investigations. The management of the business units, the process owners and the Audit Committee are informed of any required actions resulting from these reviews, and Internal Audit monitors the corrective actions to completion.

Price-Sensitive Information

Regarding procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately if it is the subject of a decision. The Company conducts its affairs with close regard to the applicable laws and regulations prevailing in Hong Kong and has implemented policies and procedures which strictly prohibit unauthorized use of confidential and sensitive information, and has communicated to all relevant staff regarding this matter.

Control Effectiveness

The Board, through the Audit Committee of the Company, conducts a continuous review of the effectiveness of the internal control system operating in the Company and considers it to be adequate and effective. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. The Board is not aware of any significant areas of concern which may affect the shareholders. The Board is satisfied that the Company has fully complied with the code provisions on internal controls as set forth in the CG Code.

Enterprise Risk Management

At Lenovo, risk is defined as a potential action, event or circumstance that could impact the Company's ability, favorably or unfavorably, to meet its strategic goals. Risk is an inherent part of the Company and needs to be understood and managed properly to provide a foundation for the Company's sustained growth. In line with the commitment to deliver sustainable value, Lenovo has implemented an Enterprise Risk Management (ERM) framework to proactively manage risks.

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

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

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

Within this framework, critical and major risks of the business functions, especially in view of the changing business environment, are identified and assessed to determine the appropriate risk mitigation plans to be implemented. These are monitored and reviewed by each business function as well as at the group level. These influential risks are highlighted to the Audit Committee, along with the status of actions taken to manage these risks.

The ERM framework covers all types of risks faced by the Company, both external and internal, and has helped enhance the Company's efforts to provide strong support for our rapid growing business, across all markets. This framework will continued to be strengthened, so as to create a robust risk management culture which safeguards the value of the Company.

External Auditor

Independence of External Auditor

The Group's external auditor is PricewaterhouseCoopers ("**PwC**"), who is remunerated mainly for its audit services provided to the Group. The Company has adopted a policy on engagement of external auditor for non-audit services, under which the external auditor is required to comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. External auditor may provide certain non-audit services to the Group given that these do not involve any management or decision making functions for and on behalf of the Group; or perform any self assessments; or acting in an advocacy role for the Company. The engagement of the external auditor for permitted and approved non-audit services shall be approved by the Audit Committee if the value of such non-audit services equals to or above US$320,000.

During the year, PwC provided audit and insignificant non-audit services to the Group.

Remuneration of External Auditor

The fees paid or payable to PwC for audit and non-audit services for the financial year ended March 31, 2012 and the comparative figures for the financial year ended March 31, 2011 are as follows:

	2012 **US$mn**	2011 US$mn
Audit		
– 2010/11	**–**	4.0
– 2011/12	**5.5**	–
	5.5	4.0
Non-audit	**1.9**	0.6
Total	**7.4**	4.6

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to safeguard shareholders' interests and believes that effective communication with shareholders and other stakeholders is essential for enhancing investor relations and investor understanding of the business performance and strategies of the Group. To achieve this, the Company has established the Shareholders' Communication Policy setting out various formal channels of communication with shareholders and other stakeholders for ensuring fair disclosure and comprehensive and transparent reporting of the Company's performance and activities. The Nomination and Governance Committee of the Company will review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.

Constructive Use of the General Meetings

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with its shareholders and for shareholder participation. The Board encourages shareholders to participate in general meetings as it provides a valuable opportunity to discuss the Company, its corporate governance and other important matters. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days prior to the date of the annual general meeting. The information sent to shareholders includes a summary of the business to be covered at the annual general meeting, where a separate resolution is prepared for each substantive matter.

Extraordinary General Meeting

During the year, the Company convened and held an extraordinary general meeting on May 27, 2011 (the "**EGM**") to consider and approve certain continuing connected transactions with NEC Corporation and its affiliates, which meeting was attended by CEO, Chief Financial Officer, members of the independent board committee and representatives from the independent financial advisor to independent shareholders of the Company. The resolution approving the continuing connected transactions was passed with about 99.97% votes cast in favour of it.

2011 Annual General Meeting

The 2011 annual general meeting of the Company held on July 22, 2011 was attended by, among others, CEO, Chief Financial Officer, chairmen of the Audit Committee and Compensation Committee, and representatives of external auditor PwC and other professional consultant to answer questions raised by shareholders at the meeting.

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

- Received the Group's audited accounts for the year ended March 31, 2011 together with the directors' report and independent auditor's report *(99.96%)*;

- Declaration of a final dividend for the issued ordinary shares for the year ended March 31, 2011 *(100%)*;

- Re-election of retiring directors and authorization to fix directors' fees for the year ended March 31, 2011 *(99.16% to 99.99% in respect of each individual resolution)*;

- Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration *(99.93%)*;

- Approval of granting the general mandate to the directors to allot, issue and deal with the Company's shares *(72.87%)*;

- Approval of granting the general mandate to the directors to repurchase the Company's shares *(99.98%)*;

- Approval of authorisation to directors to extend the general mandate to issue new shares by adding the number of shares repurchased *(74.11%)*;

- Approval of cancellation of the series A cumulative convertible preferred shares from the existing authorized share capital of the Company *(99.99%)*; and

- Approval of amendments to the Articles of Association which allowed the Company to make use of the electronic means and the website for communication with the shareholders upon obtaining express or deemed consent *(99.99%)*.

All the resolutions proposed at the EGM and 2011 annual general meeting were decided by way of poll voting. Procedures for conducting the poll were explained by the Chairman at the commencement of these meetings. The poll was conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the details of poll voting results were posted on the Company's website (www.lenovo.com/hk/publication) and HKEx's website (www.hkex.com.hk) on May 27, 2011 and July 22, 2011 respectively.

Details of the proposed resolutions for 2012 annual general meeting are set out in the circular which will be dispatched to our shareholders with this annual report.

INVESTOR RELATIONS

Lenovo establishes an investor relations team to promote open, transparent, efficient and consistent communications with shareholders, investors and equity analysts. The team commits to proactively providing the investment community all necessary information, data and services in a timely manner, in order to help participants in the investment community to better understand the Company's strategy, operations and new development.

Communications with Investors

During the fiscal year 2011/12, the Company's senior management team presented its annual and quarterly earnings results in Hong Kong, New York, Beijing and San Francisco. Through various investor relations activities such as analyst briefings, webcasts, conference calls and global investor roadshows, the senior management team presented and communicated with investors and analysts on the Company's strategy and development. Site visits were organized to Lenovo's brand experience center and manufacturing plants. In addition to regular one-on-one investor meetings, the senior management team also participated the following investor conferences held by major international investment banks in order to maintain active communications with institutional investors around the world.

Investor Conferences Attended FY2011/12

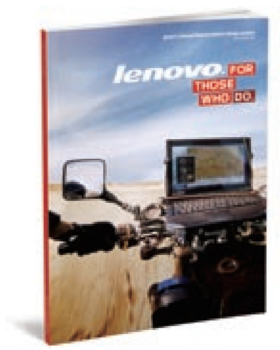
Date	Conference	Location
April 2011	Standard Chartered Asia Pacific Emerging Corporates Spring Conference	Hong Kong
May 2011	Nomura Pan-Asia Technology Forum	Hong Kong
June 2011	J.P. Morgan's Annual China Conference	Beijing
June 2011	Nomura Asia Equity Forum	Singapore
June 2011	Daiwa Hong Kong China Investment Seminar	Hong Kong
June 2011	UBS Taiwan Conference	Taipei
September 2011	Citigroup Global Technology Conference	New York
September 2011	Credit Suisse Asian Technology Conference	Taipei
September 2011	CLSA Investor's Forum	Hong Kong
October 2011	BNP Paribas China Conference	Qingdao, China
November 2011	Daiwa Investment Conference	Hong Kong
November 2011	Morgan Stanley The Asia Pacific Summit conference	Singapore
November 2011	Mirae Asset Hong Kong & China Access Day	Hong Kong
December 2011	Barclays Asian Tech Corporate Day	New York & Boston
December 2011	Barclays Global Tech Conference	San Francisco
January 2012	Nomura @ CES 2012	Las Vegas
January 2012	UBS Corporate Day	Las Vegas
February 2012	HSBC Technology Day	Hong Kong
March 2012	Bank of America Merrill Lynch Technology & Beyond Conference	Taipei
March 2012	Credit Suisse Asian Investment Conference	Hong Kong

Market Recognitions

The Company's continuous effort in investor relations has been well-recognized by the investment community. Lenovo was named as one of the **2011 China's Most Promising Companies** in the technology sector by **the Asset Magazine** as demonstration of Lenovo's leading capabilities and the acknowledgement by the market.

In the **IR Magazine Awards 2011**, Lenovo was awarded as the "**Best Investor Relations for a Corporate Transaction**" for the JV deal with NEC's PC division announced during the year and was also ranked as one of the "**Top 3 Best Corporate Governance and Disclosure – Mainland China**".

Lenovo's fiscal year 2010/11 annual report which has incorporated the elements from the Group's new global branding campaign has also won a number of awards fully demonstrates the company's leading international best practices of our Annual Report is being highly recognized. The report has won the **Grand Award for "Best of Annual Reports in Hong Kong"** and the **Gold Award of "Best Annual Report for Electronic Manufacturing Sector"** in the **Galaxy Awards 2011**, as well as the **Bronze Award of "Annual Reports – Overall Presentation: Electronics"** in **Mercury Awards 2011**.



Index Recognition

Lenovo is currently a constituent stock of the MSCI China Free Index, MSCI Information Technology Index, Hang Seng Composite Index, Hang Seng Mainland Comp Index, Hang Seng Freefloat Comp Index and Hang Seng China-Aff Corp Index. It has also been selected as a constituent stock of the Hang Seng Corporate Sustainability Index in Hong Kong, which indicated market recognition for the Company's achievements in corporate sustainability. The investor relations team will continue to endeavor to do the best in providing award-winning investor relations services.

Listing Information

The Company's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in the United States through an American Depositary Receipt (ADR) Level 1 Programme.

Market Capitalization and Public Float

As at March 31, 2012, the market capitalization of listed shares of the Company was approximately HK$72.2 billion based on the total number of 10,335,612,596 issued shares of the Company and the closing price of HK$6.99 per share.

The daily average number of traded shares was approximately 35.0 million shares over an approximate free float of 5,995 million shares in the fiscal year 2011/12. The highest closing price for the share was HK$7.5 per share on March 28, 2012 and the lowest was HK$4.11 per share on June 16 and 21, 2011.

In accordance with the publicly available information and as far as the directors are aware, the Company has maintained a public float of more than 25 percent of the Company's issued shares throughout the financial year ended March 31, 2012 and has continued to maintain the public float as at the date of this annual report.

SHAREHOLDERS

Shareholders' Rights

The procedures for shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting are set out in the Corporate Governance section of the Company's website.

Shareholders may send their enquiries requiring the Board's attention to the Company at the registered address of the Company or by email to companysecretary@lenovo.com. Questions about the procedures for convening or putting forward proposals at an annual general meetings or extraordinary general meeting may also be put to the Company Secretary by the same means.

Shareholding Structure

Shareholding as recorded in the register of members of the Company as at March 31, 2012

According to the register of members of ordinary shares of the Company as at March 31, 2012, there were 1,172 registered shareholders of whom 98.04% had their registered addresses in Hong Kong. However, the actual number of investors in the ordinary shares of the Company ("**Shares**") be larger than that as a substantial portion of the Shares are held through nominees, custodian houses and HKSCC Nominees Limited.

Shareholding as at March 31, 2012

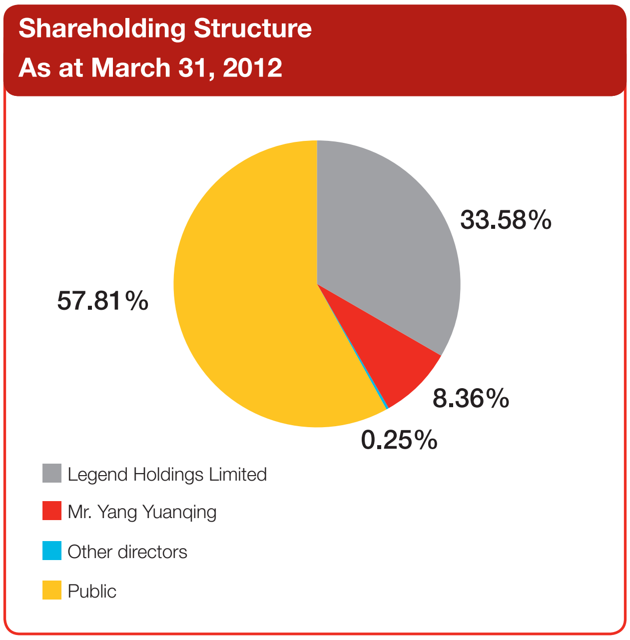
Size of Registered Shareholding	Number of Shareholders	Percentage of Shareholders	Number of Shares	Percentage of Issued Share Capital
2,000 or below	296	25.26%	513,795	0.01%
2,001-10,000	592	50.51%	4,100,000	0.04%
10,001-100,000	252	21.50%	7,158,272	0.07%
100,001-1,000,000	20	1.71%	7,102,000	0.07%
Above 1,000,000	12	1.02%	10,316,738,529	99.81%
Total	1,172	100.00%	10,335,612,596	100.00%

Remarks:

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

(ii) 64.9189% of all the issued Shares were held through HKSCC Nominees Limited.

Shareholding structure according to the interest disclosed under the Securities and Futures Ordinance ("SFO") as at March 31, 2012



Remarks:

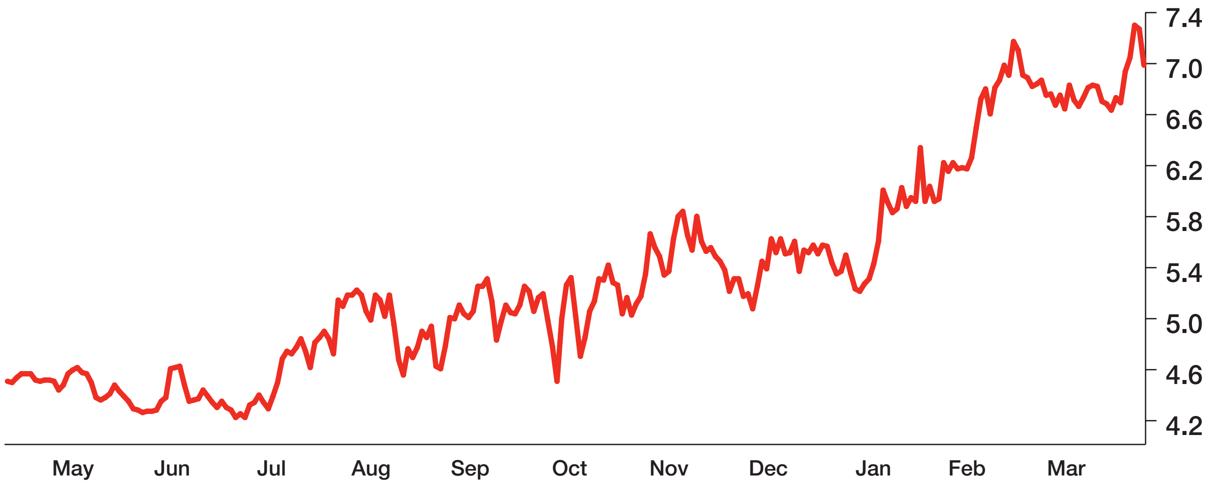
(i) The approximate percentage of shareholding is calculated based on the aggregate long positions held in the issued share capital of the Company (other than the positions held in or pursuant to equity derivatives) by the relevant holder or group of holders as recorded in the registers maintained under the SFO.

(ii) The approximate percentage of shareholding is calculated on the basis of 10,335,612,596 Shares of the Company in issue as at March 31, 2012.

INFORMATION FOR INVESTORS

Ordinary Shares (as at 31 March 2012)	
Listing	Hong Kong Stock Exchange
Stock code	992
Board lot size	2,000 shares
Ordinary shares outstanding as of March 31, 2012	10,335,612,596 shares
Free float	5,995 million shares
Market capitalization as of March 31, 2012	HK$72.2 billion (Approx. US$9.3 billion)

LENOVO'S SHARE PRICE PERFORMANCE (April 1, 2011 – March 31, 2012)



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

Basic Earnings per Share	
Basic earnings per share for the year ended March 31, 2012	4.67 U.S. cents

Dividend per Share	
Dividend per ordinary share for the year ended March 31, 2012	
– Interim	3.8 HK cents
– Proposed final dividend	10.0 HK cents

Financial Calendar 2011/2012[1]	
First Quarter Results Announcement	August 18, 2011
Interim Results Announcement	November 2, 2011
Closure of Register of Members for Interim Dividend	November 21-23, 2011 (Both days inclusive)
Payment of 2011/12 Interim Dividend	November 30, 2011
Third Quarter Results Announcement	February 9, 2012
Annual Results Announcement	May 23, 2012
Annual General Meeting	July 3, 2012

Note:

1 Hong Kong time

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

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE

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

As at the date of this report, 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 chairman, Mr. Allen has appropriate professional qualifications being a member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants, and experience in accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

TERMS OF REFERENCE

The Audit Committee is responsible for assisting the Board in providing an independent review of the financial statements, internal control and risk management systems and its relationship with PricewaterhouseCoopers ("**PwC**"), external auditor. It acts in an advisory capacity and makes recommendations to the Board. The Audit Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings, are published on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

The Audit Committee meets with external auditor and management of the finance and internal audit functions of the Company at least four times a year at quarterly intervals and is provided with sufficient resources to perform its duties. In addition, separate executive sessions were arranged for the Audit Committee to meet with external auditor, internal auditor and General Counsel in the absence of management to discuss matters relating to any issues arising from the audit and any other matters such persons would like to raise. After each Audit Committee meeting, the chairman will report to the Board on its decisions or recommendations.

SUMMARY OF WORK DONE

In the fiscal year ended March 31, 2012, the Audit Committee held four meetings. The attendance record of the Audit Committee's members is set out in the Corporate Governance Report on page 45.

In the fiscal year ended March 31, 2012 the Audit Committee:

Review of Financial Reporting

- Reviewed and recommended to the Board for approval the audited financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended March 31, 2011 together with the related annual results announcement and the annual report incorporating the directors' report and corporate governance report after discussion with the management and external auditor;

- Reviewed and recommended to the Board for approval the unaudited interim financial results of the Group for the six months ended September 30, 2011 together with the related interim results announcement and the interim report after discussion with the management and external auditor;

- Reviewed and recommended to the Board for approval the unaudited financial results of the Group for the three months ended June 30, 2011 and for the nine months ended December 31, 2011 together with its respective results announcements after discussion with the management and external auditor;

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

- Reviewed and discussed with management on significant judgements and key assumptions together with presentational and disclosure issues associated with accounting standards and interpretive guidance affecting the Group's financial statements and financial results announcements; items reviewed and discussed included (a) the accounting treatment for the joint ventures with NEC Corporation and Compal Electronics, Inc. respectively and the acquisition of Medion AG, (b) the carrying value of the Group's goodwill and the reallocation thereof following the restructuring of the geographical reporting segments and (c) the provisions for warranty costs, expected returns, slow moving inventories and doubtful receivables;

- Reviewed the statutory accounts filing progress of the Group;

Review of Internal Controls and Risk Management Systems

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

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

- Reviewed the enterprise risk management of the Group including a summary of the work performed in FY2010/11 and the plan for FY2011/12; assessed the risk universe and the high risk items and reviewed the steps taken by management to control these risks; reviewed the crisis management following the earthquake in Japan and the flooding in Thailand;

- Reviewed the global business partner management process of the Group and the steps for its improvement;

- Reviewed the LenovoLine, a whistleblowing mechanism of the Group for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters, and the proposed enhancements to this mechanism;

Relationship with External Auditor

- Reviewed and considered the external auditor's statutory audit scope for the fiscal year 2011/12, including their plan and the terms of engagement, and the letter of representation to be given by the Board;

- Reviewed the results of the audit, the reports and management letters submitted by external auditor, which summarised matters arising from their audit on the Group during the year ended March 31, 2012, together with management's responses and/or comments to the findings;

- Assessed the external auditor's independence and objectivity by considering the provision of non-audit services by the external auditor;

- Evaluated the performance of PwC and recommended to the Board for approval the re-appointment PwC as external auditor of the Group for the year ended March 31, 2012;

Others

- Reviewed the continuing connected transactions as set out in the directors' report of 2010/11 annual report of the Company and received the external auditor's confirmation letter on continuing connected transaction of the Group;

- Received and reviewed the reports from General Counsel regarding legal matters of the Group;

- Reviewed and recommended to the Board for approval the amendments to the terms of reference of the Audit Committee; and

- Reviewed and approved that annual agenda of the Audit Committee for the fiscal year 2011/12.

At the meeting held on May 22, 2012, the Audit Committee reviewed and recommended to the Board the approval the audited financial statements of the Group for the year ended March 31, 2012 together with the related annual results announcement and this annual report incorporating the directors' report and corporate governance report.

INTERNAL CONTROLS

The Group's internal control system covers every activity and transaction. Within this framework, management performs periodic enterprise wide risk assessments and continuously monitors and reports the progress of actions plans to address the key risks. Based on the information received from management, external auditor and internal audit, the Audit Committee concluded that for the year ended March 31, 2012, the Group's internal control system was adequate and effective. Further information about the internal controls framework and control processes are set out in the Corporate Governance Report on pages 46 to 48. The Audit Committee also confirmed that the Group had, in the fiscal year 2011/12, satisfactorily complied with the code provisions on internal controls as set forth in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

RECOMMENDATION FOR RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee recognizes the importance of maintaining the independence of external auditor. Consistent with its terms of reference, the Audit Committee has evaluated PwC's qualifications, performance, and independence, including that of the lead audit partner. The Company has established a policy pursuant to which non-audit services, provided by the external auditor must be pre-approved by the Audit Committee. This policy is more fully described in the Corporate Governance Report on page 49. The Audit Committee has concluded that provision of the non-audit services described in that section was compatible with maintaining the independence of PwC. In addition, PwC has provided the Audit Committee an independence statement confirming that for the year ended March 31, 2012 and thereafter to the date of this annual report, they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

Based on the review and discussions referred to above, the Audit Committee was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended to the Board the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2013 for shareholders' approval at the forthcoming annual general meeting to be held on July 3, 2012.

Members of the Audit Committee

Mr. Nicholas C. Allen *(Chairman)*
Professor Woo Chia-Wei
Mr. Ting Lee Sen
Ms. Ma Xuezheng

COMPENSATION COMMITTEE REPORT

THE COMPENSATION COMMITTEE

The Compensation Committee (defined as "**Committee**" in this section) is comprised of three members, all of whom are Independent Non-executive Directors. The current members are Mr. William O. Grabe (Committee Chairman), Professor Woo Chia-Wei and Mr. Ting Lee Sen while Ms. Ma. Xuezheng and Mr. Zhu Linan are observers.

TERMS OF REFERENCE

The Committee is responsible for considering and making recommendation to the Board on (i) the Company's structure and aggregate value of compensation programs for Chairman of the Board, CEO and other Directors and senior management; (ii) the compensation of the Non-executive Directors; and (iii) the establishment of a formal and transparent procedure for developing policy on compensation. It is also responsible for the determination of the compensation level and package paid to the Chairman of the Board, CEO and other Directors and senior management. The Committee shall ensure that no Director is involved in deciding his or her own individual compensation. The Committee is authorized to obtain outside independent professional advice to support its function.

SUMMARY OF WORK DONE

In the fiscal year ended March 31, 2012, the Committee held six meetings. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 45.

During the year, the Committee:

Review of Company and Market Information

- Reviewed the performance of the Company in FY2010/11 and market compensation levels for CEO and senior management at similar technology companies

- Reviewed the analysis and the recommendation of an independent consultant on the FY2011/12 Non-executive Directors' compensation package and submitted the same to the Board for approval

- Reviewed the Company's total pay analysis

- Reviewed the Company's pay competitiveness with market

Compensation Program

- Reviewed and approved the FY2010/11 bonus payments and FY2011/12 compensation for senior management

- Reviewed and approved the FY2010/11 bonus payments and FY2011/12 compensation for Chairman of the Board and CEO

- Reviewed and approved adjustments to the FY2010/11 and FY2011/12 long-term incentive program ("**LTI Program**") budgets

- Reviewed the remuneration arrangements relating to cessation of employment of senior management

- Reviewed and approved FY2011/12 annual LTI Program awards for senior management

- Reviewed and approved FY2011/12 annual LTI Program awards for Chairman and CEO

- Reviewed and approved FY2012/13 LTI Program budget

Others

- Reviewed and approved the compensation disclosure in the FY2010/11 annual report

- Reviewed the annual agenda of the Committee

- Reviewed and recommended to the Board on amendments to the terms of reference of the Committee

COMPENSATION POLICY

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

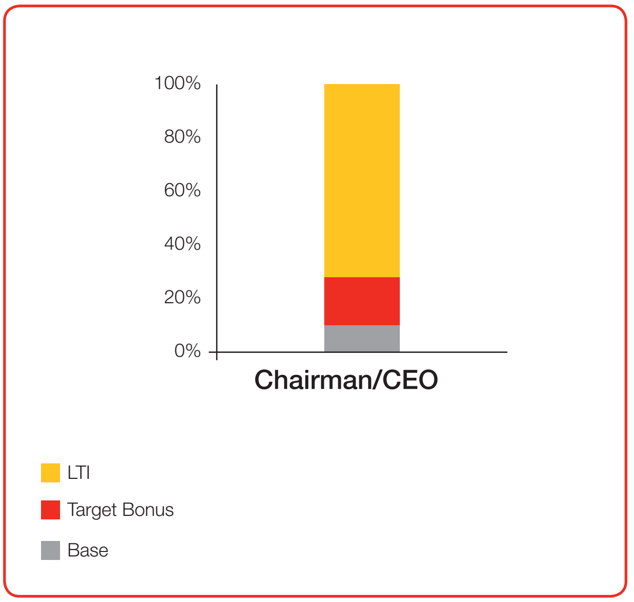
Generally, Lenovo's compensation should serve to support the Company's business strategy, assist the attraction and retention of top talent, reinforce the Company's performance driven culture, and in the meanwhile reflect market practices of other leading international IT enterprises, with particular focus on Lenovo's close competitors in the PC sector.

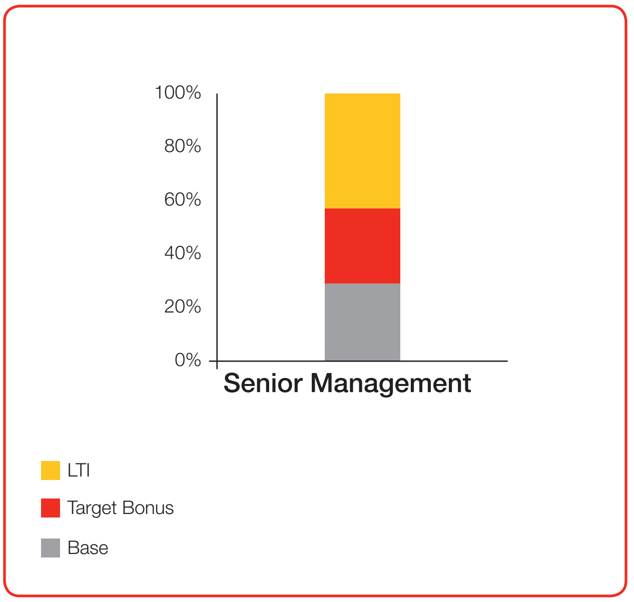
The Committee makes regular reviews of Lenovo's compensation practices to ensure they reflect the overall principles and objectives stated above.

Non-executive Directors
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of the current package and the review carried out in this fiscal year are set out in the section headed "Remuneration Reviews" below.

Chairman/CEO and Senior Management
To ensure Lenovo's compensation for the Chairman/CEO and senior management reflect the policy and principles described above, the Committee considers a number of relevant factors in the determination of their compensation. Such factors include: salaries and total compensation paid by peer companies, job responsibilities and scope, employment conditions elsewhere in the Company, location and market practices, the Company's business performance and individual performance.

The compensation structure of Lenovo's Chairman/CEO and senior management consists of base salaries, allowances, performance bonus, long-term incentives, retirement benefits, and benefits-in-kind. These components are described below in greater detail as well as a graphical overview of the average pay mix.





Fixed Compensation
Fixed compensation includes base salary, allowances and benefits-in-kind (e.g. medical, dental and life insurance, etc.). Base salary and allowances are set and reviewed annually for each position, reflecting competitive market positioning for comparable positions, market practices, as well as the Company's performance and individual contribution to the business. Allowances are provided to facilitate temporary and permanent staff relocations. Benefits-in-kind are reviewed regularly taking into consideration relevant industry and local market practices.

Performance Bonus
The Chairman/CEO and senior management are eligible to receive performance bonuses. The amounts paid under the plan are based on the performance of the Company, its subsidiaries, relevant performance groups and/or geographies as appropriate, as well as individual performance.

Long-Term Incentive Program
The Company operates a LTI Program which was adopted by the Company on May 26, 2005. The purpose of the LTI Program is to attract, retain, reward and motivate executive and non-executive directors, senior management and selected top-performing employees of the Company and its subsidiaries.

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

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

(ii) Restricted Share Units ("RSUs")
RSUs are equivalent to the value of one ordinary share of the Company. Once vested, RSUs are converted to an ordinary share, or its cash equivalent. RSUs are typically subject to a vesting schedule of up to four years. Dividends are typically not paid on RSUs.

(iii) Performance Based Share Units
The Company has three performance based share unit plans, namely, the 2005 Performance Share Unit (PSU) plan, the 2007 Performance RSU plan and the 2008 Performance RSU plan.

The 2005 PSU plan was discontinued in 2006; however, the Company continues to honor grants previously awarded. All outstanding awards were vested on May 1, 2008. The 2007 and 2008 Performance RSU plans have also been discontinued; similarly, the Company continues to honor grants previously awarded. All outstanding awards were vested by June 1, 2012.

The Company reserves the right to pay any awards under the LTI Program in cash or in ordinary shares at its discretion. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, awards are due after exercise by the recipient. In the case of RSUs, awards are due after the employee satisfies any vesting conditions.

The number of units that are awarded under the LTI Program is set and reviewed annually, reflecting competitive market positioning, market practices, especially those among Lenovo's competitors, as well as the Company's performance and each individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires. Award levels and mix may vary by individual.

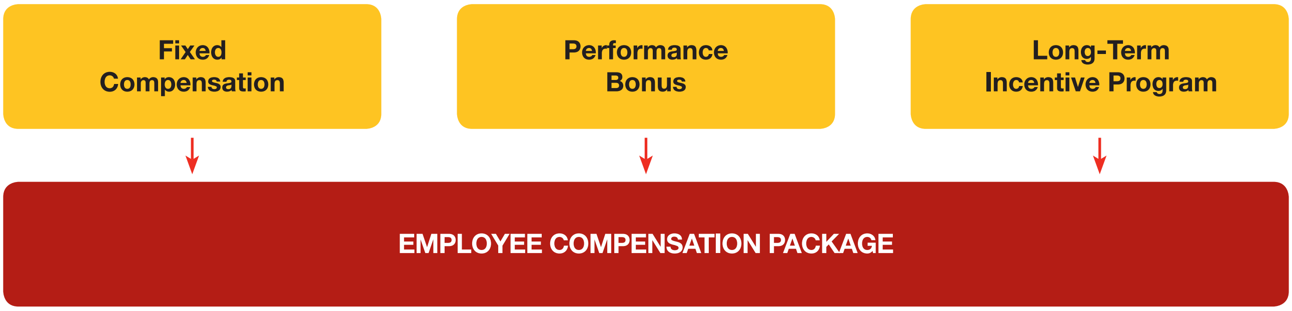
Prior to the adoption of LTI Program in 2005, the Company granted its employees, including directors and senior management, share options. No further options have been granted since 2004. Details of the Share Option Plan are set out in the Directors' Report on pages 93 to 94.

Retirement Benefits
The Company operates a number of retirement schemes for its employees, including Executive Directors and senior management. These schemes are reviewed regularly and are intended to deliver benefit levels that are consistent with local market practices. Details of the programs are set out in the Directors' Report on pages 95 to 98.

General Employees

As of March 31, 2012, the Group had approximately 27,000 regular employees worldwide.

Lenovo believes that employees are its most important strategic resource and recognizes that each employee must be valued as an individual and treated fairly and equitably. Lenovo's compensation philosophy supports this value and targets compensation competitively within the relevant competitive market, with significant opportunity for increased pay based on performance. Through the compensation program, Lenovo seeks to identify and reward exceptional performance in ways that send clear messages about the Company's priorities and values.



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

REMUNERATION REVIEWS

The Committee regularly reviews the Company's compensation programs to ensure alignment with its stated objectives as well as competitiveness in the talent market. Typically, reviews for base salary, performance bonus, and LTI program awards are conducted on a yearly basis. Non-executive directors' fees are reviewed for alignment with market practice on an annual basis as well.

2011-12 Non-Executive Directors Review

In May 2011, the Committee engaged an independent international compensation consulting firm to conduct an analysis of the compensation package of non-executive directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Final recommendations as subsequently approved by the Board (comprising only of Executive Director) based on the delegation from shareholders of the Company are summarized in the table below:

Compensation Element	2011/12	2010/11
Cash Retainer	**$80,000 USD**	$80,000 USD
LTI Program Award	**$180,000 USD**	$140,000 USD
Total Remuneration	**$260,000 USD**	$220,000 USD

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

Consistent with prior practice, the Chairman of the Audit Committee received an additional cash payment equal to US$20,000 (approximately HK$156,000), and the Chairman of the Compensation Committee received an additional cash payment of US$10,000 (approximately HK$78,000).

Further details of the compensation of the Non-executive Directors are included in note 11 to the financial statements. SAR and RSU awards outstanding for non-executive directors as of March 31, 2012 under this scheme are presented in the "Long-Term Incentive Schemes" section of this report.

2011-12 Chairman/CEO and Senior Management Review

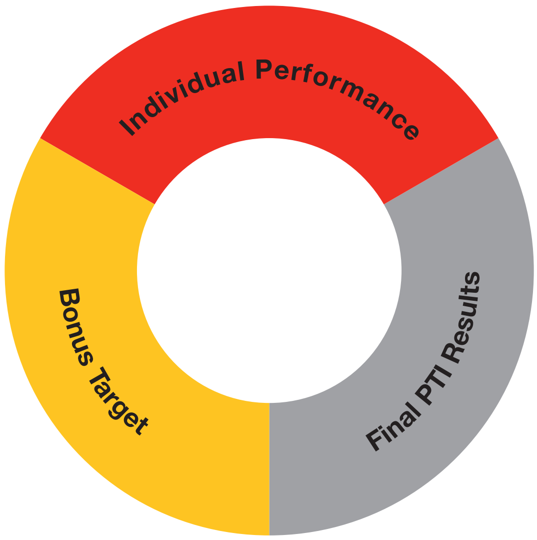
Fixed Compensation

As a part of its annual review process, the Committee had reviewed and approved base pay changes for the Chairman/CEO and senior management in May 2011, effective July 1, 2011.

To ensure the Chairman/CEO's compensation package remains competitive with the market, base pay for the Chairman/CEO was increased to US$1,083,000 (actual pay delivered in local currency). Base pay for senior management has been increased by 4% to 14% to account for changes in role, scope, and market pay levels and in consideration of individual performance and contributions.

Performance Bonus

Chairman/CEO and senior management's fiscal year 2011/12 bonus payouts were approved in the May 2012 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on individual bonus target, the Company's final post-tax income, as well as individual performance.



Approved bonus payments for the fiscal year 2011/12 will be delivered in June 2012.

Long-Term Incentive Program

In February 2012, the Chairman/CEO and senior management received an annual award comprised of SARs and RSUs under the LTI Program. Details of the grant as well as all outstanding awards for executive and non-executive directors as of March 31, 2012 under the LTI Program are set out in the "Long-Term Incentives Schemes" section of this report.

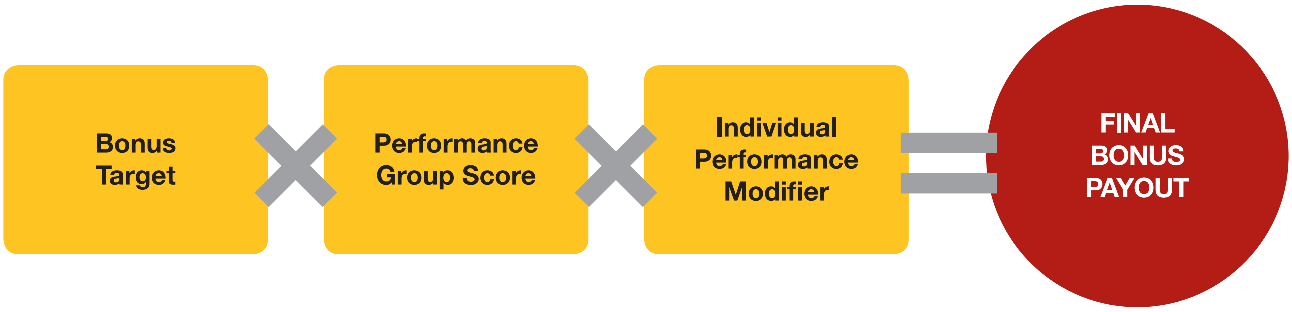
Fiscal Year 2011/12 Employees Review

Fixed Compensation

As a part of its annual review, the Committee was presented with an overview of the market pay trends in February 2011 in advance of a merit based pay review for all employees conducted in June 2011. The review incorporated input from several external survey providers and formal assessments of individual performance. The approved market-based merit increases were effective from July 1, 2011.

Performance Bonus

Performance bonus for general employees is based on individual performance and performance of their respective business unit or "Performance Group". For fiscal year 2011/12, there were a total of 39 different Performance Groups within the Company each with their unique performance metrics and targets. For the fiscal year 2011/12 performance bonus, mid-year progress payment was made in December 2011, and full payment based on annual business outcomes will be trued-up in June 2012 based on approved final bonus funding.



Performance Group scores may range from 0% to 300% based on final results against targets. Individual Performance Modifiers range from 0% to 150% and are linked to the employee Performance Ratings and progress against established Key Performance Indicators (KPIs).

Long-Term Incentive Program

For fiscal year 2011/12, 7.2% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in February 2012.

Emoluments of Directors for FY2011/12 and Five Highest Paid Individuals

Details of the emoluments of Directors and the five highest paid individuals are set out in note 11 to the financial statements.

LONG-TERM INCENTIVE SCHEMES

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

Share Option Scheme

At the extraordinary general meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme ("**New Option Scheme**") and the termination of the old share option scheme ("**Old Option Scheme**"). Although no further options may be granted under the Old Option Scheme, all remaining provisions will remain in force to govern the exercise of all the options previously granted. Further details of the two share options schemes are set out in the Directors' Report on pages 93 to 94.

Movements in the share options during the year ended March 31, 2012 are as follows:

	Options held at April 1, 2011	Options exercised during the year	Option lapsed during the year	Options held at March 31, 2012	Exercise price (HK$)	Grant date (mm.dd.yyyy)	Exercise period (mm.dd.yyyy)
Old Option Scheme							
Continuous contract employees	1,380,000	1,000,000	380,000	–	4.072	04.16.2001	04.16.2001 to 04.15.2011
	27,290,000	12,454,000	14,836,000	–	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme							
Director							
Ms. Ma Xuezheng	406,000	406,000	–	–	2.245	04.26.2003	04.26.2003 to 04.25.2013
Continuous contract employees	7,492,000	1,030,000	–	6,462,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	24,455,000	4,129,000	–	20,326,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	67,537,051	10,158,000	–	57,379,051	2.545	04.27.2004	04.27.2004 to 04.26.2014
Other participants	9,538,000	2,574,000	–	6,964,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,540,000	10,000	–	1,530,000	2.245	04.26.2003	04.26.2003 to 04.25.2013

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees was HK$5.367.

2. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by other participants was HK$6.221.

3. No options are granted and/or cancelled during the year.

4. The accounting policy adopted for the above share option schemes are set out in note 2(w)(iv) to the financial statements. Other details are set out in note 30(b).

LTI Program

Movements in the share awards during the year ended March 31, 2012 are as follows:

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2011 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2012 (unvested)	Total outstanding as at March 31, 2012	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	06/07	2.35	–	–	–	–	–	–	13,385,665	06.01.2007 – 06.01.2010
	SAR	07/08	3.94	1,500,502	–	1,500,502	–	–	–	6,002,009	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	1,969,927	–	984,964	–	–	984,963	3,939,855	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	17,100,000	–	5,700,000	–	–	11,400,000	22,800,000	05.25.2010 – 05.25.2013
	SAR	09/10	5.23	4,947,117	–	1,649,039	–	–	3,298,078	6,596,156	02.08.2011 – 02.08.2014
	SAR	10/11	4.92	11,030,219	–	2,757,555	–	–	8,272,664	11,030,219	02.21.2012 – 02.21.2015
	SAR	11/12	6.80	–	11,132,358	–	–	–	11,132,358	11,132,358	02.13.2013 – 02.13.2016
	RSU	07/08	3.94	1,681,100	–	1,681,100	–	–	–	–	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	525,314	–	262,657	–	–	262,657	262,657	06.01.2009 – 06.01.2012
	RSU	09/10	3.17	7,650,000	–	2,550,000	–	–	5,100,000	5,100,000	05.25.2010 – 05.25.2013
	RSU	09/10	5.23	3,710,338	–	1,236,779	–	–	2,473,559	2,473,559	02.08.2011 – 02.08.2014
	RSU	10/11	4.92	7,878,728	–	1,969,682	–	–	5,909,046	5,909,046	02.21.2012 – 02.21.2015
	RSU	11/12	6.80	–	6,679,415	–	–	–	6,679,415	6,679,415	02.13.2013 – 02.13.2016
Mr. Zhu Linan	SAR	05/06	3.15	–	–	–	564,000	341,654	–	–	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	390,000	224,250	–	–	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	297,000	225,035	–	–	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	175,864	131,222	87,932	87,932	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Ms. Ma Xuezheng	SAR	07/08	5.62	173,282	–	173,282	–	–	–	693,130	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	65,326	–	65,326	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	175,864	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	07/08	5.62	57,760	–	57,760	–	–	–	–	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2011 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2012 (unvested)	Total outstanding as at March 31, 2012	Vesting period (mm.dd.yyyy)
Dr. Wu Yibing	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Professor Woo Chia-Wei	SAR	05/06	3.15	–	–	–	564,000	261,457	–	–	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	390,000	161,398	–	–	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
	RSU	10/11	4.30	–	36,047	36,047	–	–	–	–	Note 1
	RSU	11/12	4.56	–	34,180	34,180	–	–	–	–	Note 1
	RSU	11/12	6.72	–	23,080	23,080	–	–	–	–	Note 1
Mr. Ting Lee Sen	SAR	05/06	3.15	–	–	–	564,000	317,534	–	–	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2011 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2012 (unvested)	Total outstanding as at March 31, 2012	Vesting period (mm.dd.yyyy)
Dr. Tian Suning	SAR	07/08	5.14	–	–	–	–	–	–	151,950	09.01.2008 – 09.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–			–	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Mr. Nicholas C. Allen	SAR	09/10	4.47	71,562	–	35,781	–	–	35,781	107,343	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	09/10	4.47	32,528	–	16,264	–	–	16,264	16,264	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Mr. Nobuyuki Idei	SAR	11/12	5.23	–	144,085	–	–	–	144,085	144,085	09.28.2012 – 09.28.2014
	RSU	11/12	5.23	–	68,612	–	–	–	68,612	68,612	09.28.2012 – 09.28.2014
Mr. William O. Grabe	SAR	05/06	3.15	–	–	–	564,000	265,959	–	–	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	12,721	–	–	12,721	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	5,782	–	–	5,783	5,783	11.30.2010 – 11.30.2012
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
	RSU (Deferral)	10/11	4.30	–	40,552	40,552	–	–	–	–	Note 1
	RSU (Deferral)	11/12	4.56	–	38,452	38,452	–	–	–	–	Note 1
	RSU (Deferral)	11/12	6.72	–	25,965	25,965	–	–	–	–	Note 1

Note 1: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforeseen emergency.

Note 2: These units were nullified in accordance with the operation of the SAR plan rules.

Members of the Compensation Committee

Mr. William O Grabe *(Chairman)*

Professor Woo Chia-Wei

Mr. Ting Lee Sen

CORPORATE SOCIAL RESPONSIBILITY REPORT

SUSTAINABILITY

Sustainability for Lenovo means taking care of the long-term economic, social, and environmental health of our company and the communities in which we operate. With the leadership of Senior Vice President Peter Hortensius, Lenovo's Chief Sustainability Executive and chairperson of our Sustainability Working Committee, Lenovo creates value for our local communities through planning, research and collaboration; we work to fight climate change through sustainable manufacturing and energy efficiency; we make education a priority; we empower entrepreneurs and innovators to make their own positive impact; we treat our employees with respect and encourage them to live the company values; and we invest in worthy causes that better our world.

Lenovo continues to set an example with its sustainability programs and have been recognized by the global community. In 2010, Lenovo was selected as a constituent stock of the Hang Seng Corporate Sustainability Index Series – the first index of its kind to focus exclusively on Hong Kong and mainland China. In 2011, Lenovo received an 'A+' ranking placing it among the top 10 of the 638 companies whose corporate sustainability performance was examined that year. Also, in 2011, Lenovo was rated as "Prime" by oekom research AG, an independent research institute specializing in corporate responsibility assessments. The oekom Corporate Rating is based on a comprehensive set of criteria for ethical assessment of companies.

Lenovo supports and implements sustainable and responsible business practices globally and is devoted to ensuring that its products, employees, sites, and suppliers are following these commitments. These sustainable and responsible business practices serve as a means to minimize risk, reduce costs, increase shareholder value and support the company's long-term prospects for profitability.

Lenovo's sustainability commitments encompass:

- high ethical standards
- employee health and welfare
- diversity
- product safety and quality
- the environment
- global supply chain, and
- social investments

Lenovo is a signatory and member of the UN Global Compact and fully embraces its policies and principles. The UN Global Compact is a public-private strategic policy initiative for businesses committed to aligning operations and strategies with ten universally accepted principles in the area of human rights, labor, environment and anti-corruption.

Lenovo's sustainability commitments and 2011 highlights are summarized below. More extensive information on sustainability can be found at: http://www.lenovo.com/csr.

Ethics and Compliance at Lenovo

Lenovo has a global ethics and compliance program that is managed by the Company's Chief Ethics and Compliance officer. Lenovo's Ethics and Compliance Office oversees ethics and compliance across the organization, working in partnership with the company's business units to see that the company achieves its business goals while meeting the letter and spirit of the legal and regulatory framework in which the company operates. Lenovo's Ethics and Compliance Office plays a critical role in providing employees with the resources and information they need to make the right choices and decisions. With these systems in place, Lenovo describes clear expectations for employees and hold them accountable for their behavior.

To make sure employees understand the company's expectations, Lenovo has a Code of Conduct that applies to all employees worldwide and is an integral part of the company's ethics and compliance program. The Code demonstrates Lenovo's commitment to a culture of uncompromising integrity and helps employees determine when to seek advice and where to obtain it. All Lenovo employees are required to comply with the Code, which is available in seven languages and is accessible on the company's website along with additional policies at http://www.lenovo.com/CSRPolicies.

Employees are further required to participate in regular training to reinforce the company's commitment to compliance and to conducting business with integrity. In addition, all new employees receive training and information about the company's ethics and compliance program upon start of employment. Additional information about the company's commitment to conducting business with integrity is provided through the company's intranet and other periodic communications.

Lenovo provides formal, confidential ways to report when potential violations of law, company policy or the Code of Conduct occur. These include postal mail, email and the company's LenovoLine, which is a confidential reporting system accessible 24 hours a day, seven days a week by secure website or toll-free telephone with translators available. Where allowed by law, employees may report concerns about business practices anonymously if they choose. The LenovoLine and other resources are also available to help counsel employees who may have questions or concerns. Lenovo regards any suspected violation of law, policy or the Code as a serious matter and is committed to following up on all reported concerns, which are addressed and tracked to resolution.

Employee Complaint Process

Lenovo provides guidance to its employees regarding how to raise questions or concerns about any aspect of their work at Lenovo, and has established clear processes to support these reporting channels. This guidance is communicated in several ways, including through Lenovo's Code of Conduct and the Diversity and Non-Discrimination Policy.

Please visit Lenovo's Commitment to Diversity and Non-discrimination (http://www.lenovo.com/social_responsibility/us/en/Lenovo_Policy_Commitment_to_Diversity_and_Nondiscrimination.pdf) for more details.

Employees are directed to report to their managers, Human Resources, the Ethics and Compliance Office, or the local Lenovo Legal Department any information pertaining to:

- Fraud by or against Lenovo
- Unethical business conduct
- A violation of legal or regulatory requirements
- Substantial and specific danger to health and safety
- A violation of Lenovo's corporate policies and guidelines, in particular its Code of Conduct

Lenovo has a clear non-retaliation policy, and will not tolerate harassment, retaliation, discrimination or other adverse action against an employee who:

- Makes an internal report in good faith
- Provides information or assists in an investigation regarding such a report; or
- Files, testifies or participates in a legal or administrative proceeding related to such matters

Managers are required to report and help resolve any suspected violation of the non-retaliation policy. Complaints of alleged retaliation will be promptly addressed and investigated.

Reports of inappropriate behavior, policy violations or alleged retaliation will, to the extent permitted by law and consistent with an effective investigation, be kept anonymous and confidential.

Employee Health and Welfare

Lenovo's people are its greatest asset, and the company is committed to providing a safe and healthy working environment. This global commitment is clearly essential to the company's productivity and values. Lenovo tracks its performance in health and safety, and relevant data can be found in the company's sustainability report (available at http://www.lenovo.com/sustainability). The company's Global Occupation Health and Safety (OHS) organization has established world-class standards for employee workplace safety. Lenovo is pursuing global volunteer initiatives, such as OHSAS 18001, in which Lenovo's global supply chain was certified OHSAS 18001 compliant by Bureau Veritas.

In 2011, Lenovo was recognized with multiple awards in the area of health and safety. Lenovo's Beijing, China facility was recognized with the Excellent Safety Performance Award and its Shenzhen, China facility was recognized with its second consecutive "Safety Outstanding Contribution" award from the FuTian District Safety Government Committee. In addition, the United States Fulfillment Center (USFC), in Whitsett, North Carolina was recognized by the North Carolina Department of Labor with their fourth consecutive annual Gold Award for accident prevention while the Morrisville, North Carolina Headquarters location was recognized with its seventh consecutive Gold Award. The USFC, Shenzhen, China, and Monterrey, Mexico locations have all received the "Highly Protected Risk" award from Factory Mutual (FM) Global Commercial Insurance Company by following FM Global property loss prevention programs such as fire protection system testing and emergency planning.

As a major competitor in a high-tech industry, attracting and retaining top talent is critical to Lenovo's performance. Lenovo is recognized as a leading employer offering competitive compensation packages, abiding by applicable minimum wage requirements in every country and region where it operates, providing equipment that is safe to use, and focusing continually on preventing injuries.

Diversity

Diversity at Lenovo is much broader than race and gender. It is about honoring the multiple cultures that comprise the fabric of this company and leveraging its national and regional differences so that Lenovo can better understand its customers and address their needs. It's about a diversity of talents working together to create something that has not been thought of before or never existed.

Our diversity at Lenovo is unique and it is our competitive advantage. Now, the company recognizes that the uniqueness brings a level of complexity that can be very challenging at times; however, it presents all of us an opportunity learn and grow.

Having a diverse workforce enables the company to compete more effectively and successfully in the market place. Customers like to do business with companies whose makeup reflect their own and the wider marketplace. One of Lenovo's strengths is having a workforce composed of people from various cultures that allows us to capitalize on diverse perspectives in the development, manufacturing, marketing and sale of our products.

Lenovo has various programs and initiatives designed to encourage development, networking and executive focus on women, people with disabilities and minorities. This is not to exclude any particular group of employees, but rather to help ensure inclusion of all. One of the company's key diversity initiatives is Women in Lenovo Leadership (WILL).

Women in Lenovo Leadership (WILL) was launched in 2007 on International Women's Day with the purpose of addressing key priorities that would support a woman's growth and contribution to the company. WILL involves events, programs and HR processes to enhance work life balance, mentoring, networking, training and external partnerships with other players engaged in initiatives for women. WILL is a global program with regional leaders in Australia/New Zealand, Brazil, Canada, China, France, Western Europe, UK, India, Japan and the U.S. These leaders provide specific focus in their regions on topics of interest to women in these regions.

WILL contributes to the overall business strategy of Lenovo and is therefore a key ingredient to profitability. Employees have an opportunity to leverage their experiences and knowledge and expand their growth. We are uniquely poised to help the company and organizations successfully maneuver this new diverse, global reality because we have such a strong foundation for advocating for, and advancing, inclusion in our workplace. WILL is an essential part of developing an outline of how our current and future leaders can develop and leverage their skills to help make all of our companies and organizations more successful on a global scale.

Product Safety and Quality

Lenovo has a well-earned industry reputation for delivering superior quality products and is committed to ensuring that its products are safe throughout their lifecycle. Lenovo relies on the principles of Life Cycle Analysis to ensure that every stage of the product's life is taken into consideration including manufacturing, transportation, installation, use, service, and recycling. This enables Lenovo to have deep insight into opportunities for risk and cost minimization as well as insight into new opportunities for enhancing and increasing product marketability to meet the preferences of an increasingly informed public.

Corporate strategies, policies and guidelines have been designed to support Lenovo's commitment to product safety. Wherever its products are sold, Lenovo strives to ensure that its products meet all applicable legal requirements, and those voluntary safety and ergonomics practices to which Lenovo subscribes.

Lenovo's global Quality Management System, which has earned ISO 9001 certification, is committed to the goals of meeting customer requirements, ensuring customer satisfaction, and delivering superior products, solutions, and services.

100% of Lenovo's products are compliant with RoHS requirements. Lenovo completed the RoHS transition on 1 October 2007 and all components, commodities, parts and products have been RoHS compliant since that time.

Corporate Quality Policy

Lenovo has an overriding worldwide commitment to the quality of the products, solutions and services we provide to our customers. Quality is recognized as a fundamental component of the value customers receive from Lenovo. Lenovo is committed to customer satisfaction by delivering products that are of superior quality to comparable offerings from our competitors.

Lenovo is committed to the goals of achieving customer satisfaction, delivering superior products, solutions, and services and ensuring we meet customer requirements. Recognizing that the marketplace is the driving force behind everything we do. Lenovo implements effective business processes that support value creation for our customers and our stakeholders.

Lenovo leaders are responsible for establishing objectives and using measurements to drive continual improvement in quality and customer satisfaction. All Lenovo employees are expected to contribute to continual improvement as an integral part of our quality management system.

The Environment

Lenovo is committed to accountability and leadership in environmental affairs and continues to build upon a history of environmental achievement. This commitment is documented in Lenovo's corporate environmental policy (shown below) which applies to all operations and forms the foundation of Lenovo's Environmental Management System (EMS). The EMS establishes the framework from which Lenovo manages all facets of its environmental aspects and drives continuous improvement in its environmental performance. Lenovo's EMS is ISO 14001 certified and covers Lenovo's global manufacturing, research, product design and development activities for personal computers and related products, servers, and digital and peripheral products. Lenovo's EMS assures the highest level of environmental protection for Lenovo's products as well as Lenovo's site operations worldwide. Facilities included in Lenovo's ISO 14001 registration are listed in the table below.

Corporate Environmental Affairs Policy

Lenovo is committed to exhibit leadership in environmental affairs in all of its business activities. The requirements listed below apply to all of Lenovo's worldwide operations. Every Lenovo organization must support this policy and each manager and employee, as well as any contractor performing work on behalf of Lenovo, shall bear a personal responsibility for the following objectives:

Compliance

- Meet or exceed all applicable environmental requirements for all Lenovo activities, products, and services, including legal requirements, standards, and voluntary commitments to which Lenovo subscribes.

Prevention of Pollution

- Use sustainable business practices and processes that minimize waste and prevent pollution, conserve energy and minimize Lenovo's carbon footprint, minimize health and safety risks, and dispose of waste safely and responsibly.

Product Environmental Leadership

- Conserve natural resources by developing products and packaging that minimize materials usage, use recycled and environmentally preferable materials, and that maximize reuse and recycling opportunities at the end of the product's life.

- Develop, manufacture, and market products that are energy efficient and that minimize their impact on the environment.

Continual Improvement

- Strive to continually improve Lenovo's environmental management system and performance.

- Work with Lenovo's supply chain to improve environmental protection and promote the use of environmentally preferable technologies.

- Be an environmentally responsible neighbor in the communities where we operate and act promptly and responsibly to correct conditions that may endanger health, safety, or the environment.

- Provide appropriate resources to fulfill these objectives.

Corporate strategies, policies and guidelines must support this commitment to leadership in environmental affairs. Every employee and contractor of Lenovo must follow this policy and report any environmental, health, or safety concerns to Lenovo management, who must take prompt corrective action.

ISO 14001 Registered Manufacturing & Development Facilities

Location	Primary Function(s)
Lenovo Building/Beijing, China	Manufacturing – Administration
North R&D Center/Beijing, China	Development
Huiyang Plant/Huiyang, China	Manufacturing
Monterrey Plant, Apodaca, NL, Mexico	Manufacturing
Morrisville, NC, USA	Development – Administration
Shanghai, China	Manufacturing
ZhangJiang Building/Shanghai, China	Development
ISH2 and Shuncang Buildings/ Shenzhen, China	Manufacturing
Lenovo R&D Center, Shenzhen, China	Development
Pondicherry, India	Manufacturing
USFC, /Whitsett, NC, USA	Fulfillment Center
Yamato Development Lab/ Yokohama, Japan	Development
Chengdu, China	Manufacturing
Xiamen, China	Manufacturing

The Lenovo Environmental Policy provides direction from the CEO regarding how the company manages its environmental impacts. It shapes the company's global environmental management system, the procedures and practices that make up that system and the objectives and targets that arise from it. The importance of the direction established by this document is never more evident than in times of change. During FY 2011/12 Lenovo experienced significant change – as the company grew to be the number two computer company in the world.

This growth created significant challenges in managing the integration and alignment of new partnerships, new acquisitions, new business units and new facilities into the Lenovo Global Environmental Management System (EMS). During this amazing growth period Lenovo maintained focus on the key commitments of its Environmental Policy: working to ensure compliance, acting to prevent pollution and reduce its environmental impact, striving to develop products with industry leading environmental attributes and pushing to continually improve its global environmental performance.

These challenges included:

- Completing the integration of the reacquired mobile phone business into Lenovo's newly created Mobile Internet and Digital Home (MIDH) business unit. Integration of MIDH into the global EMS is now complete. MIDH environmental focal points participate in the Lenovo product and site environmental management systems, providing operational data that is included in the company's global reporting and participating in our annual objective and target setting process.

- Aligning the environmental work of the new joint venture formed when Lenovo acquired 51% of the NEC PC business. The NEC PC EMS comes to the joint venture with a very mature, strong and well functioning EMS. Environmental staff of both companies are working to ensure the alignment of processes, procedures and objectives and targets.

- Integrating Medion AG into Lenovo's global EMS. This work is on-going. Planning for establishing an ISO 14001 registered EMS within Medion has begun. That EMS will be integrated into Lenovo's global EMS and registered with the company's global registrar by the end of Q2 FY 2013/14.

- Establishing an EMS at Lenovo's newly commissioned manufacturing facility in Chengdu, China and integrating the system into the company's global EMS. This work is complete. The Chengdu EMS was certified by Lenovo's Chinese Registrar, the Chinese Electronics Standards Institute, during November, 2011. The site will be included in the company's global registrar audit schedule during the coming year.

- Assuring the design of the company's newly announced headquarters building in Beijing includes environmental attributes that promote efficient operation and minimize the environmental impact of the facility. To ensure this Lenovo has committed to designing the facility to the requirements of China Green Building 3 Star and LEED Gold certifications. Lenovo has committed to achieving these certifications for the facility during FY 2017/18.

- Assuring the design of the new manufacturing facility being built in a joint venture with Compal in Hefei, China, includes environmental attributes that ensure energy efficiency and minimize the environmental impact of the facility. High efficiency electrical equipment, HVAC, chillers, distribution system and lighting are included in the design of the facility. Outdoor lighting will be powered by renewable energy sources. State of the art building materials that allow use of natural light and reduce heat transfer will be used. Rainwater will be used to meet part of the sanitary sewer and cooling towers demand.

Compliance management during rapid growth can also be a challenge. FY 2011/12 saw increases in the number of products offered by Lenovo and the number of countries in which they are offered. At the same time, the year brought new regulatory and voluntary commitments with which Lenovo must comply. To support Lenovo's existing compliance organization and ensure continued global compliance the company entered into contracts with external partners in Europe, North America and Latin America. In China, internal reorganization resulted in creation of the China Compliance and Standards group and increased resources committed to compliance assurance.

Lenovo supports its commitment to compliance through internal and external audits of its own facilities and those of suppliers. The environmental and health and safety management systems at both Lenovo's manufacturing and development sites are subjected to internal audits at least annually. These same sites are also exposed to environmental and health and safety audits by external entities at least once in three years, with most sites being audited twice in three years.

Lenovo acts to ensure compliance in its supply chain with Lenovo personnel performing environmental audits at the sites of suppliers whose services provide significant environmental risk and at the company's largest suppliers. Lenovo requires that its largest suppliers comply with the Electronics Industry Code of Conduct and verify this compliance through 3rd party audits. During the year Lenovo personnel performed audits at 35 supplier locations.

Lenovo continues to work internally and externally to reduce the environmental impact of its operations. The positive results of these efforts were demonstrated by the company reaching the first milestone of its 10 year greenhouse gas reduction commitments at the beginning of FY 2011/12. As of March 31, 2011, Lenovo reduced its absolute Scope 2 greenhouse gas emissions relative to FY 2009/10 by 10.4%. Lenovo also met its goal of either offsetting or eliminating all Scope 1 emissions, reducing its actual emission by greater than 16.5% and purchasing offsets to carbon balance the remainder.

Lenovo is now focusing on meeting the second milestone in this 10 year initiative. That is to reduce Scope 2 emissions by 13% relative to FY 2009/10 by March 31, 2013. While the company is confident of reaching this target, it will be met with a greater percentage of the reduction coming from the purchase of carbon offsets. Lenovo has already committed to offsetting the FY 2012/13 emissions from its new facility in Chengdu, China through the purchase of offsets. These offsets will be purchased from China based projects. The company is further committed to purchases of renewable energy credits and carbon offsets from the EarthEra Trust in North America.

All sites continue to identify and implement energy efficiency projects and evaluate the opportunity to implement the use of renewable energy. During FY 2011/12 the Lenovo manufacturing facility in Shanghai, China was recognized by Pudong New District for their award winning energy efficiency project that reduced annual energy consumption by 946,000 KWh and saved RMB850,000. At the Shanghai facility work has begun on the Golden Sun Project which will result in the installation of a solar array at the plant. This project will provide approximately 10% of the facilities current electricity demand and offset about 10% of its FY 2010/11 CO_2e emissions.

While Lenovo has demonstrated good progress during the early stages of its 10 year GHG reduction commitment, we are very aware there is still much to do. In the light of the company's impressive growth it becomes obvious that accomplishing its longer term goals will be a significant challenge. Lenovo's Global Energy Management Team is charged with driving further reductions in GHG emissions. With a continued focus on energy efficiency this team will work to identify and implement energy reduction, renewable energy and carbon offset opportunities that provide the most cost effective path to meeting our targets.

Lenovo continues in efforts to improve its ability to quantify, track and mitigate the impacts of its supply chain and its products. During FY 2011/12 Lenovo remained engaged in the Electronics Industry Citizenship Coalition (EICC) work on the development of a carbon system to track the GHG emissions of the company's supply chain. This work has allowed Lenovo to establish a baseline relative to the GHG emissions of its largest suppliers. Lenovo is engaging its suppliers relative to its efforts to reduce GHG emissions and asking for their support in this area. Lenovo's efforts with the EICC also continue to include work on the tracking of water impacts in the company's supply chain. This work has allowed Lenovo to begin tracking the water performance of its suppliers and initiate dialogue regarding opportunities for improved performance and corrective actions for identified compliance issues.

The company continues its engagement in the development of standards and tools to accurately quantify the lifetime impact of its products. Lenovo participated as a member of the Stakeholder Advisory Group for the Carbon Trust's work in conjunction with World Resources Institute and World Business Council on Sustainable Development to establish ICT industry guidance for the Product Accounting and Reporting Standard for the Greenhouse Gas Protocol. Lenovo participated in developing the new ICT sector module that will be added to the Investor Carbon Disclosure Project questionnaire in 2012. Lenovo's China Standards and Compliance Group is engaged in the Chinese government's development of a product category rule for establishing the product carbon footprint for ICT products.

In addition, Lenovo continues to work with other members of the ICT industry, academia and U.S. Environmental Protection Agency in the Product Attribute Impact Algorithm (PAIA) project. The project's goal is the development of a methodology and tools to simplify and expedite determination of the product carbon footprint for PC products. The first version of a tool for notebook computers has been released. It is being tested as part of European Commissions ICT Footprint Pilot Project. While work continues on refining the notebook tool and improving the quality of supporting data, the PAIA project's primary focus has transitioned to tools supporting analysis of the impacts of desktops and visual devices. The first version of these tools is scheduled for release during Q1 of FY 2012/13.

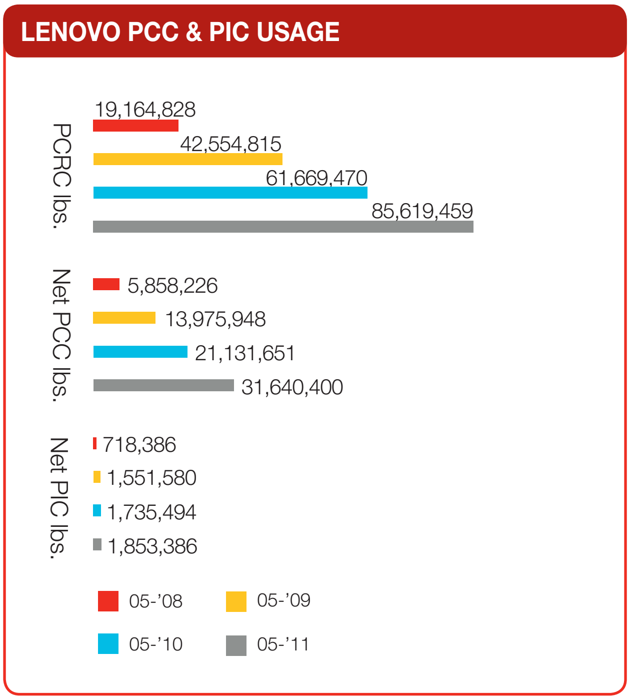
Lenovo is committed to improving its climate change management and greenhouse gas emissions inventory over time which has been reflected in the improved Carbon Disclosure Project (CDP) score year by year. In FY 2011/12 Lenovo's achieved a 2011 CDP score of 85 (out of possible 100) and placed Lenovo in the performance band B (out of the following bands: A, A-, B, C, D and E). This rating shows that Lenovo outpaced several industry competitors. Further details on Lenovo's strategy, objectives, targets and environmental performance are available at http://www.lenovo.com/climate. Detailed results regarding the company's environmental performance are published in its annual sustainability report available at http://www.lenovo.com/sustainability.

Lenovo's Environmentally Conscious Products program focused in FY 2011/12 on the following key areas:

- Product Materials, including the use of post-consumer recycled content;
- Product Energy, including a new focus on product carbon footprint; and
- Product Packaging, including size reduction and use of environmentally preferable materials

In the product materials area, Lenovo is a leader in the use of recycled content in PC products, and has made tremendous progress in the use of post-consumer recycled content (PCC) plastics. By working with its suppliers to develop and qualify engineering grades of PCC plastics, Lenovo has used more than 85 million pounds of plastics containing recycled content (PCRC) of which nearly 40% are from Post Consumer or Post Industrial sources.

Lenovo PCC & PIC Usage over Time



PCRC – Plastics Containing Recycled Content
PCC – Post-Consumer Recycled Content
PIC – Post-Industrial Recycled Content

In using recycled plastics, Lenovo supports its objective of reducing the carbon footprint of Lenovo products and through the use of recycled content has avoided the emission of greater than 47 million pounds of CO_2. In addition to supporting Lenovo's internal goals, by driving such high volume demand for engineering grade PCC plastics, Lenovo is helping to build the infrastructure and demand for recycled plastic. Consistent with Lenovo's commitment to continuous improvement, PCC use is included in Lenovo's annual EMS objectives and targets which apply to all Lenovo Employees.

Increasing the energy efficiency and reducing the carbon footprint of Lenovo's products is another ongoing focus area for Lenovo. Lenovo offers a full complement of ENERGY STAR® qualified notebooks, desktops, workstations, monitors, and servers. In 2011, ENERGY STAR® availability within Lenovo's current offerings included:

- Approximately 95 percent of all notebook platforms, including Think, Idea, and Essential product lines
- Approximately 50 percent of all desktop platforms, including Think, Idea, and Essential product lines
- Approximately 92 percent of all workstation platforms (for pre-configured systems)
- Approximately 95 percent of all monitors

In addition, many notebook and desktop configurations offered exceeded the current ENERGY STAR® energy efficiency criteria by 10% to more than 25%. Seventy-five percent of all ENERGY STAR® qualified monitors exceeded the ENERGY STAR® standard by at least 10% with 33% exceeding the criteria by at least 25%.

Lenovo offers product take-back and recycling programs for both consumer and business customers worldwide. Lenovo offers these programs in every country it conducts business, with many of those programs free to the consumer. For business customers, Lenovo's Asset Recovery Service (ARS) provides computer take-back, data destruction, refurbishment and recycling services.

Global Supply Chain

Lenovo is focused on driving sustainable activities through its internal operations as well as the operations of its global suppliers. The Company has driven numerous process improvements initiatives that have had an immediate, positive impact on the environment. Examples include local manufacturing strategies to shorten ship requirements and the award winning use of thermoplastics and other recycled packaging materials. All of these initiatives help reduce the environmental impact from Lenovo products. Suppliers are required to implement and maintain documented quality and environmental management systems that meet ISO9001/14001 requirements.

As a member of the Electronics Industries Citizenship Coalition (EICC), Lenovo is helping to lead a global, standards-based approach to monitoring suppliers across a broad range of sustainability and social responsibility issues. Lenovo's policies and processes are consistent with the requirements of the EICC for ensuring that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity and that manufacturing processes are environmentally responsible. By working together, Lenovo and other member companies are creating a comprehensive strategy for a standards-based approach for monitoring suppliers' performance across several areas of social responsibility.

As an EICC member, Lenovo requires most of its supplier activity to adhere to the program including agreement to conduct compliance audits using third-party EICC auditors. The company's direct suppliers are required to fully comply with EICC standards in the areas of labor, environment, ethics, health & safety and management systems. During this past fiscal year, Lenovo has continued to work with its direct suppliers to expand EICC compliance to tier two suppliers. In FY 2010/11, four manufacturing facilities in China conducted the second round third party independent EICC compliance audit. The audit results were strong, validating Lenovo's high standards for its own supply chain operations.

In FY 2011/12, Lenovo supply chain operations continued to show improvement in supplier engagement and commitment to the EICC code. 100% of the identified suppliers are committed to the EICC and have signed formal agreements. Greater than 98% of Lenovo's top production spend suppliers have completed self assessments to understand where improvements are needed and/or conducted EICC audits to validate compliance and we start to use EICC-ON system for all tier one suppliers' self assessment management in 2012. More than 91% of the suppliers conducted the EICC audit and no zero-tolerance findings. In addition to conducting supplier education and training on EICC code/compliance, Lenovo partnered with the EICC on supplier training events relating to topics such as supply chain capability building, material extraction, working hrs., EICC eLearning modules, carbon reporting, water pollution and energy efficiency.

Lenovo also continues to optimize its global logistics program to drive additional product volumes to shipping methods that are more environmentally friendly, such as ocean vessels and rail. In FY 2009/10, Lenovo shifted 11 percent of its notebook shipments from high carbon air transport to lower carbon ocean shipping. Lenovo continues its work with logistics partners to ship products responsibly, maintaining its membership with the EPA's SmartWay Transport program. Finally, Lenovo completed a risk assessment of its China-based carriers for EICC non-compliance. Risks were judged to be minimal.

Social Investments

Lenovo's *Next Generation Hope Fund* is helping redefine how Lenovo and its employees support the global communities where we live and do business. Lenovo enables doers to do more through social investment programs targeting education, entrepreneurship, disaster relief and regional community outreach. Lenovo provides assistance through cash contributions, equipment donations, and employee volunteer hours. As a company, Lenovo annually commits up to 1% of pre-tax income to global social investment programs. To ensure success, the company evaluates the effectiveness of each investment against predefined goals upon program completion.

Lenovo aims to advance, enhance and extend education at all levels. The company supports education related programs and initiatives through the company's industry leading products and technologies, community investments and program sponsorships. Lenovo does not limit the scope of its education related social investments but rather we consider each opportunity based on its own unique merits. Lenovo donates equipment, provides cash contributions and lends its expertise to schools and related organizations across all global markets. Lenovo supports global education investments in both K-12 and higher education.

ThinkPad Tablet donation to the National Academy Foundation (United States)

During FY 2011/12, Lenovo partnered with the National Academy Foundation (NAF) to create a new mobile application development program targeting high school students in the United States. This innovative program supports Lenovo's initiative to encourage greater student interest in STEM (science, technology, engineering, mathematic) subjects. Lenovo's initial pilot donation was provided to five high schools from NAF's network of career academies in the United States. To support this pilot program, Lenovo donated ThinkPad laptops and tablets (US$150,000) and cash (US$75,000).

Lenovo, during FY 2011/12, was the technology sponsor for North Carolina State's Kenan Follows program for Curriculum and Leadership Development. Lenovo is supporting the incoming class of 2013 Kenan Fellows with a donation of ThinkPad laptops and tablets (US$75,000). The Kenan Program, with support from Lenovo's technology sponsorship, was established to enhance curriculum relevance for the benefit of students while engaging teachers, business and universities through unique professional collaboration.

Lenovo partnered with Microsoft during FY 2011/12 to support the U.dream project in Japan. This program was developed to encourage youth in Japan to provide a positive impact on society through programs that target education, environment, entrepreneurship and globalization. Through this program, Lenovo donated ThinkPad X220 Tablets (US$100,000) to the University of Tokyo and public Junior High Schools in Japan.

For five years, Lenovo has been a corporate sponsor and technology partner of the Women's Forum for the Economy and Society. The objective of the forum is to highlight and enhance women's contributions to the economy and society and to provide new approaches to issues.

Lenovo China's investment in Venture Philanthropy, an innovative approach focused on grass-root NGOs in China, aims to increase capability and skill building in the areas of strategic planning, IT, HR and financial management. Since 2009, 6 million RMB in financial assistance has been donated to over 32 NGOs across the country.

The Lenovo China Volunteers Association (LCVA), a volunteer organization formed by Lenovo China employees in 2008, now has over 2,200 members. This program is focused on sustainability initiatives in China including narrowing the digital divide, environmental protection, educational assistance, poverty alleviation, and disaster relief.

Lenovo has a long-standing practice of assisting communities around the world when disaster strikes. Lenovo and its employees are committed to helping those less fortunate and to lend a helping hand to those who can no longer provide for themselves. In response to the March 2011, magnitude 9.1 earthquake and tsunami in Japan, Lenovo donated US$1,000,000 to the Japan Red Cross to support disaster relief efforts. In addition, Lenovo employees worldwide donated US$22,645 and Lenovo Japan donated US$11,700 for a total of US$34,345 to support ASHINAGA, a Japan-based nonprofit that provides financial and emotional support to orphans in Japan.

Lenovo's regional offices have established extensive relationships with their local communities and regional non-governmental organizations. These regional offices support education, environmental and social causes unique to their community.

DIRECTORS' REPORT & FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended March 31, 2012.

Principal Business and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 38 to the financial statements.

Details of the analyses of the Group's performance for the year by operating segment are set out in note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 104.

The state of affairs of the Group and of the Company as at March 31, 2012 is set out in the consolidated and company balance sheets on pages 106 to 108.

The consolidated cash flows of the Group for the year are set out in the statement on page 109.

An interim dividend of HK3.8 cents (2011: HK2.6 cents) per ordinary share, amounting to a total of approximately HK$392.2 million (approximately US$50.5 million) (2011: approximately HK$252.6 million (approximately US$32.6 million)), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of HK10.0 cents per ordinary share (2011: 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.

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.

Five-Year Financial Summary

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2012 and for the last four financial years are set out on page 176.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity, and note 31 to the financial statements respectively.

Distributable Reserves

At March 31, 2012, the distributable reserves of the Company amounted to US$231,799,000 (2011: US$423,131,000).

Bank Borrowings

Particulars of bank borrowings as at March 31, 2012 are set out in note 28 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$714,000 (2011: US$2,143,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 14 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in note 30 to the financial statements.

Subsidiaries, Associates and Jointly Controlled Entities

Particulars of the Company's principal subsidiaries, associates and jointly controlled entities as at March 31, 2012 are set out in notes 38 and 19 to the financial statements respectively.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

During the year, the Group sold less than 12 percent of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	26 percent
Five largest suppliers combined	35 percent

None of the directors of the Company, their associates or any shareholder (which to the knowledge of the directors owns more than 5 percent of the Company's share capital) had an interest in the major suppliers noted above.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Directors

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

Chairman and Executive Director

Mr. Yang Yuanqing (appointed as Chairman on November 3, 2011)

Non-executive Directors

Mr. Zhu Linan
Ms. Ma Xuezheng
Dr. Wu Yibing
Mr. Zhao John Huan (appointed on November 3, 2011)
Mr. James G. Coulter (resigned on September 27, 2011)
Mr. Liu Chuanzhi (resigned on November 3, 2011)

Independent Non-executive Directors

Professor Woo Chia-Wei
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei (appointed on September 28, 2011)
Mr. William O. Grabe (re-designated from a non-executive director to an independent non-executive director on February 8, 2012)

In accordance with articles 92 and 101 of the Company's articles of association, Mr. Zhao John Huan, Mr. Nobuyuki Idei, Mr. Zhu Linan, Ms. Ma Xuezheng, Mr. Ting Lee Sen and Mr. William O. Grabe will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"). The Nomination and Governance Committee has duly reviewed the independence of each of these directors. The Company considers they are independent.

Biography of Directors and Senior Management

Honorary Chairman

Mr. Liu Chuanzhi, 68, has been appointed as the Honorary Chairman and a Senior Advisor of the Company on November 3, 2011. Mr. Liu is the founder of the Group and held the positions of executive director, non-executive director and Chairman of the Board at different times from 1993 until his resignation from the Board on November 3, 2011. As the Honorary Chairman, Mr. Liu is not a director or an officer of the Company or any subsidiary of the Company, and does not have any management role in the Company or any of its subsidiaries. He graduated from the Department of Radar Communications at Xian Military Communications Engineering College of China and has substantial experience in corporate management. Mr. Liu is the chairman and president of Legend Holdings Limited, the controlling shareholder of the Company.

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 47, is Chief Executive Officer and an executive director of the Company and has been appointed as Chairman of the Board on November 3, 2011. He is also a director and a shareholder of Sureinvest Holdings Limited which holds interests in the issued share capital of the Company. Mr. Yang assumed the duties of Chief Executive Officer on February 5, 2009. Prior to that, he was the Chairman of the Board from April 30, 2005. Before taking up the office as Chairman, Mr. Yang was the Chief Executive Officer and has been an executive director since December 16, 1997. He has more than 20 years of experience in the field of computers. Under his leadership, Lenovo has been China's best-selling PC brand since 1997. Mr. Yang holds a Master's degree from the Department of Computer Science at the University of Science and Technology of China. Mr. Yang is also a guest professor at the University of Science and Technology of China and a member of the New York Stock Exchange's International Advisory Committee.

Non-executive directors

Mr. Zhu Linan, 49, has been a non-executive director of the Company since April 30, 2005. Mr. Zhu graduated with a Master's degree in Electronic Engineering from Shanghai Jiao Tong University and has more than 20 years of management experience. He was a Senior Vice President of the Group. Mr. Zhu is currently a director of Legend Holdings Limited, the controlling shareholder of the Company. He is also a non-executive director of Peak Sport Products Co., Limited (HKSE listed) and a director of Foshan Saturday Shoes Co., Ltd. (Shenzhen Stock Exchange listed).

Ms. Ma Xuezheng, 59, has been a non-executive Vice Chairman of the Company since May 23, 2007. Prior to that, she was an executive director and Chief Financial Officer of the Company since 1997 and 2000 respectively and held directorship in various subsidiaries of the Company. Ms. Ma holds a Bachelor of Arts degree from Capital Normal University. She is currently chairman of Boyu Capital Limited, a private equity firm focusing mainly in Greater China investment, and a member of the Listing Committee of the Hong Kong Stock Exchange. Besides, she is also a non-executive director of Wumart Stores, Inc. (HKSE listed) and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited.

Dr. Wu Yibing, 44, has been appointed as a non-executive director on May 21, 2009. Dr. Wu received a Ph.D. from Harvard University and a B.Sc. from the University of Science and Technology of China. He is currently the President of CITIC Private Equity Funds Management Co., Ltd.. Dr. Wu was most recently the Managing Director and Executive Vice President of Legend Holdings Limited, the controlling shareholder of the Company, and the chief transformation officer of the Company. From 1996 to 2008, Dr. Wu was a senior partner of McKinsey & Company where he worked on a wide range of projects in industries including high tech, telecom, health care, energy, and financial services, and prior to that, he was a consultant at Harvard University. Dr. Wu is a non-executive director of Neptune Orient Lines Limited (Singapore Stock Exchange listed) and he also sits on the advisory board of China Unicom, as well as the board of China Social Entrepreneur Foundation.

Mr. Zhao John Huan, 49, has been appointed as a non-executive director of the Company on November 3, 2011. Mr. Zhao holds a master's degree in business administration from the Kellogg School of Management at Northwestern University, dual master's degrees in Electric Engineering and Physics from Northern Illinois University and a bachelor's degree in Physics from Nanjing University. He is currently a director and a senior vice president of Legend Holdings Limited, the controlling shareholder of the Company and the chief executive officer of Hony Capital Limited.

Prior to joining Hony Capital Limited and Legend Holdings Limited in 2003, Mr. Zhao held numerous chief executive officer and chairman roles. He was the advisor to chief executive officer of UTStarcom, Inc. (NYSE listed) and the Company from 2002 to 2003. Besides, he currently holds the following directorship; a director of Simcere Pharmaceutical Group (NYSE listed), an executive director of China Pharmaceutical Group Limited and non-executive director of Wumart Stores, Inc., China Glass Holdings Limited and Chinasoft International Limited (all HKSE listed) and an independent director of Fiat Industrial S.P.A.(MTA Italian Stock Exchange listed). He is an Advisor Professor of Business School, Nanjing University.

Biography of Directors and Senior Management *(continued)*

Biography of directors *(continued)*

Independent non-executive directors

Professor Woo Chia-Wei, 74, has been an independent non-executive director of the Company since August 23, 1999. Professor Woo is Senior Advisor to The Shui On Group, and is also President Emeritus and University Professor Emeritus of Hong Kong University of Science and Technology. He is also an independent non-executive director of First Shanghai Investments Ltd., Shanghai Industrial Holdings Ltd. and Trony Solar Holdings Company Limited (all HKSE listed).

Mr. Ting Lee Sen, 69, has been an independent non-executive director of the Company since February 27, 2003. Mr. Ting has extensive knowledge and experience in IT industry. He is currently the Managing Director of W.R. Hambrecht + Co., a board director of Microelectronics Technology Inc. (Taiwan Stock Exchange listed) and an independent board member of NeoPhotonics Corporation (NYSE listed). He is also a former corporate vice president of Hewlett-Packard Company, where he worked for more than 30 years. Mr. Ting holds a Bachelor of Science degree in Electrical Engineering from the Oregon State University and graduated from the Stanford Executive Program at Stanford University.

Dr. Tian Suning, 48, has been an independent non-executive director of the Company since August 2, 2007. Dr. Tian holds a Ph.D. in natural resource management from Texas Tech University and a M.S. degree in ecology from Chinese Academy of Sciences. He is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. He held various senior positions in China Netcom Group Corporations (Hong Kong) Ltd. (HKSE and NYSE listed) from 1999 to 2006 and was a vice chairman of PCCW Ltd. (HKSE listed) between 2005 and 2007. From 1993 till 1999, he was co-founder and CEO of AsiaInfo-Linkage, Inc. (NASDAQ listed) of which he is now a board member. He is currently an independent non-executive director of MasterCard Incorporated (NYSE listed) and Taikang Life Insurance Company Ltd. In addition, he is a non-executive director of Media China Corporation Limited (HKSE listed) and a senior advisor of Kohlberg Kravis Roberts & Co..

Mr. Nicholas C. Allen, 57, has been an independent non-executive director of the Company since November 6, 2009. Mr. Allen received a Bachelor of Arts degree in Economics/Social Studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Allen has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers until his retirement in June 2007. Mr. Allen is also an independent non-executive director of CLP Holdings Limited and Hysan Development Company Limited (both HKSE listed) and an independent non-executive director of VinaLand Limited (London Stock Exchange AIM listed).

Mr. Nobuyuki Idei, 74, has been appointed as an independent non-executive director of the Company on September 28, 2011. Mr. Idei holds a bachelor's degree in political science and economics from Waseda University in Tokyo. He is founder and chief executive officer of Quantum Leaps Corporation, a consultancy company he founded in September 2006. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions at Sony Corporation (Tokyo Stock Exchange, Osaka Securities Exchange, NYSE and London Stock Exchange listed), including chairman and group chief executive officer from 2000 to 2005, president and chief executive officer from 1999 to 2000, and president and representative director from 1995 to 1999. Mr. Idei currently serves on the boards of directors of Accenture plc (NYSE listed), Baidu, Inc. (NASDAQ listed) and FreeBit Co., Ltd. (Tokyo Stock Exchange listed). He has also held the position of chairman of Sony's advisory board since his retirement from an executive position in June 2005. Mr. Idei is also chairman of the National Conference on Fostering Beautiful Forests in Japan.

He has served on the boards of directors of Nestlé S.A., Electrolux and General Motors Company and also served in a number of other advisory positions including as counselor to the Bank of Japan, vice chairman of Nippon Keidanren (Japan Business Federation) and chairman of the IT Strategy Council, an advisory committee to Japan's Prime Minister.

Mr. William O. Grabe, 74, has been re-designated as an independent non-executive director of the Company on February 8, 2012. Prior to that, he was a non-executive director of the Company since May 17, 2005. Mr. Grabe is an Advisory Director of General Atlantic LLC. He formerly served as a Managing Director of General Atlantic and has been associated with General Atlantic Group since 1992. Prior to that, he served as the Vice President and Corporate Officer of IBM. Mr. Grabe is also a director of the following listed companies: Gartner Inc. (NYSE listed) and Compuware Corporation (NASDAQ listed).

Biography of senior management

(in alphabetical order of surname)

Mr. He Zhiqiang, 49, joined the Group in 1986 and is the Senior Vice President of the Company and Chief Technology Officer with responsibility for technology strategy, R&D systems and technology exploration of emerging areas. Prior to that, Mr. He held various leadership positions in Lenovo particularly in overseeing Lenovo's R&D initiatives and systems. Mr. He holds a Bachelor's degree in Computer Communication from Beijing University of Posts and Telecommunications and a Master's degree in Computer Engineering from the Institute of Computing Technology of the Chinese Academy of Sciences.

Biography of Directors and Senior Management *(continued)*

Biography of senior management *(continued)*

Dr. Peter D. Hortensius, 51, joined the Group in May 2005 and is currently the Senior Vice President of the Company and President of Product Group responsible for all Think and Idea-branded desktops, notebooks, workstations, servers, peripherals and software. Previously, Dr. Hortensius spent 17 years with IBM. He was the Vice President, Products and Offerings, for IBM's PC Division prior to joining the Group and has extensive expertise in product and technology R&D. He holds a Doctorate degree in Electrical Engineering from the University of Manitoba.

Mr. Gianfranco Lanci, 57, joined the Group in April 2012 and is currently Senior Vice President of the Company and President of the EMEA geography. Mr Lanci has 30 years experience across the PC business, including leadership roles at Texas Instruments and Acer. He was appointed as president of Acer Inc. in 2005 and in 2008 became chief executive officer and president. Under his leadership he led Acer to the #2 position globally and #1 in EMEA whilst recording record profitability for three consecutive years. He holds a degree in engineering from the Politecnico of Turin.

Mr. Liu Jun, 43, joined the Group in 1993 and is currently Senior Vice President of the Company and President of the new Mobile Internet & Digital Home Group responsible for Phone, Tablet and Smart TV business. Prior to that, Mr. Liu held a broad range of leadership positions in Lenovo including president of the Products Group, Consumer Business Group, Global supply chain and Lenovo China. He holds a Bachelor's degree in Automation and an EMBA, both from Tsinghua University and completed executive programs at Harvard University and Stanford University.

Ms. Qiao Jian, 44, joined the Group in 1990 and is currently Senior Vice President, Human Resources, responsible for human resources, organizational development, global talent, compensation and benefits as well as nurturing the Company's culture. Prior to assuming this position, Ms. Qiao held various senior positions in the Group including Senior Vice President of Strategy and Planning and Vice President of Human Resources in China – both before and after the acquisition of IBM's PC Division. Ms. Qiao has extensive experience in human resources, strategy, marketing and branding. She holds a Bachelor's degree in management science from Fudan University and holds an EMBA from China-Europe International Business School.

Mr. Gerry Smith, 48, joined the Group in August 2006 as Senior Vice President, Global Supply Chain and is responsible for end-to-end supply chain management encompassing order management, supply planning, procurement, manufacturing, logistics and fulfillment operations. Before joining the Group, Mr. Smith held a number of leadership roles at Dell, including Vice President and General Manager of Notebook Development, of Peripherals Development and of the Display Line of Business. Mr. Smith holds a Bachelor's degree in Finance and Marketing from Pacific Lutheran University.

Mr. Milko van Duijl, 49, joined the Group in May 2005 and is currently Senior Vice President of the Company and President of the APLA geography. Prior to that, Mr. van Duijl was Senior Vice President and President of Mature Markets overseeing all business in North America, Western Europe, Japan, Australia, New Zealand, and Global Accounts. Mr. van Duijl was Vice President, EMEA, of IBM's PC Division before joining the Group and has extensive knowledge and expertise of the IT industry, as well as international business management. He holds a BBA from Nijenrode University and a Doctorandus title and MBA from the University of Rotterdam.

Mr. Wong Wai Ming, 54, is Senior Vice President of the Company and Chief Financial Officer. He was previously an investment banker for more than 15 years and also held senior management position in listed companies in Hong Kong. He was an independent non-executive director of the Company from March 30, 1999 until his appointment to the position of CFO on May 23, 2007. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and holds a Bachelor's degree in Management Sciences from the Victoria University of Manchester, U.K..

Directors' Service Contracts

On October 9, 2006, the Company entered into the service contract with Mr. Yang Yuanqing, the executive director and the Chairman of the Board of the Company, for an unfixed term commencing from October 9, 2006. Upon termination of the service contract, Mr. Yang may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on a number of factors including the length of service, the amount of the unvested equity awards and the amount of the annual bonus. The service contract was approved by the shareholders at an extraordinary general meeting of the Company held on November 7, 2006 (at which Mr. Yang and his associates abstained from voting) pursuant to Rule 13.68 of the Listing Rules. Mr. Yang is currently the Chairman of the Board, the Chief Executive Officer and an executive director of the Company.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

Directors' Interests

As at March 31, 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the shares and underlying shares of the Company

		Capacity and number of shares/ underlying shares held				
Name of director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	64,340,533	–	800,000,000	864,340,533	
	Share awards	95,310,939	–	*(Note 3)*	95,310,939	
					959,651,472	9.29%
Mr. Zhu Linan	Ordinary shares	4,671,623	–	–	4,671,623	
	Share awards	1,160,639	–	–	1,160,639	
					5,832,262	0.06%
Ms. Ma Xuezheng	Ordinary shares	14,841,029	–	2,240,000	17,081,029	
	Share awards	1,941,701	–	–	1,941,701	
					19,022,730	0.18%
Dr. Wu Yibing	Ordinary shares	132,088	–	–	132,088	
	Share awards	1,140,523	–	–	1,140,523	
					1,272,611	0.01%
Professor Woo Chia-Wei	Ordinary shares	1,569,205	–	–	1,569,205	
	Share awards	1,633,503	–	–	1,633,503	
					3,202,708	0.03%
Mr. Ting Lee Sen	Ordinary shares	529,067	–	–	529,067	
	Share awards	2,023,503	–	–	2,023,503	
					2,552,570	0.02%
Dr. Tian Suning	Ordinary shares	261,912	–	–	261,912	
	Share awards	1,488,453	–	–	1,488,453	
					1,750,365	0.02%
Mr. Nicholas C. Allen	Ordinary shares	72,571	–	–	72,571	
	Share awards	916,419	–	–	916,419	
					988,990	0.01%
Mr. Nobuyuki Idei	Share awards	212,697	–	–	212,697	
					212,697	0.01%
Mr. William O. Grabe	Ordinary shares	1,125,334	–	–	1,125,334	
	Share awards	2,023,503	–	–	2,023,503	
					3,148,837	0.03%

Directors' Interests *(continued)*

Interests in the shares and underlying shares of the Company *(continued)*

Notes:

1. Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section "Long-Term Incentive Program" of Compensation Committee Report section on page 64 of this report.
2. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
3. The shares are held by Sureinvest Holdings Limited and Mr. Yang Yuanqing holds more than one-third of the issued share capital of Sureinvest Holdings Limited. Therefore, Mr. Yang is taken to have an interest in 800,000,000 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' and Other Persons' Interests"

Save as disclosed above, as at March 31, 2012, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Share Option Scheme

At the extraordinary general meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme ("New Option Scheme") and the termination of the old share option scheme ("Old Option Scheme"). Although no further options may be granted under the Old Option Scheme, all remaining provisions will remain in force to govern the exercise of all the options previously granted.

1. ***Old Option Scheme***

   The Old Option Scheme was adopted on January 18, 1994 and was terminated on April 26, 2002. The Old Option Scheme was designed to provide qualified employees with appropriate incentives linked to share ownership. Only employees, including directors, of the Group could participate in the Old Option Scheme. Total number of options must not exceed 10% of the issued share capital of the Company. The maximum entitlement of any individual participant thereunder must not exceed 2.5% of the shares in issue. The exercise price for options was determined based on not less than 80% of the average closing price of the listed ordinary shares for the 5 trading days immediately preceding the date of grant. Options granted were exercisable at any time during a period of 10 years.

   As at March 31, 2012, no share options were outstanding under the Old Option Scheme.

2. ***New Option Scheme***

   (a) *Purpose*

   The New Option Scheme became effective on April 26, 2002. It serves as a way of providing incentives to and attracting qualified participants for better performance of the Group by allowing them to participate in increases in the value of the Company.

   (b) *Qualified participants*

   1. (i) any employee or officer, executive or non-executive director (or persons proposed to be appointed as such) of the Group;

      (ii) any consultant, professional or other adviser to the Group;

      (iii) any director, executive and senior officer of any associated company of the Company; and

      (iv) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons; and

   2. (i) any customer, supplier, agent, partner, distributor, professional or other advisers of, or consultants or contractors to, the Group; and

      (ii) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons.

   (c) *Maximum number of shares*

   As at March 31, 2012, the maximum number of ordinary shares available for issue under the New Option Scheme is 92,661,051 shares, representing approximately 0.9% of the issued share capital of the Company as at the date of this report.

Directors' Rights to Acquire Shares or Debentures *(continued)*

Share Option Scheme *(continued)*

2. *New Option Scheme* *(continued)*

(d) *Maximum entitlement of each qualified participant*

The maximum number of ordinary shares issued and to be issued upon exercise of share options granted to each qualified participant (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the ordinary shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options to be granted to a director or chief executive of the Company or any of their respective associates are subject to approval by the independent non-executive directors of the Company. In addition, any grant of share options to an independent non-executive director of the Company or any of their respective associates, when aggregated with all share options (whether exercised, cancelled or outstanding) already granted to any of them during the 12-month period up to the date of grant, in excess of 0.1% of the ordinary shares of the Company in issue and with an aggregate value in excess of HK$5,000,000, is subject to shareholders' approval in general meeting of the Company.

(e) *Timing for exercise of options*

In respect of any particular option, the directors may in their absolute discretion determine the period within which an option may be exercised provided that such period must expire no later than 10 years from the date upon which the option is deemed to be accepted by the grantee. Option will then lapse to the extent not exercised during the option period.

(f) *Acceptance of offers*

An option shall be deemed to have been granted and accepted when the duplicate offer letter comprising acceptance of the option duly signed by the grantee shall have been received by the Company on or before the last day for acceptance as set out in the offer letter.

(g) *Basis for determination of exercise price*

The exercise price must be no less than the highest of: (i) the closing price of the listed ordinary shares on the date of grant; (ii) the average of the closing prices of the listed ordinary shares of the Company for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of the ordinary shares.

(h) *Life of the scheme*

The New Option Scheme shall be valid and effective for a period of 10 years from April 26, 2002, the date on which it is deemed to take effect in accordance with its terms.

3. *Valuation of share options*

The share options granted are not recognized in the financial statements until they are exercised. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

Long-Term Incentive Program

The Company adopted the long-term incentive program ("LTI Program") on May 26, 2005, under which the Board or the trustee of the program shall select the employees (including but not limited to the directors) of the Group for participation in the program, and determine the number of shares to be awarded.

Details of the movements in the share options and the share awards for the year ended March 31, 2012 are set out under the section headed Long-Term Incentive Schemes in the Compensation Committee Report.

Apart from the share option schemes and the LTI Program, at no time during the year ended March 31, 2012 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any body corporate.

Substantial Shareholders' and Other Persons' Interests

As at March 31, 2012, the following persons (other than the directors and chief executive of the Company as disclosed above) had an interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Long position/ short position	Capacity and number of shares/ underlying shares held: Beneficial owner	Capacity and number of shares/ underlying shares held: Corporate interests	Aggregate long and short positions	Approximate percentage of interests *(Note 1)*
Legend Holdings Limited*	Long position	2,667,636,724	802,919,317 *(Note 2)*	3,470,556,041	33.60%
	Short position	–	233,500,000 *(Note 2)*	233,500,000	2.26%
Right Lane Limited	Long position	802,919,317	–	802,919,317	7.77%
	Short position	233,500,000	–	233,500,000	2.26%
Sureinvest Holdings Limited	Long position	800,000,000 *(Note 3)*	–	800,000,000	7.75%

* *Direct transliteration of its Chinese company name*

Notes:

1. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.
2. The shares were held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
3. Mr. Yang Yuanqing holds more than one-third of the issued share capital of Sureinvest Holdings Limited ("SHL"). Accordingly, Mr. Yang Yuanqing is deemed to have interests in those 800,000,000 shares of the Company's issued share capital held by SHL under the SFO. This interest is also included as a corporate interests of Mr. Yang Yuanqing in the above section headed "Directors' Interests".

Save as disclosed above, as at March 31, 2012, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Retirement Scheme Arrangements

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

Defined Benefit Pensions Plans

Chinese Mainland – Retirement Schemes

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

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

Defined Benefit Pensions Plans *(continued)*

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

The Company provides U.S. regular, full-time and part-time employees who were employed by IBM prior to being hired by the Company and who were members of the IBM Personal Pension Plan ("PPP") with non-contributory defined benefit pension benefits via the Lenovo Pension Plan. The plan is frozen to new entrants.

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

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

For the year ended March 31, 2012, an amount of US$2,244,366 was charged to the income statement with respect to the qualified and non-qualified plans.

The principal results of the most recent actuarial valuation of the plan at March 31, 2012 were the following:

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	3.75%
– Expected return on plan assets:	3.75%
– Future salary increases:	3.00%

- The qualified plan was 62% funded at the actuarial valuation date.
- There was a deficit of US$28,565,358 under the qualified plan for this reason at the actuarial valuation date.

Japan – Pension Plan

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

For the year ended March 31, 2012, an amount of Yen 351,157,911 was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2012 were the following:

- The actuarial valuation was prepared by JP Actuary Consulting Co., Ltd. The actuaries involved are fully qualified under the requirements of Japanese law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	2.00%
– Expected return on plan assets:	2.00%
– Future salary increases:	Age-group based

- The plan was 86% funded at the actuarial valuation date.
- There was a deficit of Yen 1,335,219,551 under this plan at the actuarial valuation date.

Germany – Pension Plan

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

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

Defined Benefit Pensions Plans *(continued)*

Germany – Pension Plan *(continued)*

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

For the year ended March 31, 2012, an amount of EUROS 1,357,032 was charged to the income statement with respect to this plan.

The principal results of the most actuarial valuation of the plan at March 31, 2012 were the following:

- The actuarial valuation was prepared by Kern, Mauch & Kollegen. The actuaries involved are fully qualified under German law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	3.25%
– Future salary increases:	Age-group based
– Future pension increases:	1.75%

- The plan was 64% funded at the actuarial valuation date.
- There was a deficit of EUROS 10,404,281 under this plan at the actuarial valuation date.

Defined Contribution Plans

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

U.S. regular, full-time and part-time employees are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. The Company matches 50 percent of the employee's contribution up to the first 6 percent of the employee's eligible compensation. In addition, for employees who have also completed one year of service and who do not participate in the Lenovo Pension Plan, the Company provides a profit sharing contribution of 5 percent of eligible compensation. Employee contributions are voluntary. All contributions, including the Company match, are made in cash, in accordance with the participants' investment elections.

The Company match is immediately vested. However the 5% Company profit sharing contribution is subject to 3 years vesting. Forfeitures of Company contributions arising from employees who leave before they are fully vested in Company contributions are used to reduce future Lenovo contributions. For the period April 1, 2011 to March 31, 2012, the amount of forfeitures accumulated was US$231,351 while an amount of US$859,978 had been used to reduce Lenovo contributions, leaving US$84,164 at March 31, 2012 to be used to reduce Lenovo contributions in the future.

US Lenovo Executive Deferred Compensation Plan

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

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

United Kingdom ("UK") – Lenovo Stakeholders Plan

UK regular, full-time, part-time and fixed term Lenovo contract employees are eligible to participate in the Lenovo Stakeholders Plan, which is a tax-qualified defined contribution "stakeholder" plan. For employees hired after April 30, 2005, the Company contributes 6.7% of an employee's eligible salary to the employee's pension account each year until he/she is 35, and then contributes 8.7% of salary after that age. The Employer Contributions are dependent on Employee paying no less that 3% of salary to the same fund.

Prior employees of IBM receive Company contributions varying from 6.7% to 30% of eligible compensation depending on their service and the prior IBM plan they participated in.

Defined Contribution Plans *(continued)*

Canada – Defined Contribution Pension Plan

Canadian regular, full-time and part-time employees are eligible to participate in the Defined Contribution Pension Plan, which is a tax-qualified defined contribution plan. The Company contributes 3% to 6% of the employee's eligible compensation, depending on years of service. All contributions are made in cash, in accordance with the participants' investment elections.

Hong Kong – Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme for all qualified employees employed in Hong Kong. They are required to contribute 5 percent of their compensation (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation). The employer's contribution will increase from 5 percent to 7.5 percent and 10 percent respectively after completion of five and ten years of service by the relevant employees. Details of the cost charged to the income statement and forfeited contributions are set out in note 35.

Facility agreement with covenant on controlling shareholder

The Company entered into a facility agreement with a syndicate of banks on February 2, 2011 (the "Facility Agreement") for a term loan facility of up to US$500 million (the "Facility"). The final maturity date of the Facility will fall on the date which is 60 months after February 2, 2011. The Facility Agreement includes, inter alia, terms to the effect that it will be an event of default if Legend Holdings Limited, the controlling shareholder of the Company: (i) is not or ceases to be the direct or indirect beneficial owner of 20% or more of the issued share capital of the Company; or (ii) is not or ceases to be the single largest shareholder in the Company.

Continuing Connected Transactions

(I) Continuing connected transactions with Legend Holdings Limited and its associates

On March 31, 2009, the Company entered into a Master Services Agreement with 聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.) in respect of the sharing of office spaces, provision of logistic, administrative and information technology services by the Group to Legend Holdings Limited, its subsidiaries and associates for a term of three years commencing from April 1, 2009 and expiring on March 31, 2012. The annual cap amount of the transactions for each of the three financial years ended March 31, 2012 is HK$25,000,000. Legend Holdings Limited is a controlling shareholder of the Company and thus a connected person within the meaning of the Listing Rules. Details of this Master Services Agreement are set out in the Company's announcement dated March 31, 2009.

(II) Continuing connected transactions with NEC and its associates

On January 27, 2011, the Company entered into a Business Combination Agreement with, amongst others, NEC Corporation ("NEC", together with its subsidiaries the "NEC Group"), pursuant to which the Company and NEC agreed to establish Lenovo NEC Holdings B.V. ("JVCo", together with its subsidiaries the "JVCo Group") to own and operate their respective personal computer businesses in Japan.

At or prior to closing of the Business Combination Agreement on July 1, 2011 ("the "Closing Date"), NEC or other members of the NEC Group entered into various agreements (the "CCT Agreements") with the Company, the JVCo or other members of the JVCo Group in respect of the provision of certain services and products to or by the JVCo Group to facilitate the operation of its personal computer business in Japan. Details of the CCT Agreements are set out in the announcement dated April 21, 2011 and the circular issued by the Company to the shareholders on May 11, 2011.

Upon the Closing Date, JVCo became an indirect non wholly-owned subsidiary of the Company. As NEC is a substantial shareholder of the JVCo and therefore, a connected person of the Company, the transactions contemplated under the CCT Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The CCT Agreements were approved by the independent shareholders at an extraordinary general meeting of the Company on May 27, 2011 and are subject to reporting requirements under the Listing Rules.

Continuing Connected Transactions *(continued)*

Details of the CCT Agreements are set out below:

Supply Agreement

Date:	February 28, 2011
Parties:	NEC and NEC Personal Products, Ltd. ("NECP"), a wholly owned subsidiary of NEC (whose rights and obligations were transferred to NEC Personal Computers, Ltd. ("NECPC"), a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	The supply of certain "NEC" branded personal computer products to NEC.
Term:	For a period of five years commencing from the Closing Date or until the date on which NEC no longer holds any shares in JVCo, whichever the earlier.
Annual caps:	1/7/2011 – 31/3/2012 : JPY65,018 million (US$786,717,800) 1/4/2012 – 31/3/2013 : JPY88,132 million (US$1,066,397,200) 1/4/2013 – 31/3/2014 : JPY89,650 million (US$1,084,765,000) 1/4/2014 – 31/3/2015 : JPY91,179 million (US$1,103,265,900) 1/4/2015 – 31/3/2016 : JPY92,719 million (US$1,121,899,900) 1/4/2016 – 1/7/2016 : JPY23,180 million (US$280,478,000)

Transitional Services Agreement

Date:	May 30, 2011
Parties:	The Company and NEC
Services provided/received:	Services to be provided by NEC Group to JVCo Group and vice versa including business infrastructure related services, development & production services, sales related services, maintenance & support services, real estate services and information technology services.
Term:	For a period of five years commencing from the Closing Date or until the mutual agreement of the parties to early terminate the agreement, whichever the earlier.
Annual cap:	Annual fees for services provided to JVCo Group by NEC Group (payable to NEC): 1/7/2011 – 31/3/2012 : JPY23,793 million (US$287,895,300) 1/4/2012 – 31/3/2013 : JPY32,351 million (US$391,447,100) 1/4/2013 – 31/3/2014 : JPY32,791 million (US$396,771,100) 1/4/2014 – 31/3/2015 : JPY33,220 million (US$401,962,000) 1/4/2015 – 31/3/2016 : JPY33,660 million (US$407,286,000) 1/4/2016 – 1/7/2016 : JPY8,415 million (US$101,821,500) Annual fees for services provided to NEC Group by the JVCo Group (payable from NEC): 1/7/2011 – 31/3/2012 : JPY7,070 million (US$85,547,000) 1/4/2012 – 31/3/2013 : JPY9,504 million (US$114,998,400) 1/4/2013 – 31/3/2014 : JPY9,592 million (US$116,063,200) 1/4/2014 – 31/3/2015 : JPY9,691 million (US$117,261,100) 1/4/2015 – 31/3/2016 : JPY9,790 million (US$118,459,000) 1/4/2016 – 1/7/2016 : JPY2,448 million (US$29,620,800)

Continuing Connected Transactions *(continued)*

NEC Fielding Agreement

Date:	January 15, 2004
Parties:	NEC Fielding Ltd., a subsidiary of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	NEC Fielding Ltd. agreed to provide maintenance and other ancillary services for certain equipments sold by the JVCo Group following the Closing Date.
Term:	The initial term ended on March 31, 2004 and is automatically renewed for additional one-year term unless either party gives prior termination notice.
Annual cap:	1/7/2011 – 31/3/2012 : JPY2,665 million (US$32,246,500) 1/4/2012 – 31/3/2013 : JPY3,553 million (US$42,991,300) 1/4/2013 – 31/3/2014 : JPY3,553 million (US$42,991,300) 1/4/2014 – 31/3/2015 : JPY3,553 million (US$42,991,300) 1/4/2015 – 31/3/2016 : JPY3,553 million (US$42,991,300) 1/4/2016 – 1/7/2016 : JPY888 million (US$10,744,800)

NEC Mobiling Agreement

Date:	April 1, 1995
Parties:	NEC Mobiling, Ltd., an associate of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC Mobiling, Ltd. agreed to purchase from NECPC products such as personal computers and peripheral devices, word processors, telecommunication devices such as facsimiles and phones, electric appliances (including game machines) and other relevant products and shall sell such products to customers as a dealer of NECPC.
Term:	The initial term is one year from the date of the agreement and is automatically renewed for additional one-year terms unless either party gives prior termination notice.
Annual cap:	1/7/2011 – 31/3/2012 : JPY50 million (US$605,000) 1/4/2012 – 31/3/2013 : JPY66 million (US$798,600) 1/4/2013 – 31/3/2014 : JPY66 million (US$798,600) 1/4/2014 – 31/3/2015 : JPY66 million (US$798,600) 1/4/2015 – 31/3/2016 : JPY66 million (US$798,600) 1/4/2016 – 1/7/2016 : JPY16 million (US$193,600)

Continuing Connected Transactions *(continued)*

NESIC Agreement

Date:	August 18, 2003
Parties:	NEC Networks & System Integration Corporation (“NESIC”), an associate of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	NESIC agreed to provide NECPC with operation and maintenance services for intranet and other internal communication systems of NECPC following the Closing Date.
Term:	The term ended on March 31, 2004 and is automatically renewed for additional one-year terms unless either party gives prior termination notice.
Annual cap:	1/7/2011 – 31/3/2012 : JPY58 million (US$701,800) 1/4/2012 – 31/3/2013 : JPY77 million (US$931,700) 1/4/2013 – 31/3/2014 : JPY77 million (US$931,700) 1/4/2014 – 31/3/2015 : JPY77 million (US$931,700) 1/4/2015 – 31/3/2016 : JPY77 million (US$931,700) 1/4/2016 – 1/7/2016 : JPY19 million (US$229,900)

NEC Patent Licence Agreement

Date:	The Closing Date
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant a licence of certain patents used in connection with the operation of NEC’s personal computer business in Japan to NECPC at a royalty of 0.03% of gross sales of certain products and/or services of NEC’s personal computer business in Japan bearing the “NEC”.
Term:	For a period of five years commencing from Closing Date expiring upon the earlier of (i) the fifth anniversary of the Closing Date, and (ii) expiration of the last to expire of the patents licensed under the NEC Patent License Agreement. The NEC Patent License Agreement will automatically renew for a further period not terminating after the expiration of the last to expire of the patents licensed under the NEC Patent License Agreement.
Annual cap:	1/7/2011 – 31/3/2012 : JPY50 million (US$605,000) 1/4/2012 – 31/3/2013 : JPY66 million (US$798,600) 1/4/2013 – 31/3/2014 : JPY66 million (US$798,600) 1/4/2014 – 31/3/2015 : JPY66 million (US$798,600) 1/4/2015 – 31/3/2016 : JPY66 million (US$798,600) 1/4/2016 – 1/7/2016 : JPY16 million (US$193,600)

Continuing Connected Transactions *(continued)*

NEC Newco Brand Licence Agreement

Date:	The Closing Date
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant NECPC a licence to use certain rights in connection with the letters and the mark "NEC" at royalty payable to NEC by NECPC.
Term:	Commence on the Closing Date for a period of 5 years.
Annual cap:	1/7/2011 – 31/3/2012 : JPY512 million (US$6,195,200) 1/4/2012 – 31/3/2013 : JPY682 million (US$8,252,200) 1/4/2013 – 31/3/2014 : JPY682 million (US$8,252,200) 1/4/2014 – 31/3/2015 : JPY682 million (US$8,252,200) 1/4/2015 – 31/3/2016 : JPY682 million (US$8,252,200) 1/4/2016 – 1/7/2016 : JPY170 million (US$2,057,000)

In accordance with Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company reviewed the continuing connected transactions in the paragraph above and confirmed that the transactions were entered into:

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

(ii) Either on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) In accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Group as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" Issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

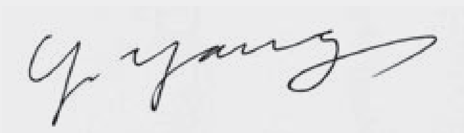
Auditor

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

Public Float

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

On behalf of the Board



Yang Yuanqing
Chairman and Chief Executive Officer

Hong Kong, May 23, 2012

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report
To the shareholders of Lenovo Group Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 104 to 175, which comprise the consolidated and company balance sheets as at March 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 23, 2012

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2012

	Note	2012 US$'000	2011 US$'000
Revenue	5	**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	6	**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	7	**584,085**	382,224
Finance income	8(a)	**42,693**	24,927
Finance costs	8(b)	**(43,484)**	(49,175)
Share of losses of associates and jointly controlled entities		**(851)**	(225)
Profit before taxation		**582,443**	357,751
Taxation	9	**(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
Earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US4.67 cents**	US2.84 cents
Diluted	12(b)	**US4.57 cents**	US2.73 cents
Dividends	13	**183,214**	96,601

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2012

	Note	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	22, 9	**(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	36, 9	**(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

At March 31, 2012

	Note	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment	14	**392,474**	209,417
Prepaid lease payments	15	**13,552**	9,682
Construction-in-progress	16	**103,986**	32,092
Intangible assets	17	**3,091,205**	2,134,452
Interests in associates and jointly controlled entities	19	**3,410**	914
Deferred income tax assets	21	**332,493**	251,098
Available-for-sale financial assets	22	**71,946**	78,689
Other non-current assets		**31,282**	53,132
		4,040,348	2,769,476
Current assets			
Inventories	23	**1,218,494**	803,702
Trade receivables	24(a)	**2,354,909**	1,368,924
Notes receivable	24(b)	**639,331**	391,649
Derivative financial assets		**62,883**	13,295
Deposits, prepayments and other receivables	24(c)	**3,303,053**	2,305,325
Income tax recoverable		**70,406**	56,912
Bank deposits	25	**413,672**	42,158
Cash and cash equivalents	25	**3,757,652**	2,954,498
		11,820,400	7,936,463
Total assets		**15,860,748**	10,705,939

	Note	2012 US$'000	2011 US$'000
Share capital	30	**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	27(a)	**291,111**	395,242
Deferred revenue		**381,593**	277,205
Retirement benefit obligations	36	**204,818**	74,870
Deferred income tax liabilities	21	**83,594**	17,093
Other non-current liabilities	29	**641,986**	73,976
		1,603,102	838,386
Current liabilities			
Trade payables	26(a)	**4,050,272**	2,179,839
Notes payable	26(b)	**127,315**	98,964
Derivative financial liabilities		**49,253**	39,223
Provisions, accruals and other payables	27	**7,074,196**	5,100,562
Deferred revenue		**310,159**	245,793
Income tax payable		**135,530**	96,711
Bank borrowings	28	**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

On behalf of the Board

Yang Yuanqing
Director

Ma Xuezheng
Director

BALANCE SHEET

At March 31, 2012

	Note	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment	14	1,224	689
Construction-in-progress	16	4,607	3,602
Intangible assets	17	45,802	24,771
Investments in subsidiaries	18(a)	2,472,880	1,929,073
		2,524,513	1,958,135
Current assets			
Derivative financial assets		953	–
Deposits, prepayments and other receivables	24(c)	5,928	1,626
Amounts due from subsidiaries	18(b)	777,818	692,351
Bank deposits	25	–	20,000
Cash and cash equivalents	25	37,124	25,955
		821,823	739,932
Total assets		3,346,336	2,698,067
Share capital	30	33,131	31,941
Reserves	31	1,919,483	1,871,739
Total equity		1,952,614	1,903,680
Non-current liabilities			
Other non-current liabilities	29	256,818	–
Current liabilities			
Derivative financial liabilities		796	5,565
Provisions, accruals and other payables	27	31,637	39,319
Amounts due to subsidiaries	18(b)	1,104,471	549,503
Bank borrowings	28	–	200,000
		1,136,904	794,387
Total liabilities		1,393,722	794,387
Total equity and liabilities		3,346,336	2,698,067
Net current liabilities		315,081	54,455
Total assets less current liabilities		2,209,432	1,903,680

On behalf of the Board

Yang Yuanqing
Director

Ma Xuezheng
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2012

	Note	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Net cash generated from operations	35(a)	**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	37(c)	**(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	35(b)	**(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	25	**3,757,652**	2,954,498

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2012

	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, 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
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 (Note 37(a)(i))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**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**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(114,687)**	**-**	**(114,687)**
Guaranteed dividend (Note 29)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(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**

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values, as explained in the significant accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Changes in accounting policies and disclosures

The Group has adopted the following revised standard, new interpretations, and amendments to existing standards and interpretations that are mandatory for the year ended March 31, 2012 and where considered appropriate and relevant to its operations:

– 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.

At the date of approval of these financial statements, 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 new and revised standards and amendments to existing standards 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.

1 Basis of preparation *(continued)*

Changes in presentation *(continued)*

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 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Subsidiaries

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to March 31.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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

Inter-company transactions and balances are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in the consolidated income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(g)(i)). If it is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

2 Significant accounting policies *(continued)*

(a) Subsidiaries *(continued)*

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognized at fair value as a written put option liability with a corresponding charge directly to non-controlling interests in equity.

Such written put option liability is subsequently measured at amortized cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. In the event that the option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to non-controlling interests in equity.

(iv) Disposal of subsidiaries

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

(v) Separate financial statements

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

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

(b) Associates and jointly controlled entities

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

Jointly controlled entities are entities which operate under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entities.

Interests in associates and jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group’s interests in associates and jointly controlled entities include goodwill identified on acquisition, net of any accumulated impairment losses. See Note 2(h) for the impairment of non-financial assets including goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement where appropriate.

The Group’s share of its associates’ and jointly controlled entities’ post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income/expense is recognized as other comprehensive income/expense with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate or a jointly controlled entity equals or exceeds its interest in the associate or the jointly controlled entity including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

2 Significant accounting policies *(continued)*

(b) Associates and jointly controlled entities *(continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or jointly controlled entity and its carrying value and recognizes the amount adjacent to 'share of profit/(loss) of associates and jointly controlled entities' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates or jointly controlled entities are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates or the jointly controlled entities. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Adjustments have been made to the financial statements of associates and jointly controlled entities when necessary to align their accounting policies of associates and jointly controlled entities to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

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

(d) Translation of foreign currencies

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

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses that relate to bank deposits and cash and cash equivalents are presented in the income statement within 'other operating income/(expenses) – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

(iii) The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- all resulting exchange differences are recognized as other comprehensive income/expense.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Significant accounting policies *(continued)*

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

(iv) On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reclassified to non-controlling interests. For partial disposals in the Group's ownership interest in an associate, the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Freehold land and buildings comprise mainly factories and office premises. All freehold lands are located outside Hong Kong and are not depreciated. Depreciation of buildings, buildings related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group ranging from 10 to 50 years whichever is shorter.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery	
Tooling equipment	50%
Other machinery	14 – 20%
Furniture and fixtures	20 – 25%
Office equipment	20 – 33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized within other operating income/(expense) – net in the income statement.

(f) Construction-in-progress

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

2 Significant accounting policies *(continued)*

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration of an acquisition transferred over the Group's interests in the fair value of the net identifiable assets of the acquiree at the acquisition date. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities.

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

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

(ii) Trademarks and trade names

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

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

Trademarks and trade names that have a definite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and trade names over their estimated useful lives of up to 5 years.

(iii) Customer relationships

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

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

(iv) Internal use software

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

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

– it is technically feasible to complete the software so that it will be available for use;

– management intends to complete the software and use it;

– there is an ability to use the software;

– adequate technical, financial and other resources to complete the development and to use the software are available; and

– the expenditure attributable to the software during its development can be reliably measured.

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

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

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

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of up to 5 years.

2 Significant accounting policies *(continued)*

(g) Intangible assets *(continued)*

(v) Patents, technology and marketing rights

Expenditure on acquired patents, technology and marketing rights is capitalized at historical cost upon acquisition and amortized using the straight-line method over their estimated useful lives of up to 5 years.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

Classification

The Group classifies its financial assets into: (i) at fair value through profit or loss, (ii) loans and receivables; and (iii) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges (Note 2(k)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise trade, notes and other receivables, deposits, bank deposits and cash and cash equivalents in the balance sheet (Note 2(m) and 2(n)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless mature or management intends to dispose of them within 12 months of the balance sheet date.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized as other comprehensive income/expense.

2 Significant accounting policies *(continued)*

(i) Financial assets *(continued)*

Recognition and measurement *(continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized as other comprehensive income/expense are reclassified to the income statement as gains or losses from securities.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(j) Impairment of financial assets

(i) Assets carried at amortized cost

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

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

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

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

(ii) Assets classified as available-for-sale

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

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

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

2 Significant accounting policies *(continued)*

(k) Derivative financial instruments and hedging activities

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

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale or purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognized in the income statement within "Other operating income/(expenses) – net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the income statement immediately.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis, and in the case of work-in-progress and finished goods (except for trading products), cost comprises direct materials, direct labor and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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

2 Significant accounting policies *(continued)*

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks, other short term highly liquid investments which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(o) Share capital

Ordinary shares are classified as equity.

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

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

(p) Borrowings

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

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

(q) Trade and other payables

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

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

(r) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(i) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(ii) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

2 Significant accounting policies *(continued)*

(s) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

(t) Contingent liabilities

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

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

(u) Revenue

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

(i) Sale of goods and services

Revenue from sale of hardware, software and peripherals, services and mobile devices is recognized, net of value-added tax, an allowance for estimated returns, rebates and discounts, when both ownership and risk of loss are effectively transferred to customer, generally when there is a persuasive evidence that a sales arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred. Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, ranging from one to four years. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Revenue from provision of systems integration service and information technology technical service is recognized over the term of contract or when services are rendered.

The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized.

(ii) Interest income

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

(iii) Dividend income

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

2 Significant accounting policies *(continued)*

(v) Non-base manufacturing costs

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

(w) Employee benefits

(i) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the year they arise.

Past service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

(ii) Post-employment medical benefits

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

2 Significant accounting policies *(continued)*

(w) Employee benefits *(continued)*

(iii) Long-term incentive program

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

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

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

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

(iv) Share options

In accordance with the transitional provision of HKFRS 2, share options granted after November 7, 2002 and were unvested on April 1, 2005 was expensed retrospectively in the income statement of the respective periods. At April 1, 2005, the Group had no option granted after November 7, 2002 that had not yet vested on that day. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(x) Operating leases (as the lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

(y) Related party transactions

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

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

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

2 Significant accounting policies *(continued)*

(y) Related party transactions *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i) above.
- A person, or a close member of that person's family, who has control or joint control over the Group has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(z) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and by the Company's directors in case of interim dividend.

3 Financial risk management

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the centralized treasury department ("Group Treasury").

(a) Financial risk factors

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Australian dollar, Canadian dollar, Euro, Japanese Yen, Pound Sterling and Renminbi. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not the group companies' functional currencies.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The Group's forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities.

For segment reporting purposes, external hedge contracts on assets, liabilities or future transactions are designated to each operating segment, as appropriate.

The following tables detail the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong dollar given the two currencies are under the linked exchange rate system. For presentation purposes, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

	Group					
	2012			2011		
	United States dollar US$'000	Renminbi US$'000	Euro US$'000	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Trade and other receivables	326,440	960	53,210	93,672	307	39,610
Bank deposits and cash and cash equivalents	82,712	34,754	22,692	47,339	15,174	7,740
Trade and other payables	(627,547)	(6,487)	(32,763)	(97,133)	(6,183)	(17,470)
Intercompany balances before elimination	(1,971,439)	6,969	(80,501)	(1,609,712)	(164,367)	35,765
Gross exposure	(2,189,834)	36,196	(37,362)	(1,565,834)	(155,069)	65,645
Notional amounts of forward exchange contracts used as economic hedges	2,032,745	–	13,203	1,440,813	–	(127,764)
Net exposure	(157,089)	36,196	(24,159)	(125,021)	(155,069)	(62,119)

	Company					
	2012			2011		
	United States dollar US$'000	Renminbi US$'000	Euro US$'000	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Other receivables	–	2	1	–	–	53
Bank deposits and cash and cash equivalents	–	–	43	–	–	46
Other payables	–	–	(63)	–	–	(105)
Amounts due from subsidiaries	–	190	–	–	101	–
Amounts due to subsidiaries	–	(137)	(171)	–	(132)	(182)
Net exposure	–	55	(190)	–	(31)	(188)

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's substantial long-term borrowings are denominated in United States dollar. Borrowings denominated in other currencies are insignificant. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group operates a global channel financing program. The Group is exposed to fluctuation of interest rates of all the currencies covered by the global channel financing program.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other financial institutions, the Group controls its credit risk through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

No credit limits were exceeded by any customers during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(iv) Liquidity risk

Cash flow forecasting of the Group is performed by Group Treasury. It monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 28) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts, At the balance sheet date, the Group held money market funds of US$1,076,456,000 (2011: US$732,181,000) (Note 25).

The tables below analyze the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the tables are the contractual undiscounted cash outflows/(inflows).

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk *(continued)*

	Group				
	Repayable on demand or 3 months or less US$'000	**Over 3 months to 1 year** US$'000	**Over 1 to 3 years** US$'000	**Over 3 to 5 years** US$'000	**Total** US$'000
At March 31, 2012					
Bank loans	**58,499**	**4,453**	**–**	**–**	**62,952**
Trade, notes and other payables and accruals	**7,856,295**	**916,516**	**–**	**–**	**8,772,811**
Contingent considerations	**–**	**–**	**179,527**	**275,000**	**454,527**
Guaranteed dividend	**–**	**–**	**13,202**	**18,703**	**31,905**
Others	**–**	**–**	**93,038**	**89,018**	**182,056**
Derivatives settled in net:					
Forward foreign exchange contracts	**–**	**116**	**–**	**–**	**116**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**2,689,443**	**240,230**	**–**	**–**	**2,929,673**
– inflow	**(2,693,660)**	**(249,404)**	**–**	**–**	**(2,943,064)**
At March 31, 2011					
Bank loans	50,098	221,463	–	–	271,561
Trade, notes and other payables and accruals	5,570,502	357,222	–	–	5,927,724
Others	–	3,913	73,976	–	77,889
Derivatives settled in net:					
Forward foreign exchange contracts	7,725	–	–	–	7,725
Interest rate swap contracts	476	544	–	–	1,020
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	1,451,974	242,931	–	–	1,694,905
– inflow	(1,438,703)	(239,040)	–	–	(1,677,743)

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk *(continued)*

	Company				
	Repayable on demand or 3 months or less US$'000	Over 3 months to 1 year US$'000	Over 1 to 3 years US$'000	Over 3 to 5 years US$'000	Total US$'000
At March 31, 2012					
Accruals and other payables	**–**	**31,637**	**–**	**–**	**31,637**
Amounts due to subsidiaries	**1,104,471**	**–**	**–**	**–**	**1,104,471**
Contingent considerations	**–**	**–**	**1,500**	**275,000**	**276,500**
At March 31, 2011					
Bank loans	–	200,000	–	–	200,000
Accruals and other payables	–	39,319	–	–	39,319
Amounts due to subsidiaries	549,503	–	–	–	549,503
Derivatives settled in net:					
Forward foreign exchange contracts	4,545	–	–	–	4,545
Interest rate swap contracts	476	544	–	–	1,020
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	4,496	–	–	–	4,496
– inflow	(4,497)	–	–	–	(4,497)

(b) Market risks sensitivity analysis

HKFRS 7 "Financial instruments: Disclosures" requires the disclosure of a sensitivity analysis for market risks that show the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed to at the balance sheet date on profit or loss and total equity.

The sensitivity analysis for each type of market risks does not reflect inter-dependencies between risk variables. The sensitivity analysis assumes that a hypothetical change of the relevant risk variable had occurred at the balance sheet date and had been applied to the relevant risk variable in existence on that date. The bases and assumptions adopted in the preparation of the analyses will by definition, seldom equal to the related actual results.

The disclosure of the sensitivity analysis on market risks is solely for compliance with HKFRS 7 disclosure requirements in respect of financial instruments, and are for illustration purposes only; and it should be noted that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses of the Group.

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2012, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, post-tax profit for the year would have been US$1.69 million higher/lower (2011: US$0.92 million lower/higher), mainly as a result of foreign exchange gains/losses on translation of unhedged portion of receivable and payable balances.

The analysis above is based on the assumption that United States dollar weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

(ii) Interest rate sensitivity analysis

Cash flow interest rate risk on United States dollar-denominated long-term borrowings is mitigated through the use of floating-to fixed interest rate swaps as hedges. Borrowings in other currencies are insignificant. Accordingly, no interest rate sensitivity analysis on borrowings is presented.

At March 31, 2012, if interest rates on the global channel financing program had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$1.6 million (2011: US$1.32 million) lower/higher. This analysis is based on the assumption that the interest rates of all the currencies covered by the global channel financing program go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in reality.

3 Financial risk management *(continued)*

(c) Capital risks management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net cash position of the Group as at March 31, 2012 and 2011 are as follows:

	2012 US$ million	2011 US$ million
Bank deposits and cash and cash equivalents	**4,171**	2,997
Less: total borrowings	**(63)**	(272)
Net cash position	**4,108**	2,725
Total equity	**2,448**	1,835
Gearing ratio	**0.03**	0.15

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments are used for long-term debt.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 Financial risk management *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2012 and 2011.

	Group							
	2012				2011			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	59,625	–	–	59,625	76,473	–	–	76,473
Unlisted equity investments	–	–	12,321	12,321	–	–	2,216	2,216
Derivative financial assets	–	62,883	–	62,883	–	13,295	–	13,295
	59,625	62,883	12,321	134,829	76,473	13,295	2,216	91,984
Liabilities								
Derivative financial liabilities	–	49,253	–	49,253	–	39,223	–	39,223
Contingent considerations	–	–	428,915	428,915	–	–	–	–
	–	49,253	428,915	478,168	–	39,223	–	39,223

	Company							
	2012				2011			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Derivative financial assets	–	953	–	953	–	–	–	–
Liabilities								
Derivative financial liabilities	–	796	–	796	–	5,565	–	5,565
Contingent considerations	–	–	256,093	256,093	–	–	–	–
	–	796	256,093	256,889	–	5,565	–	5,565

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2012 and 2011.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2012 and 2011 are as follows:

Financial assets

	Group	
	2012 US$'000	2011 US$'000
At the beginning of the year	2,216	2,095
Exchange adjustment	50	121
Additions	10,055	–
At the end of the year	12,321	2,216

3 Financial risk management *(continued)*

(d) Fair value estimation *(continued)*

Financial liabilities

	Group		Company	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
At the beginning of the year	**–**	–	**–**	–
Additions	**426,666**	–	**252,708**	–
Exchange adjustment	**(2,662)**	–	**–**	–
Recognized in consolidated income statement	**4,911**	–	**3,385**	–
At the end of the year	**428,915**	–	**256,093**	–

4 Critical accounting estimates and judgments

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, effective tax rate, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

4 Critical accounting estimates and judgments *(continued)*

(b) Income taxes *(continued)*

Deferred income tax assets are mainly recognized for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognized as a separate asset, to the extent of the amount of the provision made, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

(d) Revenue recognition

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgments include determining whether the Group or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

The Group sells products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, and marketing development funds. The Group assesses the channel inventory level based on a systematic and consistent approach with reference to historical data and, where appropriate, defers the revenue and cost in relation to sales in excess of the reasonable channel inventory level. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, and marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience and market and economic conditions when calculating these provisions and allowances.

Revenue from sales of goods is recognized when both ownership and risk of loss are effectively transferred to customer. Risk of loss associated with goods-in-transit is generally retained by the Group. The Group books revenue upon delivery of products, and defers the amounts of revenue based on the estimated days-in-transit at the end of each month. The days-in-transit is estimated based on the Group's weighted average estimated time of shipment arrival. Cost of in-transit products is deferred in deposits, prepayment and other receivables in the balance sheet until revenue is recognized. The estimates of days-in-transit are reviewed semi-annually.

4 Critical accounting estimates and judgments *(continued)*

(e) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect the Group's long-term actual experience and future and near-term outlook. Actual results that differ from the assumptions are generally recognized in the year they occur.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets that are not traded in active markets.

(g) Fair value of contingent considerations and written put option liabilities

Certain of the Group's business combination activities involved post-acquisition performance-based contingent considerations. The Group recognizes contingent considerations and the corresponding written put option liabilities at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. Judgment is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition performance of the acquired subsidiaries/businesses. Changes to key assumptions can significantly affect the amounts of future liabilities. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated income statement in accordance with HKFRS 3 (Revised).

(h) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 Segment information

Management has determined the operating segments based on the reports reviewed by the 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 Group Treasury 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.

5 Segment information *(continued)*

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

	2012		2011	
	Revenue from external customers US$'000	**Adjusted pre-tax income/ (loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/ (loss) US$'000
China	**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)
Consolidated profit before taxation		**582,443**		357,751

(b) Segment assets for reportable segments

	2012 US$'000	2011 US$'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

5 Segment information *(continued)*

(c) Segment liabilities for reportable segments

	2012 US$'000	2011 US$'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) Analysis of revenue by significant category

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

	2012 US$'000	2011 US$'000
Sale of personal technology products and services		
– desktop computer	**9,883,538**	7,307,142
– notebook computer	**16,696,527**	12,990,444
– mobile internet and digital home	**1,484,395**	804,459
– others	**611,466**	492,326
Sale of other goods and services	**898,512**	–
	29,574,438	21,594,371

(e) Other segment information

	China		Emerging markets (excluding China)		Mature markets		Total	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'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.

The total of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit assets (there are no rights arising under insurance contracts) located in China and other countries are approximately US$1,801,595,000 (2011: US$1,592,475,000) and US$1,834,314,000 (2011: US$847,214,000) respectively.

6 Other income – net

	2012 US$'000	2011 US$'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

7 Operating profit

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

	2012 US$'000	2011 US$'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 (Note 10)	**1,938,256**	1,431,218
Cost of inventories sold	**24,229,947**	18,641,858
Inventory write-down	**30,588**	17,290
Auditor's remuneration	**5,483**	3,940
Rental expenses under operating leases	**63,252**	52,670
Gain on disposal of subsidiaries and an associate	**(50)**	(13,015)
Net foreign exchange gain	**(4,653)**	(21,515)
Net loss/(gain) on foreign exchange forward contracts for cash flow hedge reclassified from equity	**11,338**	(82,528)
Ineffectiveness on cash flow hedges	**4,495**	5,036

8 Finance income and costs

(a) Finance income

	2012 US$'000	2011 US$'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 US$'000	2011 US$'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

9 Taxation

The amount of taxation in the consolidated income statement represents:

	2012 US$'000	2011 US$'000
Current tax		
– Hong Kong profits tax	**236**	234
– Taxation outside Hong Kong	**174,548**	67,334
Deferred tax (Note 21)	**(67,757)**	16,947
	107,027	84,515

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to preferential tax treatment.

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax charge for the year are as follows:

	2012 US$'000	2011 US$'000
Profit before taxation	**582,443**	357,751
Tax calculated at domestic rates applicable in countries concerned	**180,375**	95,520
Income not subject to taxation	**(123,533)**	(95,994)
Expenses not deductible for taxation purposes	**108,375**	67,727
Utilization of previously unrecognized tax losses	**(87,565)**	(2,483)
Effect on opening deferred income tax assets due to change in tax rates	**(7,660)**	1,743
Deferred income tax assets not recognized	**32,812**	10,383
Under-provision in prior years	**4,223**	7,619
	107,027	84,515

The weighted average applicable tax rate for the year was 31% (2011: 27%).

The tax credit relating to components of other comprehensive income is as follows:

	2012			2011		
	Before tax US$'000	Tax credit US$'000	After tax US$'000	Before tax US$'000	Tax credit US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**(36,337)**	**–**	**(36,337)**	(15,892)	–	(15,892)
Fair value change on cash flow hedges	**33,797**	**61**	**33,858**	(24,652)	–	(24,652)
Actuarial loss from defined benefit pension plans	**(37,537)**	**2,834**	**(34,703)**	(7,190)	–	(7,190)
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary	**–**	**–**	**–**	(12,996)	–	(12,996)
Currency translation differences	**(51,055)**	**–**	**(51,055)**	47,442	–	47,442
Other comprehensive income	**(91,132)**	**2,895**	**(88,237)**	(13,288)	–	(13,288)
Current tax		**–**			–	
Deferred tax (Note 21)		**2,895**			–	
		2,895			–	

10 Employee benefit costs

	2012 US$'000	2011 US$'000
Wages and salaries (including reversal of provision for restructuring costs of US$809,000 (2011: provision of US$1,095,000))	**1,380,076**	1,058,164
Social security costs	**135,657**	121,362
Long-term incentive awards granted (Notes 30(a))	**66,418**	41,375
Pension costs		
– Defined contribution plans	**81,067**	58,341
– Defined benefit plans (Note 36)	**18,350**	9,878
Others	**256,688**	142,098
	1,938,256	1,431,218

The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in the Chinese Mainland. Contributions to these schemes are calculated with reference to the monthly average salaries as set out by the local municipal government.

The Group participates in various defined contribution schemes, either voluntary or mandatory, for all qualified employees. The assets of those defined contribution schemes are held separately from those of the Group in independently administered funds.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 36.

11 Emoluments of directors and highest paid individuals

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director for the years ended March 31, 2012 and 2011 is set out below:

	2012						
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentives awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive director							
Mr. Yang Yuanqing	–	1,072	5,168	7,754	107	117	14,218
Non-executive directors							
Mr. Liu Chuanzhi	–	901	–	2,272	–	–	3,173
Mr. Zhu Linan	80	–	–	152	–	–	232
Ms. Ma Xuezheng	80	–	–	164	–	–	244
Mr. James G. Coulter	39	–	–	147	–	–	186
Dr. Wu Yibing	80	–	–	149	–	–	229
Mr. Zhao John Huan	33	–	–	–	–	–	33
Independent non-executive directors							
Professor Woo Chia-Wei	80	–	–	122	–	–	202
Mr. William O. Grabe	90	–	–	130	–	–	220
Mr. Ting Lee Sen	80	–	–	122	–	–	202
Dr. Tian Suning	80	–	–	152	–	–	232
Mr. Nicholas C Allen	100	–	–	136	–	–	236
Mr. Nobuyuki Idei	41	–	–	–	–	–	41
	783	1,973	5,168	11,300	107	117	19,448

11 Emoluments of directors and highest paid individuals *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2011						
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentives awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive director							
Mr. Yang Yuanqing	–	911	3,297	7,492	91	96	11,887
Non-executive directors							
Mr. Liu Chuanzhi	–	460	805	2,178	–	–	3,443
Mr. Zhu Linan	80	–	–	127	–	–	207
Ms. Ma Xuezheng	80	–	–	229	–	–	309
Mr. James G. Coulter	80	–	–	148	–	–	228
Mr. William O. Grabe	90	–	–	209	–	–	299
Dr. Wu Yibing	80	–	–	105	–	–	185
Independent non-executive directors							
Professor Woo Chia-Wei	80	–	–	192	–	–	272
Mr. Ting Lee Sen	80	–	–	130	–	–	210
Dr. Tian Suning	80	–	–	112	–	–	192
Mr. Nicholas C Allen	100	–	–	76	–	–	176
	750	1,371	4,102	10,998	91	96	17,408

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2012 and 2011 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2011 and 2010 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 30(a). The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2012 and 2011.

(iii) Mr. William O. Grabe and Professor Woo Chia-Wei have elected to defer their receipts of the cash of director's fee into fully vested share units under the long-term incentive program (Note 30(a)) for the two years ended March 31, 2012 and 2011.

11 Emoluments of directors and highest paid individuals *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2011: three) individuals during the year are as follows:

	2012 **US$'000**	2011 US$'000
Basic salaries, allowances, and benefits-in-kind	**1,556**	1,465
Discretionary bonuses	**3,933**	3,065
Employer's contribution to pension schemes	**435**	405
Long-term incentive awards	**3,077**	4,571
Others	**926**	314
	9,927	9,820

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
US$3,019,522 – US$3,083,766	**–**	1
US$3,148,012 – US$3,212,256	**–**	1
US$3,219,928 – US$3,284,325	**1**	–
US$3,284,326 – US$3,348,724	**1**	–
US$3,348,725 – US$3,413,122	**1**	–
US$3,533,483 – US$3,597,727	**–**	1

12 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 37(a)(i) 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

12 Earnings per share *(continued)*

(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.

13 Dividends

	2012 **US$'000**	2011 US$'000
Interim dividend of HK3.8 cents (2011: HK2.6 cents) 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

14 Property, plant and equipment

(a) Group

	Freehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2010							
Cost	102,020	88,815	214,617	38,646	252,781	3,244	700,123
Accumulated depreciation and impairment loss	22,252	53,934	178,791	18,286	176,761	1,838	451,862
Net book amount	79,768	34,881	35,826	20,360	76,020	1,406	248,261
Year ended March 31, 2011							
Opening net book amount	79,768	34,881	35,826	20,360	76,020	1,406	248,261
Exchange adjustment	3,373	132	(289)	5	2,847	54	6,122
Reclassification	4,483	1,089	369	(3,075)	(2,947)	81	–
Additions	1,320	6,544	5,820	1,016	33,351	783	48,834
Transfer from construction-in-progress	688	604	515	491	525	–	2,823
Transfer to intangible assets	–	–	–	–	(748)	–	(748)
Transfer to prepaid lease payments	(5,866)	–	–	–	–	–	(5,866)
Disposals	(19)	(1,110)	(172)	(1,682)	(5,086)	(180)	(8,249)
Depreciation	(3,945)	(10,899)	(24,062)	(8,685)	(33,626)	(543)	(81,760)
Closing net book amount	79,802	31,241	18,007	8,430	70,336	1,601	209,417
At March 31, 2011							
Cost	118,374	81,009	234,522	28,613	231,133	3,457	697,108
Accumulated depreciation and impairment losses	38,572	49,768	216,515	20,183	160,797	1,856	487,691
Net book amount	79,802	31,241	18,007	8,430	70,336	1,601	209,417
Year ended March 31, 2012							
Opening net book amount	**79,802**	**31,241**	**18,007**	**8,430**	**70,336**	**1,601**	**209,417**
Exchange adjustment	**(1,233)**	**(122)**	**252**	**(107)**	**1,403**	**(44)**	**149**
Reclassification	**6**	**(98)**	**3,681**	**168**	**(3,757)**	**–**	**–**
Additions	**5,719**	**24,143**	**11,288**	**5,033**	**53,540**	**1,515**	**101,238**
Transfer from construction-in-progress	**27,213**	**12,196**	**3,223**	**2,234**	**542**	**115**	**45,523**
Disposals	**(4,249)**	**–**	**(884)**	**(201)**	**(2,317)**	**(165)**	**(7,816)**
Depreciation	**(5,522)**	**(15,249)**	**(12,402)**	**(4,851)**	**(38,570)**	**(848)**	**(77,442)**
Acquisition of subsidiaries	**105,386**	**–**	**10,146**	**–**	**5,478**	**395**	**121,405**
Closing net book amount	**207,122**	**52,111**	**33,311**	**10,706**	**86,655**	**2,569**	**392,474**
At March 31, 2012							
Cost	**252,063**	**112,267**	**270,643**	**34,911**	**261,278**	**4,991**	**936,153**
Accumulated depreciation and impairment losses	**44,941**	**60,156**	**237,332**	**24,205**	**174,623**	**2,422**	**543,679**
Net book amount	**207,122**	**52,111**	**33,311**	**10,706**	**86,655**	**2,569**	**392,474**

14 Property, plant and equipment *(continued)*

(b) Company

	Leasehold improve-ments US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2010					
Cost	2,335	184	828	248	3,595
Accumulated depreciation	1,835	114	617	223	2,789
Net book amount	500	70	211	25	806
Year ended March 31, 2011					
Opening net book amount	500	70	211	25	806
Exchange adjustment	(1)	(10)	10	(1)	(2)
Additions	–	57	93	–	150
Disposals	–	(1)	(1)	(3)	(5)
Depreciation	(130)	(37)	(76)	(17)	(260)
Closing net book amount	369	79	237	4	689
At March 31, 2011					
Cost	2,329	192	592	158	3,271
Accumulated depreciation	1,960	113	355	154	2,582
Net book amount	369	79	237	4	689
Year ended March 31, 2012					
Opening net book amount	**369**	**79**	**237**	**4**	**689**
Exchange adjustment	**3**	**1**	**(1)**	**–**	**3**
Additions	**410**	**24**	**111**	**322**	**867**
Disposals	**–**	**–**	**(2)**	**(4)**	**(6)**
Depreciation	**(152)**	**(45)**	**(81)**	**(51)**	**(329)**
Closing net book amount	**630**	**59**	**264**	**271**	**1,224**
At March 31, 2012					
Cost	**1,383**	**175**	**628**	**322**	**2,508**
Accumulated depreciation	**753**	**116**	**364**	**51**	**1,284**
Net book amount	**630**	**59**	**264**	**271**	**1,224**

15 Prepaid lease payments

	Group	
	2012 US$'000	2011 US$'000
At the beginning of the year	**9,682**	3,748
Exchange adjustment	**386**	164
Transfer from property, plant and equipment	**–**	5,866
Transfer from construction-in-progress	**3,763**	–
Amortization	**(279)**	(96)
At the end of the year	**13,552**	9,682

Prepaid lease payments represent the payments for land use rights held by the Group in the Chinese Mainland under medium leases (less than 50 years but not less than 10 years).

16 Construction-in-progress

	Group								Company	
	Buildings under construction		Internal use software		Others		Total		Internal use software	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000	**2012 US$'000**	2011 US$'000
At the beginning of the year	**738**	414	**24,001**	23,772	**7,353**	525	**32,092**	24,711	**3,602**	2,204
Exchange adjustment	**1,725**	31	**387**	315	**(483)**	(1)	**1,629**	345	**10**	(9)
Reclassification	**7,114**	(354)	**–**	(17)	**(7,114)**	255	**–**	(116)	**–**	–
Additions	**106,681**	1,335	**86,426**	66,752	**12,494**	10,444	**205,601**	78,531	**28,543**	4,868
Transfer to property, plant and equipment	**(36,051)**	(688)	**(50)**	–	**(9,422)**	(2,135)	**(45,523)**	(2,823)	**–**	–
Transfer to intangible assets	**–**	–	**(88,349)**	(66,821)	**(44)**	(320)	**(88,393)**	(67,141)	**(27,548)**	(3,461)
Transfer to prepaid lease payments	**(3,763)**	–	**–**	–	**–**	–	**(3,763)**	–	**–**	–
Disposals	**(6)**	–	**–**	–	**–**	(1,415)	**(6)**	(1,415)	**–**	–
Acquisition of subsidiaries	**1,614**	–	**–**	–	**735**	–	**2,349**	–	**–**	–
At the end of the year	**78,052**	738	**22,415**	24,001	**3,519**	7,353	**103,986**	32,092	**4,607**	3,602

No interest expenses were capitalized in construction-in-progress as at March 31, 2012 and 2011.

17 Intangible assets

(a) Group

	Goodwill (Note (c)) US$'000	Trademarks and trade names (Note (c)) US$'000	Internal use software US$'000	Customer relationships US$'000	Patent and technology US$'000	Marketing rights US$'000	Total US$'000
At April 1, 2010							
Cost	1,473,517	516,355	351,470	25,184	115,080	11,719	2,493,325
Accumulated amortization and impairment losses	–	136,352	163,346	17,513	102,616	7,161	426,988
Net book amount	1,473,517	380,003	188,124	7,671	12,464	4,558	2,066,337
Year ended March, 31 2011							
Opening net book amount	1,473,517	380,003	188,124	7,671	12,464	4,558	2,066,337
Exchange adjustment	72,342	–	2,483	–	(638)	37	74,224
Additions	–	–	20,297	–	–	–	20,297
Reclassification	–	(3)	(1,237)	–	1,240	–	–
Transfer from construction-in-progress	–	–	66,821	–	320	–	67,141
Transfer from property, plant and equipment	–	–	748	–	–	–	748
Disposals	–	–	(11)	–	–	–	(11)
Amortization	–	–	(82,756)	(2,708)	(4,225)	(4,595)	(94,284)
Closing net book amount	1,545,859	380,000	194,469	4,963	9,161	–	2,134,452
At March 31, 2011							
Cost	1,545,859	510,000	451,117	25,122	105,456	–	2,637,554
Accumulated amortization and impairment losses	–	130,000	256,648	20,159	96,295	–	503,102
Net book amount	1,545,859	380,000	194,469	4,963	9,161	–	2,134,452
Year ended March, 31 2012							
Opening net book amount	**1,545,859**	**380,000**	**194,469**	**4,963**	**9,161**	**–**	**2,134,452**
Exchange adjustment	**7,852**	**–**	**2,396**	**6,192**	**(1,077)**	**–**	**15,363**
Additions	**–**	**–**	**22,300**	**–**	**54**	**–**	**22,354**
Transfer from construction-in-progress	**–**	**–**	**88,393**	**–**	**–**	**–**	**88,393**
Disposals	**–**	**–**	**(1,113)**	**–**	**–**	**–**	**(1,113)**
Amortization	**–**	**–**	**(85,110)**	**(6,526)**	**(6,048)**	**–**	**(97,684)**
Acquisition of subsidiaries	**727,358**	**75,444**	**20,499**	**91,139**	**15,000**	**–**	**929,440**
Closing net book amount	**2,281,069**	**455,444**	**241,834**	**95,768**	**17,090**	**–**	**3,091,205**
At March 31, 2012							
Cost	**2,281,069**	**585,444**	**578,965**	**116,261**	**119,492**	**–**	**3,681,231**
Accumulated amortization and impairment losses	**–**	**130,000**	**337,131**	**20,493**	**102,402**	**–**	**590,026**
Net book amount	**2,281,069**	**455,444**	**241,834**	**95,768**	**17,090**	**–**	**3,091,205**

Amortization of US$26,445,000 (2011: US$27,126,000), US$9,038,000 (2011: US$2,823,000), US$58,789,000 (2011: US$61,165,000) and US$3,412,000 (2011: US$3,170,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

17 Intangible assets *(continued)*

(b) Company

	Internal use software US$'000
At April 1, 2010	
Cost	34,170
Accumulated amortization	10,987
Net book amount	23,183
Year ended March 31, 2011	
Opening net book amount	23,183
Exchange adjustment	(58)
Transfer from construction-in-progress	3,461
Additions	6,097
Amortization	(7,912)
Closing net book amount	24,771
At March 31, 2011	
Cost	49,960
Accumulated amortization	25,189
Net book amount	24,771
Year ended March 31, 2012	
Opening net book amount	**24,771**
Exchange adjustment	**95**
Transfer from construction-in-progress	**27,548**
Additions	**3,598**
Disposals	**(1)**
Amortization	**(10,209)**
Closing net book amount	**45,802**
At March 31, 2012	
Cost	**74,919**
Accumulated amortization	**29,117**
Net book amount	**45,802**

17 Intangible assets *(continued)*

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives

During the year, the Group underwent an organizational structure change under which Latin America previously a reportable segment merged with the Rest of Emerging Markets segment ("REM"), forming a 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:

	2012		2011	
	Goodwill US$ million	**Trademarks and trade names US$ million**	Goodwill US$ million	Trademarks and trade names US$ million
China	**1,101**	**209**	1,065	209
REM *	**167**	**64**	143	55
Latin America	**–**	**–**	24	9
North America	**160**	**58**	161	58
West Europe (ii)	**242**	**110**	84	35
Japan, Australia, New Zealand (i)	**611**	**14**	69	14
	2,281	**455**	1,546	380

* 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).

(i) 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 37). 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, New Zealand market segment.

(ii) On July 29, 2011, the Group completed the acquisition of Medion AG ("Medion") under a business combination agreement dated June 1, 2011 (Note 37). 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 Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future cash flow of the CGU beyond the five-year period extrapolated using the estimated growth rates stated below. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

Future cash flows are discounted at the rate of 11% (2011: 11%) across all CGUs. The estimated growth rates used for value-in-use calculations are as follows:

	2012	2011
China	**11.5%**	21.3%
REM	**7.3%**	6.2%
Latin America	**N/A**	5.0%
North America	**1.0%**	(0.3%)
West Europe	**(1.9%)**	5.4%
Japan, Australia, New Zealand	**0.2%**	(4.0%)

Management determined budgeted gross margins based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates are pre-tax and reflect specific risks relating to the relevant segments.

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 arising from the review (2011: Nil).

17 Intangible assets *(continued)*

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. Except for JANZ in 2012 and REM in 2011, a reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount. As at March 31, 2012, the recoverable amount for JANZ calculated based on value in use exceeded carrying value by US$149 million. Had JANZ's forecasted operating margin been 0.65 percentage point lower than management's estimates, the JANZ's remaining headroom would be removed.

As at March 31, 2011, the recoverable amount for REM calculated based on value in use exceeded carrying value by US$375 million. Had REM's forecasted operating margin been 1.5 percentage points lower than management's estimates, the REM's remaining headroom would be removed.

18 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2012 US$'000	2011 US$'000
Unlisted investments, at cost	**2,472,880**	1,929,073

A summary of the principal subsidiaries of the Company is set out in Note 38.

(b) Amounts due from/to subsidiaries

The amounts are interest-free, unsecured and have no fixed terms of repayment.

19 Interests in associates and jointly controlled entities

	Group	
	2012 US$'000	2011 US$'000
Share of net assets		
– Associates	**677**	914
– Jointly controlled entities	**2,733**	–
	3,410	914

The following is a list of the principal associate and jointly controlled entities as at March 31, 2012:

Company name	Place of establishment	Interest held indirectly 2012	Interest held indirectly 2011	Principal activities
Associate				
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited)	Chinese Mainland	**23%**	23%	Distribution and development of IT technology
Jointly controlled entities				
成都聯創融錦投資有限責任公司 (Chengdu Lenovo Rongjin Investment Limited)	Chinese Mainland	**49%**	–	Property development
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited)	Chinese Mainland	**49%**	–	Distribution and development of IT technology and software

19 Interests in associates and jointly controlled entities *(continued)*

As at March 31, 2012, pursuant to the joint venture agreement, the Group had a capital commitment of US$3,736,000 to Chengdu Lenovo Rongjin Investment Limited.

Notes:

(i) The associates and jointly controlled entities operate principally in their respective places of establishment.

(ii) The English name of each company is a direct translation or transliteration of its Chinese registered name.

20 Financial instruments by category

Group

	Loans and receivables US$'000	Assets at fair value through income statement US$'000	Derivatives used for hedging US$'000	Available-for-sale financial assets US$'000	Total US$'000
Assets					
At March 31, 2012					
Available-for-sale financial assets	**–**	**–**	**–**	**71,946**	**71,946**
Derivative financial assets	**–**	**29,655**	**33,228**	**–**	**62,883**
Trade receivables	**2,354,909**	**–**	**–**	**–**	**2,354,909**
Notes receivable	**639,331**	**–**	**–**	**–**	**639,331**
Deposits and other receivables	**2,443,540**	**–**	**–**	**–**	**2,443,540**
Bank deposits	**413,672**	**–**	**–**	**–**	**413,672**
Cash and cash equivalents	**3,757,652**	**–**	**–**	**–**	**3,757,652**
	9,609,104	**29,655**	**33,228**	**71,946**	**9,743,933**
At March 31, 2011					
Available-for-sale financial assets	–	–	–	78,689	78,689
Derivative financial assets	–	11,188	2,107	–	13,295
Trade receivables	1,368,924	–	–	–	1,368,924
Notes receivable	391,649	–	–	–	391,649
Deposits and other receivables	1,766,184	–	–	–	1,766,184
Bank deposits	42,158	–	–	–	42,158
Cash and cash equivalents	2,954,498	–	–	–	2,954,498
	6,523,413	11,188	2,107	78,689	6,615,397

20 Financial instruments by category *(continued)*

Group *(continued)*

	Liabilities at fair value through income statement US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2012				
Trade payables	**–**	**–**	**4,050,272**	**4,050,272**
Notes payable	**–**	**–**	**127,315**	**127,315**
Derivative financial liabilities	**35,337**	**13,916**	**–**	**49,253**
Accruals and other payables	**–**	**–**	**4,595,224**	**4,595,224**
Bank borrowings	**–**	**–**	**62,952**	**62,952**
Contingent consideration under other non-current liabilities	**–**	**–**	**428,915**	**428,915**
	35,337	**13,916**	**9,264,678**	**9,313,931**
At March 31, 2011				
Trade payables	–	–	2,179,839	2,179,839
Notes payable	–	–	98,964	98,964
Derivative financial liabilities	20,110	19,113	–	39,223
Accruals and other payables	–	–	3,648,921	3,648,921
Bank borrowings	–	–	271,561	271,561
	20,110	19,113	6,199,285	6,238,508

Company

	Loans and receivables	
	2012 US$'000	2011 US$'000
Assets		
Deposits	**499**	379
Amounts due from subsidiaries	**777,818**	692,351
Cash and cash equivalents	**37,124**	25,955
	815,441	718,685

20 Financial instruments by category *(continued)*

Company *(continued)*

	Liabilities at fair value through income statement US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2012				
Derivative financial liabilities	**796**	**–**	**–**	**796**
Accruals and other payables	**–**	**–**	**31,637**	**31,637**
Amounts due to subsidiaries	**–**	**–**	**1,104,471**	**1,104,471**
Contingent consideration under other non-current liabilities	**–**	**–**	**256,093**	**256,093**
	796	**–**	**1,392,201**	**1,392,997**
At March 31, 2011				
Derivative financial liabilities	4,547	1,018	–	5,565
Accruals and other payables	–	–	39,319	39,319
Amounts due to subsidiaries	–	–	549,503	549,503
Bank borrowings	–	–	200,000	200,000
	4,547	1,018	788,822	794,387

21 Deferred income tax assets and liabilities

Deferred income tax is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet:

	Group	
	2012 US$'000	2011 US$'000
Deferred income tax assets:		
Current	**252,946**	193,274
Non-current	**79,547**	57,824
	332,493	251,098
Deferred income tax liabilities:		
Non-current	**(83,594)**	(17,093)
Net deferred income tax assets	**248,899**	234,005

21 Deferred income tax assets and liabilities *(continued)*

The movements in the net deferred income tax assets are as follows:

	Group	
	2012 US$'000	2011 US$'000
At the beginning of the year	**234,005**	244,647
Reclassification and exchange adjustments	**(4,753)**	6,305
Credited/(charged) to consolidated income statement (Note 9)	**67,757**	(16,947)
Credited to other comprehensive income (Note 9)	**2,895**	–
Acquisition of subsidiaries	**(51,005)**	–
At the end of the year	**248,899**	234,005

(a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major component, during the year are as follows:

	Provisions and accruals US$'000	Tax losses US$'000	Tax depreciation allowance US$'000	Deferred revenue US$'000	Others US$'000	Total US$'000
At April 1, 2010	138,007	23,900	9,433	83,638	–	254,978
Reclassification and exchange adjustment	(1,003)	(3,741)	432	10,753	–	6,441
Credited/(charged) to consolidated income statement	13,416	5,297	(1,735)	(27,299)	–	(10,321)
At March 31, 2011 and April 1, 2011	**150,420**	**25,456**	**8,130**	**67,092**	**–**	**251,098**
Exchange adjustment	**(1,245)**	**(5,688)**	**(1,014)**	**3,704**	**(518)**	**(4,761)**
Credited/(charged) to consolidated income statement	**74,935**	**(100)**	**(897)**	**278**	**2,249**	**76,465**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**2,895**	**2,895**
Acquisition of subsidiaries	**269**	**6,431**	**342**	**–**	**27**	**7,069**
At March 31, 2012	**224,379**	**26,099**	**6,561**	**71,074**	**4,653**	**332,766**

Deferred income tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. At March 31, 2012, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$574,183,000 (2011: US$504,352,000) and tax losses of approximately US$584,631,000 (2011: US$751,904,000) that can be carried forward against future taxable income, of which, tax losses of US$503,244,000 (2011: US$659,254,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	Group	
	2012 US$'000	2011 US$'000
Expiring in		
– 2012	**754**	–
– 2014	**14,525**	16,263
– 2015	**6,795**	7,146
– 2016	**2,168**	5,616
– 2017	**44,067**	42,098
– 2018	**8,213**	13,108
– 2019	**4,865**	8,419
	81,387	92,650

21 Deferred income tax assets and liabilities *(continued)*

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major component, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Total US$'000
At April 1, 2010	–	10,331	–	–	10,331
Exchange adjustment	–	128	–	8	136
Charged to consolidated income statement	–	6,151	–	475	6,626
At March 31, 2011 and April 1, 2011	**–**	**16,610**	**–**	**483**	**17,093**
Exchange adjustment	**–**	**(23)**	**–**	**15**	**(8)**
(Credited)/charged to consolidated income statement	**(1,219)**	**10,681**	**(483)**	**(271)**	**8,708**
Acquisition of subsidiaries	**53,190**	**–**	**4,884**	**–**	**58,074**
At March 31, 2012	**51,971**	**27,268**	**4,401**	**227**	**83,867**

22 Available-for-sale financial assets

	Group 2012 US$'000	Group 2011 US$'000
At the beginning of the year	**78,689**	112,520
Exchange adjustment	**(120)**	81
Fair value change recognized in other comprehensive income	**(36,337)**	(15,892)
Additions	**10,055**	–
Disposals	**–**	(18,020)
Acquisition of subsidiaries	**19,659**	–
At the end of the year	**71,946**	78,689
Equity securities, at fair value		
Listed in Hong Kong	**512**	1,442
Listed outside Hong Kong	**59,113**	75,031
Unlisted	**12,321**	2,216
	71,946	78,689

23 Inventories

	Group 2012 US$'000	Group 2011 US$'000
Raw materials and work-in-progress	**484,314**	293,660
Finished goods	**613,962**	411,810
Service parts	**120,218**	98,232
	1,218,494	803,702

24 Receivables

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

	Group	
	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

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2012, trade receivables, net of impairment, of US$282,766,000 (2011: US$213,710,000) were past due. The ageing of these receivables, based on due date, is as follows:

	Group	
	2012	2011
	US$'000	US$'000
Within 30 days	**232,556**	141,819
31 – 60 days	**23,741**	16,809
61 – 90 days	**7,634**	28,901
Over 90 days	**18,835**	26,181
	282,766	213,710

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	US$'000	US$'000
At beginning of the year	**21,081**	17,319
Exchange adjustment	**(165)**	(45)
Provisions made	**24,163**	10,076
Uncollectible receivables written off	**(12,076)**	(4,343)
Unused amounts reversed	**(3,606)**	(1,926)
At the end of the year	**29,397**	21,081

(b) Notes receivable of the Group are bank accepted notes mainly with maturity dates of within six months.

24 Receivables *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Deposits	**884**	504	**–**	–
Other receivables (i)	**2,442,656**	1,765,680	**513**	379
Prepayments (ii)	**859,513**	539,141	**5,415**	1,247
	3,303,053	2,305,325	**5,928**	1,626

Notes:

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

(ii) 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.

(d) The carrying amounts of trade, notes and other receivables and deposits approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

25 Bank deposits and cash and cash equivalents

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Bank deposits				
– matured between three to six months	**413,672**	22,158	**–**	–
– restricted bank balances	**–**	20,000	**–**	20,000
	413,672	42,158	**–**	20,000
Cash and cash equivalents				
– cash at bank and in hand	**2,681,196**	2,222,317	**37,124**	25,955
– money market funds	**1,076,456**	732,181	**–**	–
	3,757,652	2,954,498	**37,124**	25,955
	4,171,324	2,996,656	**37,124**	45,955
Maximum exposure to credit risk	**4,171,324**	2,996,656	**37,124**	45,955
Effective annual interest rates	**0%-10.78%**	0%-12.01%	**0%-0.25%**	0%-0.21%

26 Payables

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

	Group	
	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

(b) Notes payable of the Group are mainly repayable within three months.

(c) The carrying amounts of trade payables and notes payable approximate their fair value.

27 Provisions, accruals and other payables

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

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Provisions	**725,062**	311,813	**–**	–
Accruals	**1,146,665**	904,219	**19,628**	18,817
Allowance for billing adjustments	**1,753,910**	1,139,828	**–**	–
Other payables	**3,448,559**	2,744,702	**12,009**	20,502
	7,074,196	5,100,562	**31,637**	39,319

(a) The components of provisions of the Group are as follows:

	Warranty	Restructuring	Environmental restoration	Total
	US$'000	US$'000	US$'000	US$'000
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**
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

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

(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.

(d) The carrying amounts of accruals and other payables approximate their fair value.

28 Bank borrowings

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Term loans (i)	**–**	200,000	**–**	200,000
Short-term loans (ii)	**62,952**	71,561	**–**	–
	62,952	271,561	**–**	200,000

Notes:

(i) Term loans have been settled in March 2012.

(ii) Majority of the short-term loans are denominated in United States dollar.

The exposure of all the bank borrowings of the Group and the Company to interest rate changes and the contractual repricing dates at the end of the reporting period are within one year.

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

Total bank facilities of the Group are as follows:

	Total facilities		Utilized amounts	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Revolving loans	**800,000**	800,000	**–**	–
Term loans	**–**	300,000	**–**	200,000
Short-term loans	**521,000**	475,000	**62,952**	71,561
Foreign exchange contracts	**5,759,000**	4,764,000	**4,720,000**	3,190,000
Other trade finance facilities	**362,000**	331,000	**220,000**	201,000
	7,442,000	6,670,000	**5,002,952**	3,662,561

All the bank borrowings are unsecured and the effective annual interest rates at March 31, 2012 are as follows:

	United States dollar		Other currencies	
	2012	2011	**2012**	2011
Term loans	**–**	3.5%	**–**	–
Short-term loans	**3.5%-5.45%**	1.5%-2.4%	**5%**	1.5%-14.1%

29 Other non-current liabilities

	Group		Company	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
Contingent considerations (Note 37)	**428,915**	–	**256,093**	–
Guaranteed dividend to non-controlling shareholders of Medion (Note)	**31,015**	–	**–**	–
Environmental restoration (Note 27)	**83,876**	11,081	**–**	–
Others	**98,180**	62,895	**725**	–
	641,986	73,976	**256,818**	–

Note:

Following the acquisition of Medion on July 29, 2011 as disclosed in Note 37, 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 for each fiscal year amounting to EUR0.82 per share. 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.

30 Share capital

	2012		2011	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorized:				
At the beginning and 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
Issue of ordinary shares	**338,689,699**	**1,088**	–	–
Conversion from Series A cumulative convertible preferred shares	**–**	**–**	282,263,115	891
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.

(a) Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU is equal to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

30 Share capital *(continued)*

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

Movements in the number of units of award granted during the year and their related weighted average fair values are as follows:

	Number of units	
	SARs	RSUs
Outstanding at April 1, 2010	337,853,379	224,709,428
Granted during the year	69,595,347	61,441,432
Vested during the year	(133,727,293)	(83,219,962)
Lapsed/cancelled during the year	(9,828,947)	(13,100,058)
Outstanding at March 31, 2011	263,892,486	189,830,840
Outstanding at April 1, 2011	**263,892,486**	**189,830,840**
Granted during the year	**65,914,897**	**81,294,699**
Vested during the year	**(119,792,862)**	**(71,466,078)**
Lapsed/cancelled during the year	**(37,920,363)**	**(23,595,385)**
Outstanding at March 31, 2012	**172,094,158**	**176,064,076**
Average fair value per unit (HK$)		
– At March 31, 2011	1.53	3.47
– At March 31, 2012	**3.49**	**4.89**

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended March 31, 2012, the model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 55.23 percent (2011: 64.39 percent), expected dividends during the vesting periods of 1.84 percent (2011: 1.58 percent), contractual life of 4.75 years (2011: 4.75 years), and a risk-free interest rate of 0.57 percent (2011: 1.45 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2012 ranged from 0.08 to 3.92 years (2011: 0.08 to 3.92 years).

(b) Share options

Under the Company's employee share option scheme adopted on January 18, 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent of the issued share capital of the Company from time to time. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the higher of the nominal value of the ordinary shares and an amount which is 80 percent of the average of the closing prices of the listed ordinary shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on April 26, 2002. Despite the fact that no further options may be granted thereunder, all other provisions of the Old Option Scheme will remain in force to govern the exercise of all the options previously granted.

On March 25, 2002, an ordinary resolution approving the adoption of a new share option scheme ("New Option Scheme") was passed by shareholders at an extraordinary general meeting of the Company.

Under the New Option Scheme, the Company may grant options to qualified participants as defined in the New Option Scheme to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent of the issued share capital of the Company as at the date of adoption of the New Option Scheme. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the highest of the closing price of the listed ordinary shares on the date of grant; the average of the closing prices of the listed ordinary shares for the five trading days immediately preceding the date of grant; and the nominal value of the ordinary shares.

30 Share capital *(continued)*

(b) Share options *(continued)*

	2012 Number of outstanding share options	2011 Number of outstanding share options
At the beginning of the year	**139,638,051**	219,926,551
Exercised during the year (ii)	**(31,761,000)**	(52,614,500)
Lapsed during the year (iii)	**(15,216,000)**	(27,674,000)
At the end of the year (iv)	**92,661,051**	139,638,051

(i) No share options were granted or cancelled by the Company during the years ended March 31, 2011 and 2012.

(ii) Details of share options exercised during the year ended March 31, 2012 are as follows:

Exercise date (MM.DD.YYYY)	Exercise price HK$	Market value per ordinary share at exercise date HK$	Number of share options exercised	Gross proceeds received HK$
04.13.2011 to 04.26.2011	**2.245**	**4.46-4.55**	**52,000**	**116,740**
05.23.2011 to 05.23.2011	**2.245**	**4.22-4.22**	**6,000**	**13,470**
06.01.2011 to 06.27.2011	**2.245**	**4.20-4.43**	**102,000**	**228,990**
07.18.2011 to 07.26.2011	**2.245**	**4.68-5.19**	**44,000**	**98,780**
08.01.2011 to 08.31.2011	**2.245**	**4.63-5.22**	**126,000**	**282,870**
09.19.2011 to 09.28.2011	**2.245**	**5.02-5.23**	**42,000**	**94,290**
10.11.2011 to 10.31.2011	**2.245**	**5.23-5.64**	**500,000**	**1,122,500**
11.01.2011 to 11.28.2011	**2.245**	**5.22-5.78**	**314,000**	**704,930**
12.05.2011 to 12.07.2011	**2.245**	**5.49-5.60**	**1,206,000**	**2,707,470**
01.09.2012 to 01.31.2012	**2.245**	**5.81-6.21**	**104,000**	**233,480**
02.01.2012 to 02.29.2012	**2.245**	**6.14-7.18**	**1,597,000**	**3,585,265**
03.01.2012 to 03.30.2012	**2.245**	**6.64-7.31**	**452,000**	**1,014,740**
04.18.2011 to 04.20.2011	**2.435**	**4.43-4.46**	**14,000**	**34,090**
05.04.2011 to 05.31.2011	**2.435**	**4.22-4.58**	**56,000**	**136,360**
06.01.2011 to 06.01.2011	**2.435**	**4.43-4.43**	**36,000**	**87,660**
07.11.2011 to 07.27.2011	**2.435**	**4.70-5.15**	**130,000**	**316,550**
08.02.2011 to 08.31.2011	**2.435**	**4.96-5.22**	**46,000**	**112,010**
09.21.2011 to 09.28.2011	**2.435**	**5.16-5.23**	**166,000**	**404,210**
10.11.2011 to 10.26.2011	**2.435**	**5.27-5.64**	**206,000**	**501,610**
11.01.2011 to 11.29.2011	**2.435**	**5.34-5.78**	**716,000**	**1,743,460**
12.06.2011 to 12.14.2011	**2.435**	**5.48-5.55**	**24,000**	**58,440**
01.10.2012 to 01.31.2012	**2.435**	**5.81-6.21**	**134,000**	**326,290**
02.01.2012 to 02.29.2012	**2.435**	**6.14-7.18**	**1,412,000**	**3,438,220**
03.01.2012 to 03.30.2012	**2.435**	**6.64-7.31**	**664,000**	**1,616,840**
04.06.2011 to 04.27.2011	**2.545**	**4.39-4.57**	**68,000**	**173,060**
05.03.2011 to 05.31.2011	**2.545**	**4.23-4.58**	**610,000**	**1,552,450**
06.01.2011 to 06.28.2011	**2.545**	**4.20-4.43**	**172,000**	**437,740**
07.04.2011 to 07.27.2011	**2.545**	**4.64-5.19**	**150,000**	**381,750**
08.01.2011 to 08.31.2011	**2.545**	**4.86-5.22**	**256,000**	**651,520**
09.05.2011 to 09.21.2011	**2.545**	**4.94-5.16**	**1,142,000**	**2,906,390**
10.10.2011 to 10.31.2011	**2.545**	**5.00-5.64**	**528,000**	**1,343,760**
11.07.2011 to 11.29.2011	**2.545**	**5.22-5.78**	**196,000**	**498,820**
12.05.2011 to 12.14.2011	**2.545**	**5.49-5.60**	**3,334,000**	**8,485,030**
01.09.2012 to 01.18.2012	**2.545**	**5.81-5.99**	**307,000**	**781,315**

30 Share capital *(continued)*

(b) Share options *(continued)*

(ii) Details of share options exercised during the year ended March 31, 2012 are as follows: *(continued)*

Exercise date (MM.DD.YYYY)	**Exercise price HK$**	**Market value per ordinary share at exercise date HK$**	**Number of share options exercised**	**Gross proceeds received HK$**
02.01.2012 to 02.29.2012	**2.545**	**6.14-7.18**	**2,679,000**	**6,818,055**
03.01.2012 to 03.30.2012	**2.545**	**6.64-7.31**	**716,000**	**1,822,220**
04.06.2011 to 04.27.2011	**2.876**	**4.39-4.57**	**74,000**	**212,824**
05.03.2011 to 05.31.2011	**2.876**	**4.23-4.58**	**932,000**	**2,680,432**
06.01.2011 to 06.29.2011	**2.876**	**4.24-4.43**	**820,000**	**2,358,320**
07.04.2011 to 07.27.2011	**2.876**	**4.57-5.19**	**3,208,000**	**9,226,208**
08.01.2011 to 08.30.2011	**2.876**	**4.51-5.15**	**7,420,000**	**21,339,920**
04.06.2011 to 04.07.2011	**4.072**	**4.49-4.52**	**1,000,000**	**4,072,000**
			31,761,000	**84,721,079**
				US$10,889,000

Details of share options exercised during the year ended March 31, 2011 are as follows:

Exercise date (MM.DD.YYYY)	Exercise price HK$	Market value per ordinary share at exercise date HK$	Number of share options exercised	Gross proceeds received HK$
04.07.2010 to 04.26.2010	2.245	5.67-6.20	347,000	779,015
05.12.2010 to 05.25.2010	2.245	4.64-5.34	46,000	103,270
07.05.2010 to 07.21.2010	2.245	4.15-4.91	138,000	309,810
08.03.2010 to 08.24.2010	2.245	4.56-5.24	96,000	215,520
09.13.2010 to 09.21.2010	2.245	4.66-4.87	218,000	489,410
10.25.2010 to 10.27.2010	2.245	5.09-5.33	134,000	300,830
11.03.2010 to 11.22.2010	2.245	5.20-5.54	4,780,000	10,731,100
12.06.2010 to 12.28.2010	2.245	4.97-5.61	1,050,000	2,357,250
01.04.2011 to 01.04.2011	2.245	5.08-5.08	12,000	26,940
02.22.2011 to 02.28.2011	2.245	4.70-4.80	10,000	22,450
03.01.2011 to 03.21.2011	2.245	4.18-4.75	20,000	44,900
04.13.2010 to 04.26.2010	2.435	5.51-6.20	844,000	2,055,140
05.25.2010 to 05.25.2010	2.435	4.64-4.64	6,000	14,610
06.08.2010 to 06.08.2010	2.435	4.36-4.36	2,000	4,870
07.14.2010 to 07.27.2010	2.435	4.55-4.88	84,000	204,540
11.15.2010 to 11.25.2010	2.435	5.30-5.53	158,000	384,730
12.01.2010 to 12.06.2010	2.435	5.27-5.61	240,500	585,618

30 Share capital *(continued)*

(b) Share options *(continued)*

(ii) Details of share options exercised during the year ended March 31, 2011 are as follows: *(continued)*

Exercise date (MM.DD.YYYY)	Exercise price HK$	Market value per ordinary share at exercise date HK$	Number of share options exercised	Gross proceeds received HK$
01.11.2011 to 01.11.2011	2.435	4.68-4.68	10,000	24,350
04.19.2010 to 04.26.2010	2.545	5.64-6.20	904,000	2,300,680
05.04.2010 to 05.25.2010	2.545	4.64-5.84	84,000	213,780
06.22.2010 to 06.29.2010	2.545	4.24-4.63	46,000	117,070
07.05.2010 to 07.20.2010	2.545	4.15-4.77	96,000	244,320
08.03.2010 to 08.18.2010	2.545	4.79-5.24	166,000	422,470
09.20.2010 to 09.20.2010	2.545	4.85-4.85	44,000	111,980
10.26.2010 to 10.27.2010	2.545	5.09-5.31	156,000	397,020
11.01.2010 to 11.22.2010	2.545	5.18-5.54	554,000	1,409,930
12.06.2010 to 12.28.2010	2.545	4.97-5.61	216,000	549,720
01.04.2011 to 01.31.2011	2.545	4.52-5.08	90,000	229,050
02.16.2011 to 02.16.2011	2.545	4.76-4.76	18,000	45,810
03.08.2011 to 03.08.2011	2.545	4.72-4.72	6,000	15,270
04.13.2010 to 04.26.2010	2.876	5.51-6.20	544,000	1,564,544
05.04.2010 to 05.25.2010	2.876	4.64-5.84	92,000	264,592
06.21.2010 to 06.21.2010	2.876	4.44-4.44	32,000	92,032
07.07.2010 to 07.21.2010	2.876	4.40-4.91	56,000	161,056
08.04.2010 to 08.11.2010	2.876	4.66-5.19	28,000	80,528
09.21.2010 to 09.22.2010	2.876	4.81-4.87	1,276,000	3,669,776
10.25.2010 to 10.27.2010	2.876	5.09-5.33	232,000	667,232
11.22.2010 to 11.29.2010	2.876	5.21-5.54	1,698,000	4,883,448
12.06.2010 to 12.28.2010	2.876	4.97-5.61	490,000	1,409,240
01.04.2011 to 01.11.2011	2.876	4.68-5.08	68,000	195,568
02.21.2011 to 02.22.2011	2.876	4.80-4.92	104,000	299,104
03.01.2011 to 03.08.2011	2.876	4.72-4.75	62,000	178,312
08.25.2010 to 08.25.2010	4.072	4.43-4.43	2,188,000	8,909,536
09.06.2010 to 09.22.2010	4.072	4.70-4.81	1,930,000	7,858,960
11.22.2010 to 11.23.2010	4.072	5.35-5.54	2,084,000	8,486,048
12.06.2010 to 12.31.2010	4.072	4.98-5.61	2,608,000	10,619,776
02.21.2011 to 02.21.2011	4.072	4.92-4.92	200,000	814,400
03.23.2011 to 03.29.2011	4.072	4.26-4.48	8,134,000	33,121,648
04.13.2010 to 04.26.2010	4.312	5.51-6.20	2,039,000	8,792,168
05.04.2010 to 05.24.2010	4.312	5.02-5.84	174,000	750,288
06.01.2010 to 06.01.2010	4.312	4.66-4.66	24,000	103,488
07.27.2010 to 07.28.2010	4.312	4.88-4.96	82,000	353,584
08.03.2010 to 08.11.2010	4.312	4.66-5.24	228,000	983,136
09.13.2010 to 09.27.2010	4.312	4.66-4.88	296,710	1,279,414
10.25.2010 to 10.27.2010	4.312	5.09-5.33	1,090,000	4,700,080
11.01.2010 to 11.22.2010	4.312	5.18-5.54	5,193,290	22,393,466
12.06.2010 to 12.21.2010	4.312	4.95-5.61	5,084,000	21,922,208
01.04.2011 to 01.11.2011	4.312	4.68-5.08	6,002,000	25,880,624
			52,614,500	195,145,709
				US$25,116,000

30 Share capital *(continued)*

(b) Share options *(continued)*

(iii) Details of share options lapsed during the years ended March 31, 2012 and 2011 are as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2012 Number of share options lapsed**	2011 Number of share options lapsed
Old Option Scheme			
01.15.2001 to 01.14.2011	4.312	**–**	27,674,000
04.16.2001 to 04.15.2011	4.072	**380,000**	–
08.31.2001 to 08.30.2011	2.876	**14,836,000**	–
		15,216,000	27,674,000

(iv) Details of share options at the balance sheet date are as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2012 Number of outstanding share options**	2011 Number of outstanding share options
Old Option Scheme			
04.16.2001 to 04.15.2011	4.072	**–**	1,380,000
08.31.2001 to 08.30.2011	2.876	**–**	27,290,000
		–	28,670,000
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	**13,426,000**	17,030,000
04.26.2003 to 04.25.2013	2.245	**21,856,000**	26,401,000
04.27.2004 to 04.26.2014	2.545	**57,379,051**	67,537,051
		92,661,051	110,968,051
		92,661,051	139,638,051

31 Share premium and reserves – Company

The changes in the share premium and reserves of the Company during the years ended March 31, 2012 and 2011 are as follows:

	Share premium US$'000	Convertible rights in respect of convertible preferred shares and warrants US$'000	Exchange reserve US$'000	Share redemption reserve US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At April 1, 2011	**1,377,529**	**–**	**4,259**	**1,003**	**63,280**	**(1,033)**	**3,570**	**423,131**	**1,871,739**
Interest rate swap contracts									
– Fair value loss, net of taxes	**–**	**–**	**–**	**–**	**–**	**(745)**	**–**	**–**	**(745)**
– Reclassified to income statement	**–**	**–**	**–**	**–**	**–**	**1,778**	**–**	**–**	**1,778**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75,188)**	**(75,188)**
Currency translation differences	**–**	**–**	**4,697**	**–**	**–**	**–**	**–**	**–**	**4,697**
Consideration for acquisition	**–**	**–**	**–**	**–**	**–**	**–**	**36,555**	**–**	**36,555**
Issue of ordinary shares	**196,206**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**196,206**
Exercise of share options	**10,787**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,787**
Vesting of shares under long-term incentive program	**–**	**–**	**–**	**–**	**(76,620)**	**–**	**–**	**–**	**(76,620)**
Share-based compensation	**–**	**–**	**–**	**–**	**66,418**	**–**	**–**	**–**	**66,418**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(116,144)**	**(116,144)**
At March 31, 2012	**1,584,522**	**–**	**8,956**	**1,003**	**53,078**	**–**	**40,125**	**231,799**	**1,919,483**
At April 1, 2010	1,341,118	2,836	9,522	497	76,054	(3,398)	3,570	570,311	2,000,510
Interest rate swap contracts									
– Fair value loss, net of taxes	–	–	–	–	–	(3,668)	–	–	(3,668)
– Reclassified to income statement	–	–	–	–	–	6,033	–	–	6,033
Loss for the year	–	–	–	–	–	–	–	(57,474)	(57,474)
Currency translation differences	–	–	(5,263)	–	–	–	–	–	(5,263)
Conversion of Series A cumulative convertible preferred shares	98,073	(2,836)	–	–	–	–	–	–	95,237
Exercise of share options	24,948	–	–	–	–	–	–	–	24,948
Repurchase of shares	(86,610)	–	–	506	–	–	–	–	(86,104)
Vesting of shares under long-term incentive program	–	–	–	–	(54,149)	–	–	–	(54,149)
Share-based compensation	–	–	–	–	41,375	–	–	–	41,375
Dividends paid	–	–	–	–	–	–	–	(89,706)	(89,706)
At March 31, 2011	1,377,529	–	4,259	1,003	63,280	(1,033)	3,570	423,131	1,871,739

32 Significant related party transactions

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2012 US$'000	2011 US$'000
閃聯信息技術工程中心有限公司		
(IGRS Engineering Lab Limited) (an associate)		
– Purchase of goods	**6,197**	815
北京聯想利泰軟件有限公司		
(Beijing Legendsoft International Technology Company Limited) (an associate)		
– Sales of goods	**–**	60
– Purchase of goods	**81**	281
– Service income	**856**	2,024
北京聯想調頻科技有限公司		
(Beijing Legend Tiaopin Technology Limited) (a subsidiary of a substantial shareholder of the Company)		
– Purchase of goods	**515**	1,148
– Service income	**142**	102

Note: The English name of each company is a direct translation of its Chinese registered name.

(b) Key management compensation

Details on key management compensation are set out in Note 11.

33 Commitments

(a) Commitments to establish a joint venture company

On September 26, 2011, the Company entered into a joint venture agreement ("JV Agreement") with Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts. Pursuant to the JV Agreement, the Company and Compal will make capital contributions in cash totaling US$300 million in two phases in accordance with their ownerships of 51% and 49% respectively. Subsequent to the balance sheet date on April 10, 2012, US$100 million in respect of the first phase has been contributed into the JV Co by both joint venturers in accordance with their respective equity interests.

Pursuant to the JV Agreement, 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 put and call options will be determined in accordance with the JV Agreement. The maximum exercise price of the put option is US$750 million.

(b) Capital commitments

Apart from the disclosure in Note 33(a) above, at March 31, 2012, the Group had the following other capital commitments:

	2012 US$'000	2011 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**49,960**	4,662
– Intangible assets	**–**	8,525
– IT consulting services	**2,992**	–
	52,952	13,187
Authorized but not contracted for:		
– Property, plant and equipment	**35,214**	22,782

At March 31, 2012, the Company did not have any capital commitments (2011: Nil) other than as disclosed in Note 33(a) above.

33 Commitments *(continued)*

(c) Commitments under operating leases

The future aggregate minimum lease payments in respect of land and buildings under non-cancelable operating leases of the Group are as follows:

	2012 US$'000	2011 US$'000
Not later than one year	**51,473**	36,267
Later than one year but not later than five years	**95,452**	94,409
Later than five years	**38,056**	44,268
	184,981	174,944

At March 31, 2012, the Company did not have any operating lease commitments (2011: Nil).

34 Contingent liabilities

(a) 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.

(b) The Company has executed guarantees with respect to bank facilities made available to its subsidiaries. At March 31, 2012, such facilities granted and utilized amounted to approximately US$2,985,823,000 and US$1,414,442,000 (2011: US$2,146,903,000 and US$1,249,895,000) respectively.

35 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash generated from operations

	2012 US$'000	2011 US$'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

35 Notes to the consolidated cash flow statement *(continued)*

(b) Changes in bank borrowings

	2012 US$'000	2011 US$'000
Change in short-term bank loans	**(11,726)**	6,855
Repayment of term loans	**(200,000)**	(230,000)
	(211,726)	(223,145)

36 Retirement benefit obligations

	Group	
	2012 US$'000	2011 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**191,413**	63,120
Post-employment medical benefits	**13,405**	11,750
	204,818	74,870
Expensed in income statement		
Pension benefits (Note 10)	**18,350**	9,878
Post-employment medical benefits	**1,333**	1,106
	19,683	10,984
Net actuarial loss recognized as a component of other comprehensive income for the year	**37,537**	7,190
Cumulative actuarial losses recognized as a component of other comprehensive income	**48,542**	11,005

On the acquisition of the personal computer business of IBM, the Group assumed a cash balance pension liability for substantially all former IBM employees in Japan, and final salary defined benefit obligations for selected employees in other countries.

In the United States, the Group operates a final-salary pension plan that covers approximately 20% of all employees. These were former participants in the IBM US pension plan. In addition, the Group operates a supplemental defined benefit plan that covers certain executives transferred from IBM and is intended to provide benefits in excess of certain US tax and labor law limits that apply to the pension plan. Both plans are frozen to new participation. However, benefits continue to accrue.

In Germany, the Group operates a sectionalized plan that has both defined contribution and defined benefit features, including benefits based on a final pay formula. This plan is closed to new entrants.

During the year, the Group completed two business combination activities as detailed in Note 37. Upon completion, the Group assumed the cash balance pension liability and end-of-employment benefit obligation for all employees from the then NEC personal computer division and pension commitment for the two Medion's management board members.

For Medion, each Medion's management board member is entitled to a lifelong pension upon leaving Medion after turning 60 or due to prolonged disability and consequently termination of the employment relationship with Medion. The pension liability in Medion is unfunded.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period they arise.

36 Retirement benefit obligations *(continued)*

(a) Pension benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2012 **US$'000**	2011 US$'000
Present value of funded obligations	**329,335**	228,275
Fair value of plan assets	**(224,497)**	(174,241)
Deficit of funded plans	**104,838**	54,034
Present value of unfunded obligations	**86,575**	9,086
Liability in the balance sheet	**191,413**	63,120
Representing:		
Pension benefits obligation	**192,461**	64,362
Pension plan assets	**(1,048)**	(1,242)
	191,413	63,120

The principal actuarial assumptions used are as follows:

	2012	2011
Discount rate	**2%-3.25%**	2.25%-5.0%
Expected return on plan assets	**2%-3.25%**	0%-5%
Future salary increases	**2%-5%**	2.2%-3.5%
Future pension increases	**0%-1.75%**	0%-1.75%
Cash balance crediting rate	**2.4%-2.5%**	2.5%
Life expectancy for male aged 60	**23**	23
Life expectancy for female aged 60	**27**	27

The expected return on plan assets is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at the balance sheet date.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates has no effect on the liabilities for post-employment medical benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2012 **US$'000**	2011 US$'000
Present value of funded obligations	**18,111**	17,037
Fair value of plan assets	**(6,445)**	(6,562)
	11,666	10,475
Present value of unfunded obligations	**1,739**	1,275
Liability in the balance sheet	**13,405**	11,750

36 Retirement benefit obligations *(continued)*

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	Pension		Medical	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Equities	**3,256**	12,613	**–**	–
Bonds	**83,503**	81,661	**–**	–
Others	**137,738**	79,967	**6,445**	6,562
Total	**224,497**	174,241	**6,445**	6,562

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Opening fair value	**174,241**	151,081	**6,562**	7,618
Exchange adjustment	**(2,846)**	4,491	**169**	(810)
Expected return on plan assets	**6,548**	5,197	**202**	179
Actuarial losses	**(1,622)**	(3,511)	**(164)**	(131)
Contributions by the employer	**28,093**	23,367	**44**	30
Contributions by plan participants	**191**	165	**–**	–
Benefits paid	**(5,226)**	(6,549)	**(368)**	(324)
Acquisition of subsidiaries	**25,118**	–	**–**	–
Closing fair value	**224,497**	174,241	**6,445**	6,562
Actual return on plan assets	**26,471**	1,686	**(120)**	48

Contributions of US$17,599,000 are estimated to be made for the year ending March 31, 2013, excluding amounts due to be transferred from IBM plans.

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Opening defined benefit obligation	**237,361**	221,316	**18,312**	18,250
Exchange adjustment	**(3,236)**	3,918	**57**	(766)
Current service cost	**14,296**	7,655	**577**	551
Past service cost	**(9)**	14	**–**	–
Interest cost	**10,611**	7,406	**958**	828
Actuarial losses/(gains)	**35,385**	3,681	**366**	(133)
Contributions by plan participants	**191**	165	**–**	–
Benefits paid	**(5,665)**	(6,794)	**(420)**	(324)
Curtailments	**–**	–	**–**	(94)
Acquisition of subsidiaries	**126,976**	–	**–**	–
Closing defined benefit obligation	**415,910**	237,361	**19,850**	18,312

During the year, benefits of US$439,000 were paid directly by the Group (2011: US$245,000).

36 Retirement benefit obligations *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Summary of pensions and post-retirement medical benefits of the Group:

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Present value of defined benefit obligations	**435,760**	255,673	239,566	210,613	220,650
Fair value of plan assets	**230,942**	180,803	158,699	142,613	135,160
Deficit	**204,818**	74,870	80,867	68,000	85,490
Actuarial losses/(gains) arising on plan assets	**1,786**	3,642	(386)	6,023	(11,384)
Actuarial losses/(gains) arising on plan liabilities	**35,751**	3,548	11,226	(13,048)	10,081
	37,537	7,190	10,840	(7,025)	(1,303)

The amounts recognized in the consolidated income statement are as follows:

	Pension		**Medical**	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Current service cost	**14,296**	7,655	**577**	551
Past service cost	**(9)**	14	**–**	–
Interest cost	**10,611**	7,406	**958**	828
Expected return on plan assets	**(6,548)**	(5,197)	**(202)**	(179)
Curtailment losses	**–**	–	**–**	(94)
Total expense recognized in the consolidated income statement	**18,350**	9,878	**1,333**	1,106

(d) The Company does not have any pension plan or post-employment medical benefits plan.

37 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.

37 Business combinations *(continued)*

(a) 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 (i)	160,730	73,119	233,849
– Present value of contingent considerations (ii)	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 17(c))	548,742	178,616	727,358

(i) 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 (Note 31) 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.

(ii) The contingent consideration arrangements require the Group to pay in cash the respective former shareholders of NEC JV and Medion with reference to certain performance indicators. The potential undiscounted amounts of all future payments that the Group could be required to make under the arrangements of NEC JV and Medion are between US$0 and US$325 million and between EUR89 million and EUR372 million respectively.

The present value of contingent considerations is included in other non-current liabilities in the balance sheet (Note 29).

(b) 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 Combination".

Acquisition-related costs incurred in connection with these business combination activities of approximately US$12 million and US$11 million have been recognized as administrative expenses in the consolidated income statement for the years ended March 31, 2011 and 2012 respectively.

The Group recognizes Medion's non-controlling interests at their proportionate share of Medion's net assets.

37 Business combinations *(continued)*

(c) Net cash outflow from acquisitions of subsidiaries

	US$'000
Purchase consideration settled in cash	537,612
Less: Cash and cash equivalents in subsidiaries acquired	(365,296)
Acquisition of subsidiaries, net of cash acquired	172,316

(d) Impact of acquisitions on the results of the Group

The aggregated revenue of newly acquired businesses included in the consolidated income statement since their respective dates of acquisition and up to March 31, 2012 were US$3,421 million. The newly acquired businesses also contributed an aggregated profit before taxation of US$101 million over the same period.

Had both newly acquired businesses been consolidated from April 1, 2011, the beginning of the financial year, the consolidated income statement would show revenue of US$30,163 million and profit before taxation of US$587 million.

38 Principal subsidiaries

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2012	2011	Principal activities
Held directly:					
聯想（北京）有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想（上海）有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services
Held indirectly:					
Lenovo (Asia Pacific) Limited	Hong Kong	HK$1,225,130,735	**100%**	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD36,272,716	**100%**	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR252,619,458.46	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	**100%**	100%	Distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2012	2011	Principal activities
聯想（成都）有限公司 (Lenovo (Chengdu) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB12,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	**100%**	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	**100%**	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	**100%**	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	**100%**	100%	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$23,640,611	**100%**	100%	Distribution of IT products
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$31,955,500	**100%**	100%	Manufacturing of IT products
Lenovo (India) Private Limited	India	INR2,152,921,514	**100%**	100%	Manufacturing and distribution of IT products
聯想信息產品（深圳）有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$80,000,000	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (International) B.V.	Netherlands	EUR20,000	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Israel) Ltd	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY300,000,000	**51%**	100%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN101,158,469	**100%**	100%	Distribution of IT products
Lenovo Mobile Communication Technology (HK) Limited	Hong Kong	US$1,000,000	**100%**	100%	Trading of mobile phone accessories
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
Lenovo PC HK Limited	Hong Kong	HK$2 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2012	Percentage of issued capital held 2011	Principal activities
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	**100%**	100%	Distribution of IT products
聯想（瀋陽）有限公司 (Lenovo (Shenyang) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,512,143,043	**100%**	100%	Procurement agency, group treasury, supply chain management, intellectual property rights management and distribution of IT products
Lenovo (South Africa) (Pty) Limited	South Africa	ZAR100	**100%**	100%	Distribution of IT products
Lenovo (Spain), SRL	Spain	EUR108,182	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,000	**100%**	100%	Distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,507	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Distribution of IT products
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL595,727,598	**100%**	100%	Manufacturing and Distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB50,000,000	**100%**	100%	Distribution of IT products
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	**100%**	100%	Distribution of IT products
聯想（武漢）有限公司 (Lenovo (Wuhan) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
聯想（西安）有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2012	2011	
Medion AG	Germany	EUR48,418,400	**61.48%**	–	Retail and service business for consumer electronic products
NEC Personal Computers, Ltd.	Japan	JPY5,000,000,000	**51%**	–	Manufacturing and distribution of IT products
陽光雨露信息技術服務(北京)有限公司 Sunny Information Technology Service. Inc.[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB20,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these subsidiaries for the years ended March 31, 2011 and 2012 have been used.

(iii) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

39 Approval of financial statements

The financial statements were approved by the board of directors on May 23, 2012.

FIVE-YEAR FINANCIAL SUMMARY

Consolidated income statement

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Revenue	**29,574,438**	21,594,371	16,604,815	14,900,931	16,787,872
Profit/(loss) before taxation	**582,443**	357,751	176,303	(187,945)	534,685
Taxation	**(107,027)**	(84,515)	(46,935)	(38,444)	(49,528)
Profit/(loss) for the year	**475,416**	273,236	129,368	(226,389)	485,157
Profit/(loss) attributable to:					
Equity holders of the Company	**472,992**	273,234	129,368	(226,392)	484,263
Non-controlling interests	**2,424**	2	–	3	894
	475,416	273,236	129,368	(226,389)	485,157
Earnings/(loss) per share					
Basic (US cents)	**4.67**	2.84	1.42	(2.56)	5.51
Diluted (US cents)	**4.57**	2.73	1.33	(2.56)	5.06

Consolidated balance sheet

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Non-current assets	**4,040,348**	2,769,476	2,720,315	2,520,946	2,494,481
Current assets	**11,820,400**	7,936,463	6,235,613	4,100,717	5,044,840
Total assets	**15,860,748**	10,705,939	8,955,928	6,621,663	7,539,321
Non-current liabilities	**1,603,102**	838,386	930,557	844,221	1,098,123
Current liabilities	**11,809,677**	8,032,653	6,419,353	4,466,527	4,827,935
Total liabilities	**13,412,779**	8,871,039	7,349,910	5,310,748	5,926,058
Net assets	**2,447,969**	1,834,900	1,606,018	1,310,915	1,613,263

CORPORATE INFORMATION

HONORARY CHAIRMAN

Mr. Liu Chuanzhi

BOARD OF DIRECTORS

Chairman and executive director

Mr. Yang Yuanqing

Non-executive directors

Mr. Zhu Linan
Ms. Ma Xuezheng
Dr. Wu Yibing
Mr. Zhao John Huan

Independent non-executive directors

Professor Woo Chia-Wei
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe

CHIEF FINANCIAL OFFICER

Mr. Wong Wai Ming

COMPANY SECRETARY

Mr. Mok Chung Fu

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