lenovo FOR THOSE WHO DO.™

TRANSFORMING LENOVO FOR THE PC+ ERA

DO

2012/13 Annual Report Lenovo Group Limited

Stock Code 992

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$34 billion personal technology company – one of the top two PC makers in the world and an emerging PC Plus leader – serving customers in more than 160 countries. Dedicated to 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 smart phones. Lenovo, a global Fortune 500 company, has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina.

CONTENTS

DO TOGETHER

Horizon is more than the world's first table PC. With its unique multi-touch capabilities, Horizon brings people together. That makes Horizon more than a new category: it's a family fun center.

IdeaCentre Horizon

FINANCIAL HIGHLIGHTS

For the year ended March 31	**2013 US$ million**	2012 US$ million	Year-on-year Change
Group Results			
Revenue	**33,873**	29,574	15%
Gross profit	**4,073**	3,446	18%
Gross profit margin (%)	**12.0**	11.7	0.3 pt
Operating expenses	**(3,273)**	(2,862)	14%
Expense-to-revenue ratio (%)	**9.7**	9.7	Nil
EBITDA[1]	**1,067**	821	30%
Pre-tax income	**801**	582	38%
Pre-tax income margin (%)	**2.4**	2.0	0.4 pt
Profit attributable to equity holders of the Company	**635**	473	34%
EPS – basic (US cents)	**6.16**	4.67	1.49
EPS – diluted (US cents)	**6.07**	4.57	1.50
Interim dividend per share (HK cents)	**4.5**	3.8	0.7
Final dividend per share (HK cents)[2]	**14.0**	10.0	4.0
Total dividend per share (HK cents)	**18.5**	13.8	4.7
Cash and Working Capital			
Bank deposits and cash and cash equivalents	**3,573**	4,171	(14%)
Total bank borrowings	**(479)**	(63)	660%
Net cash reserves	**3,094**	4,108	(25%)
Cash conversion cycle (day)	**(8)**	(19)	11

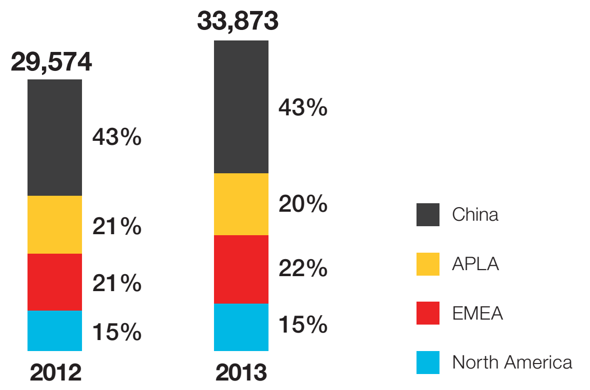
Notes:

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

[2] Subject to shareholders' approval at the forthcoming annual general meeting.

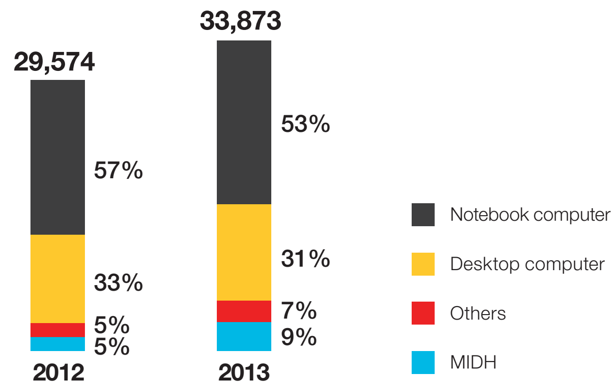
Revenue Analysis by Geography

for the year ended March 31 (US$ million)



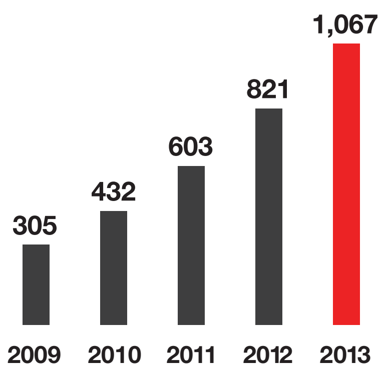
Revenue Analysis by Product

for the year ended March 31 (US$ million)



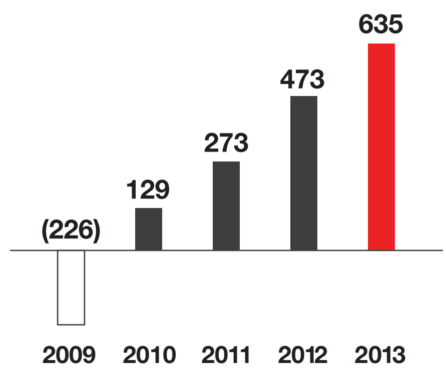
EBITDA[1]

for the year ended March 31 (US$ million)



(Loss)/Profit Attributable to Equity Holders of the Company

for the year ended March 31 (US$ million)



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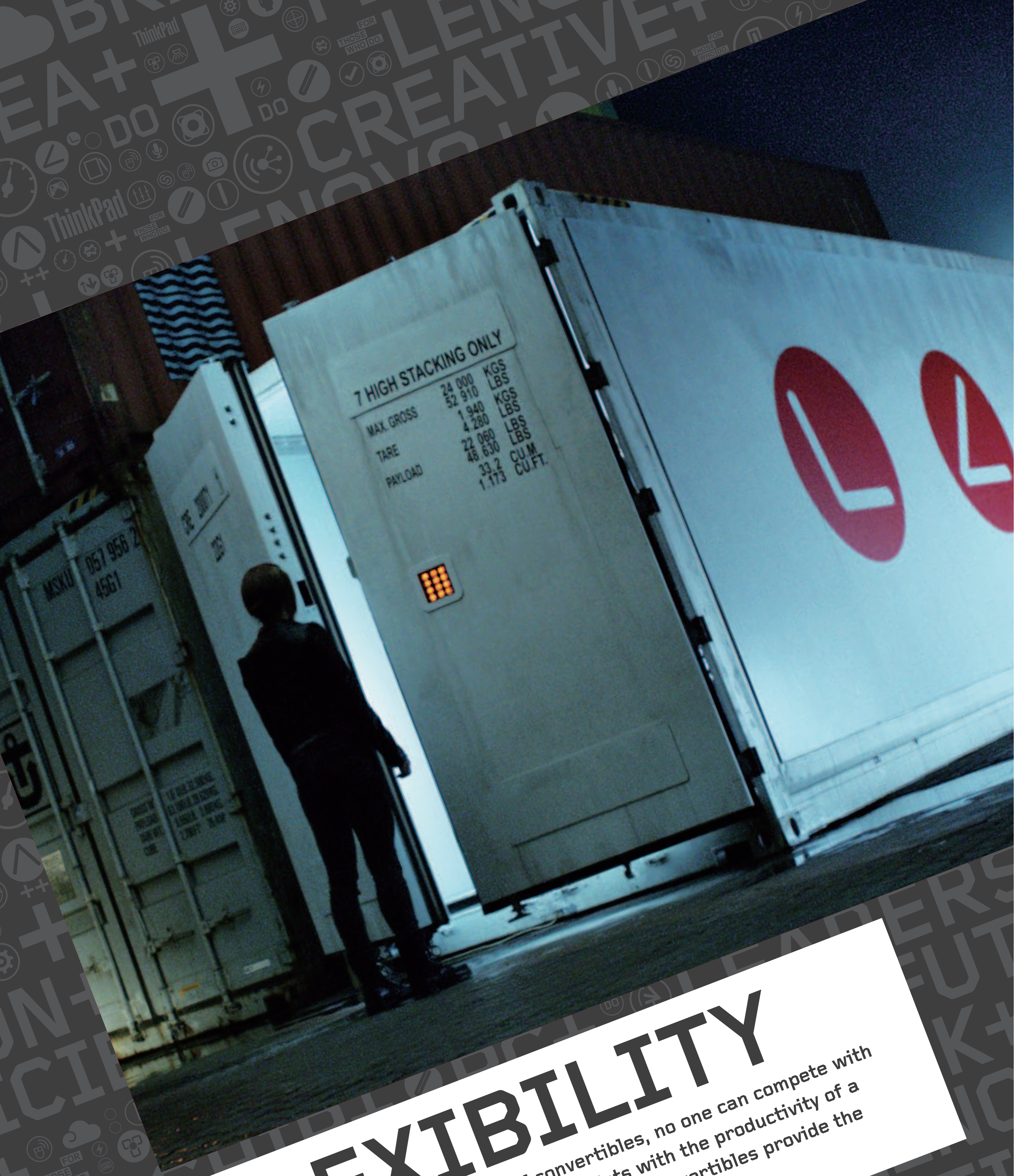


DO FLEXIBILITY

When it comes to the flexibility of convertibles, no one can compete with Lenovo. Combining the portability of tablets with the productivity of a PC, Yoga, Helix and Lenovo's entire family of convertibles provide the computing device you need whenever you want it.

ThinkPad Helix

IdeaPad Yoga 11s

CHAIRMAN AND CEO STATEMENT

"WE WILL ACCELERATE OUR TRANSFORMATION AND BECOME NOT JUST A PC MARKET SHARE LEADER, BUT A GLOBAL PC+ INNOVATION LEADER"

The past fiscal year saw the global PC industry enter an unprecedented phase of transformation, with rapid growth in new sectors like mobile and cloud computing and intense competition in traditional segments of our industry like consumer and commercial PCs. Yet despite the rapid changes and challenging conditions we face, Lenovo delivered a year of historic milestones and outstanding performance. Even more, we are in an incredibly strong position not to simply navigate through a period of transformation, but rather to lead our industry into its next era – the PC+ era.

A YEAR OF MILESTONES

As a result, during this past fiscal year, we achieved numerous milestones in our PC business. Our impressive achievements include:

- Lenovo's worldwide market share reached an all-time high for the fourth straight year. We were the fastest growing major PC company every quarter this year thanks to a strong, balanced performance that includes gaining share in every geography and segment, and setting records around the world.
  - In China, we again set a market share record as we further solidified our leading position in the world's largest PC market.
  - We strengthened our position as the leader in global emerging markets, reaching number one in PCs in major markets like India and Russia during the year while making great strides forward in high-growth regions like Brazil, Latin America and ASEAN.
  - We became or maintained our position as the number 1 PC company in key mature markets like Japan and Germany, while setting a PC share record in the United States. This success was fueled not only by our historically strong commercial business, but also by significant expansion in our consumer business, driven by innovative product launches, brand building and improvements in our retail position.
- We set all-time records for unit shipments and sales, with sales surpassing $33 billion.

- We reached an all-time record for profitability, surpassing $800 million for the fiscal year. Not only was our commercial PC business profitable, but most of our regions delivered profitable PC growth throughout the year.
- We announced the construction of a manufacturing line in the U.S. to build Think branded PC products, becoming the first PC company to build its own products in the U.S. in more than a decade and leading other players to follow in our footsteps and expand manufacturing in the U.S. as well.
- We proved our ability to not only be a market share leader, but also an innovation leader, delivering a record 53 awards at the Consumer Electronics Show – the world's largest and most prestigious technology trade event. This success also helped drive our brand to new heights. For the first time, Lenovo was listed among the world's most powerful brands by Fortune magazine.

PROGRESS IN OUR PC+ EVOLUTION

Even more, as the market has changed, Lenovo has also transformed itself for the PC+ era. Already, we are number 3 worldwide in PC+, which includes PCs, smartphones and tablets. We will continue to invest for growth in PC+, but we have already made great early progress. Key achievements include:

- Overall, our Mobile Internet Digital Home (MIDH) Group continued its rapid growth, and now accounts for 9% of our overall revenue only 2 years after being started.
- Smartphone sales surged in China, as Lenovo became number 2 in the world's biggest smartphone market.
- On the strength of China and successful launches in new markets like India, the Philippines, Vietnam, Indonesia and Russia, Lenovo continue to build momentum as a global smartphone leader.
- Our global tablet sales rose by 74%. Tablets are a significant growth driver in our industry, and we have established a strong foundation to build on in the next year.
- Lenovo completed several key M&A activities: CCE in Brazil, for consumer technology products; EMC in the U.S. in servers and storage; and Stoneware in the U.S. in cloud computing. Each of these successful transactions will help position us for continued growth in the PC+ market.
- We continued to drive our unique hybrid manufacturing strategy and invest in vertical integration – especially with new facilities in Brazil and our new mobile device-focused plant in Wuhan, China. These investments will help us drive not only efficiency, but also outstanding product development across the PC+ spectrum of products.

FOUNDATION OF OUR SUCCESS

Our strong performance, in both our core PC business and our fast growing PC+ businesses, was driven by the following key factors:

- **A clear strategy that balances delivering strong short-term results with reaching long-term objectives:** We continued to protect our core markets in China and global commercial PC sales, while attacking to gain share in emerging markets, consumer sales and mobile internet device sales. For the first time, our attack businesses – like mobile, consumer and emerging markets – delivered about half of our total revenue and these businesses also delivered improved profitability in almost every segment. This clear strategy drove strong execution worldwide.

- **Our commitment to and investment in innovation that differentiates our products.** Lenovo's investments in innovations continued to pay off, both in PCs and in PC+ products. These innovations lead to differentiation that is embraced by customers. For example, Lenovo was the clear leader in defining the new "convertible" PC space. Products like Yoga showcased innovation in combining the best of PC and tablet form factors to capitalize on the launch of Windows 8. We also created a new category with our Horizon table PC. This not only captured attention and many prestigious awards, but it demonstrates our ability to drive significant innovation in PCs and create new markets where we can generate growth and establish a leadership position.
- **Our efficient, end-to-end business model.** Lenovo has a unique, dual-business model, one that serves global, large enterprise customers through our relationship model and small-to-medium businesses and consumers through our transaction model. This helps us meet the unique needs of both audiences – emphasizing customization and premium quality in relationship, while delivering speed, competitive pricing and a balance of innovation and efficiency in transactional businesses.
- **A strong, diverse global team** that harnesses the top talents at both a worldwide level and in key markets helps us ensure we have a clear, deep understanding of our industry and our customers. While incredibly diverse, this "global-local" team is united by our Lenovo Way culture of commitment and ownership. This shared set of values helps us operate with even greater speed, creating a clear competitive advantage.

LEADING IN THE PC+ AGE

These have been our core strengths since we successfully recovered from the 2009 economic downturn. And they will remain our foundation as we embrace the new challenges of the PC+ era. In fact, we have been preparing for this transformation for years.

Investments in our Mobile Internet and Digital Home division over the past 2 years helped us quickly capture smartphone opportunities in China and prepared us to expand into many more markets this year.

Our long-term commitment to R&T readied us to excel with new form factors and new innovations. In fact, Lenovo first created the concept of the hybrid PC in 2010 – before any company had a significant tablet product on the market. As a result, we were ready to take the lead in the development of the new generation of convertible products that take advantage of touch, long battery life and increased use of cloud computing and high speed connectivity.

Our organizational structure is designed to help us become faster, more efficient, more innovative and more capable of deeply implementing our strategy in every key market. This year, we will operate with a refined front end structure that brings North America and Latin America together to improve efficiency and better leverage synergies between these regions, while maintaining the rest of our sales structure. More important, we have also created two groups – Think Business Group and Lenovo Business Group – to further enhance the speed, efficiency and responsiveness of our end-to-end product development. The Lenovo Business Group will focus on transactional to mainstream PCs and maintain our momentum in smartphones and mobile devices. The Think Business Group will focus on premium products as well as enterprise services (like servers and storage). It will also focus on extending Think branded PCs from the global leader in the commercial space to a respected premium PC brand for consumers.

ThinkPad Twist

These organizations will be supported by a lean, efficient integrated operations team that will continue to drive **speed and efficiency in our end-to-end business model**, particularly by executing our vertical integration strategy. This means enhancing our in-house manufacturing capability, building closer partnerships with strategic suppliers and partners, and ensuring Lenovo continues to improve in core metrics like perfect order fulfillment, cost per box and overall customer satisfaction.

With this structure, we will focus on the key to success in the PC+ era: **differentiation through innovation**. Lenovo has the gene of innovation. Our global Innovation Triangle – in the U.S., China and Japan – is capable of creating new markets with ground-breaking ideas. We will deliver 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.

And we will continue to **invest in our "For Those Who Do" brand 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. Already, our brand has reached new heights, but in the coming year we must truly establish ourselves as a global consumer and commercial brand of choice in the PC+ space.

Lenovo's accomplishments in the last year have put us in position to become the leading PC company in the world. But that distinction is just another milestone on our longer journey. Today, we are more prepared than ever for the challenges ahead. This year, we will accelerate our transformation and become not just a PC market share leader, but a global PC+ innovation leader that is respected around the world and prepared to win for many years to come. I have great confidence in our strategy and our team, and believe we are well positioned to continue to grow and thrive in the years ahead.

Yang Yuanqing
Chairman and Chief Executive Officer

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
Think Business Group

GIANFRANCO LANCI
Senior Vice President and
President of EMEA

LIU JUN
Senior Vice President and
President of Lenovo Business
Group

QIAO JIAN
Senior Vice President,
Human Resources

GERRY P. SMITH
Senior Vice President and
President of Americas

MILKO VAN DUIJL
Senior Vice President and
President of Asia Pacific

WONG WAI MING
Senior Vice President and
Chief Financial Officer

DO ANYTHING

Lenovo tablets combine powerful performance with thin, light, mobile devices that are reliable and secure. Add all-day battery life, and these tablets not only do anything you need, but go wherever you go.

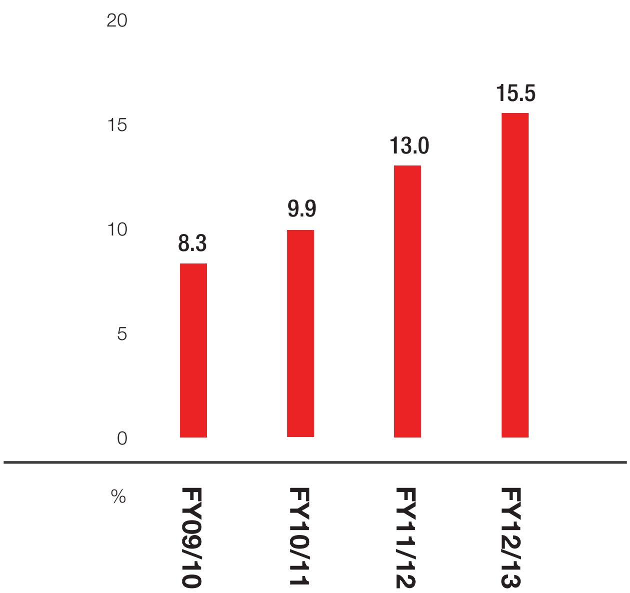
ThinkPad Tablet 2


THINK+
INNOVATION+
EFFICIENCY+
ideapad
DO
FOR THOSE WHO DO
PC+
lenovo
ThinkPad

BUSINESS REVIEW

FISCAL YEAR 2012/13 WAS A YEAR OF SUCCESS FOR LENOVO. LENOVO'S SOLID EXECUTION OF ITS PC+ STRATEGY HAS LED THE GROUP TO ACHIEVE INITIAL SUCCESS IN TRANSFORMING INTO A LEADING PC+ COMPANY. THAT FUELED ITS STRONG PROFIT GROWTH AND WIDE RANGE OF RECORD ACHIEVEMENTS.

Lenovo WW PC Market Share (%)



Fiscal year 2012/13 was a year of success for Lenovo. Lenovo's solid execution of its PC+ strategy has led the Group to achieve initial success in transforming into a leading PC+ company. That fueled its strong profit growth and wide range of record achievements. During the year under review, Lenovo achieved the number three position for the first time in the global smart connected device category, riding on strong growth of its dual engines of PC and MIDH businesses.

The Group's PC business continued to achieve strong performance across the board, outperforming the markets in all geographic segments, as well as in all product and customer segments, and delivering profitable growth. Lenovo sustained its position as the world's number two PC maker in fiscal year 2012/13 and continued to close the gap with the industry leader. Lenovo has been the fastest growing PC company among top four for the past 14 consecutive quarters, and outperformed the global PC market for 16 consecutive quarters. Lenovo has sustained its position as the second largest commercial PC company and become the second largest consumer PC company in the world for the fiscal year, and continued to be the largest PC company in emerging markets including China. According to the preliminary industry estimate, the Group's global market share grew 2.6 percentage points year-on-year to record-high 15.5 percent, with strong PC shipments growth of 10 percent year-on-year to record-high 52.4 million units. During the year under review, the worldwide PC market declined 8 percent year-on-year due to slow economic conditions and product transition, but Lenovo grew in spite of these challenges in the worldwide PC market.

Further to its strong performance in the PC market, the Mobile Internet and Digital Home (MIDH) Group has become another key, fast growing business and continued to deliver strong growth with improving profitability. The strong performance in MIDH has bolstered the Group's overall performance, providing balanced growth with the Group's PC business. The Group's smartphone business recorded unit shipments growth more than 3 times higher year-on-year during the year under review, and achieved the number two ranking in China, according to preliminary industry estimates. The Group's China smartphone business reached critical scale and turned profitable for the first time in the quarter ending in December as well as the subsequent quarter. In addition, Lenovo launched its smartphones in several new important markets outside China, including India, Indonesia, the Philippines, Russia and Vietnam and the initial market responses have been encouraging. The Group's media tablet business also continued to show encouraging development, with shipments growing 74 percent year-on-year and sustained its number two position in China.

During the year under review, the Group completed the business combination of EMC Joint Venture and the acquisition of CCE and Stoneware in the end of December, 2012 and January, 2013, respectively. Each of these successful transactions will help to enhance Lenovo's products and services to its global customers and contribute to our PC+ strategy.

For the fiscal year ended March 31, 2013, the Group's consolidated revenue increased by 15 percent year-on-year to record-high US$33,873 million. Under personal technology products and services, revenue of the Group's PC and related business were US$29,749 million, representing a year-on-year increase of 9 percent; whilst the revenue of MIDH business, which was largely from smartphone revenue in China, increased 105 percent year-on-year to US$3,039 million. Meanwhile, revenue of other goods and services were US$1,085 million.

The Group's gross profit increased by 18 percent year-on-year to US$4,074 million and gross margin increased from 11.7 percent in the previous fiscal year to 12.0 percent, driven by effective margin management, scaling benefits from growth in shipments and stringent cost controls.

Operating expenses increased by 14 percent year-on-year to US$3,274 million, with an expenses-to-revenue ratio of 9.7 percent. The Group continued to leverage scaling benefits from strong shipment growth, even while continuing to investment in product innovation, branding, MIDH business and emerging markets, to drive long-term sustainable growth and better profitability. This resulted in a flat expenses-to-revenue ratio compared to last year. The Group achieved a record-high profit before taxation of US$801 million and profit attributable to equity holders of the company amounted US$635 million, representing an increase of 38 percent and 34 percent, respectively, from the previous fiscal year.

PERFORMANCE OF GEOGRAPHIES

During the year ended March 31, 2013, Lenovo achieved strong performance in all geographies where it has operations, gaining PC market share across the board in China, EMEA, NA and Asia Pacific Latin America (APLA) markets. The Group achieved record high PC market share in China, EMEA, NA and APLA.

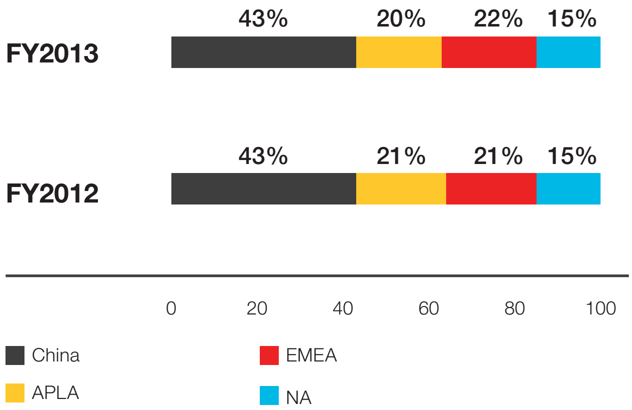
Lenovo ranked number one in two of the top three PC markets in the world, namely China and Japan, in the fiscal year 2012/13.

China

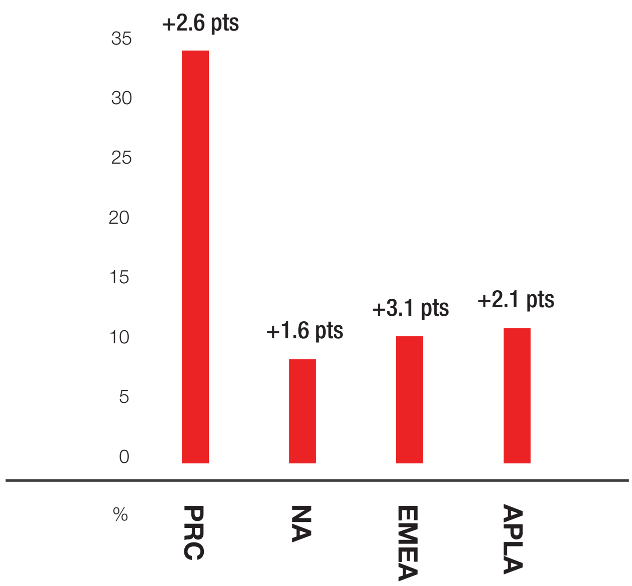
China accounted for 43 percent of the Group's total revenue. China's PC market was affected by the government leadership changes and budget control, and softer economic growth, leading to a decline by 5 percent year-on-year during the fiscal year according to preliminary industry estimates.

During the fiscal year, Lenovo continued to outperform the market and extend its leadership in China through its solid strategic execution to protect mature cities while at the same time attacking for growth in emerging smaller cities and rural areas, where demand is stronger due to low PC penetration. Lenovo's unit shipments growth in China was 3 percent year-on-year for the fiscal year and market share increased by 2.6 percentage point year-on-year to an all-

Revenue by Geography (%)



Lenovo PC Share by GEOs (%)



time high of 34.6 percent, according to industry estimates. Leveraging its position as the country's PC market leader with a strong consumer presence, the Group's MIDH business in China posted strong unit shipments growth. The Group's smartphone unit shipments grew more than 3 times year-on-year. As a result, the Group continued to record strong revenue growth in China, up 17 percent, supported by the stellar MIDH performance of revenue growth at 108 percent year-on-year.

Operating profit in China grew to US$678 million during the fiscal year, and operating margin was up 0.1 percentage point year-on-year to 4.7 percent, even as the Group continued to invest in its mobile internet business during the year. Operating margin for China PC business was 6.2 percent, up from 5.8 percent in the previous fiscal year.

Asia Pacific/Latin America (APLA)

APLA accounted for 20 percent of the Group's total revenue. Lenovo's unit shipments in APLA grew 13 percent year-on-year against a 8 percent decline for the overall market, according to preliminary industry estimates. Lenovo continued to solidify its number one position in Japan. CCE acquisition completed in January 2013 and it started to contribute in the fourth quarter of FY12/13. The integration of CCE is on track and it is expected to help accelerate the Group's expansion in the Brazil market. As a result, Lenovo achieved a market share in APLA of 11.4 percent, up 2.1 percentage point from previous fiscal year.

Operating profit in APLA regions further improved to US$24 million during the year under review and operating margin was 0.3 percent, an increase of 0.3 percentage point year-on-year.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 22 percent of the Group's total revenue. Lenovo's unit shipments in EMEA grew by 28 percent year-on-year, which was a 37-point premium to the market. The strong shipment growth was attributable to the Group's strategy in driving its SMB and consumer business. Thus the Group's market share increased by 3.1 percentage point from a year ago to 10.7 percent for the year under review, according to preliminary industry estimates. Strong unit shipments growth and share gains were recorded across all key regions year-on-year in the year under review. Lenovo became the number three PC company in EMEA regions and became number one PC player in Germany and Denmark and number two PC player in Russia in the fiscal year under review. Lenovo successfully expanded its business scale in the geography through continued improvement in distribution channels, product portfolio, and investments in branding and marketing.

Operating profit in EMEA regions further improved to US$147 million during the year under review and operating margin was 2.0 percent, an increase of 0.7 percentage point year-on-year.

North America (NA)

North America accounted for 15 percent of the Group's total revenue. Lenovo's unit shipments in North America grew by 9 percent year-on-year, which was about a 20-point premium to the market driven by the strong growth in consumer and SMB business through successful execution of its channel strategy, as well as its leadership in commercial segment. Thus the Group's market share increased by 1.6 percentage point from a year ago to a record-high 8.8 percent, according to preliminary industry estimates. Lenovo has become the number four PC company in North America and the U.S. markets in the year under review.

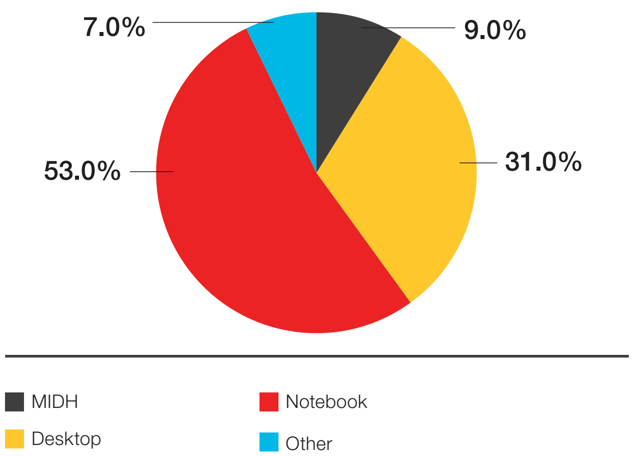
Operating profit in NA markets was US$168 million during the fiscal year, against US$161 million recorded in the previous fiscal year. NA markets' operating margin was 3.4 percent for the fiscal year, a decrease of 0.1 percentage point year-on-year. The decrease was mainly attributable to an increased mix of consumer business during the year under review.

PERFORMANCE OF PRODUCT GROUPS

During the fiscal year 2012/13, 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 shows strong growth during the year under review.

Lenovo is committed to and investing in innovation that differentiates its products. At the International Consumer Electronics Show (CES) in Las Vegas in January 2013, Lenovo won record 53 major awards, demonstrating the industry's recognition of the outstanding quality, design and functionality of the Group's products.

Revenue by Product (%)



ThinkCentre Tiny

Think Product Group

The performance of the Think Product Group, which mainly targets commercial customers, continued to outgrow the market from its solid execution of its protect strategy. The Group leveraged its unique, dual-business model which serves global, large enterprise customers through its relationship model, as well as small-to-medium business through its transaction model. According to industry estimates, Lenovo's commercial PC unit shipments grew 2 percent year-on-year and its market share in the worldwide commercial PC market increased by 1.9 percentage point year-on-year to 18.7 percent during the fiscal year.

Lenovo offers a wide range of commercial desktops and notebooks to businesses of all sizes that feature cutting-edge technology, customer-centric innovation and powerful productivity features. During the fiscal year, Lenovo announced a wide range of new products including desktops, Ultrabooks and tablets. In addition to premium products like ThinkPad® X1 Carbon Touch which adds touch experience to the industry's leading business-class Ultrabook, Lenovo also launched the ThinkPad® Twist, a business-ready device that puts a new spin on the traditional convertible tablet, and the ThinkPad® Tablet2, which provides all-day battery life, responsive touch, precision pen, and an efficient keyboard to address flexible work styles of commercial customers.

ThinkServer TS430

IdeaCentre Horizon

IdeaPhone K900

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 EMEA and NA markets under the Group's strategy to attack to gain share in consumer business in the region. According to industry estimates, Lenovo's consumer PC's unit shipments grew 22 percent year-on-year and its market share increased by 3.1 percentage point year-on-year to 12.8 percent. Lenovo became the number one PC company in the global consumer desktop segment during the year under review.

The Group announced a series of new and stylish PC products – such as the spectacular IdeaCentre Horizon 27, which offers multi-scenario solutions in one device that combines a tablet PC and a 27-inch desktop PC and provides "Phygital" gaming experience with E-Dice, Joysticker and Striker. Horizon also won 15 awards in the CES. Its new IdeaCentre Q190, the world's smallest full-function desktop PC that measures just 22mm (0.86 inches) wide, and the IdeaPad® Yoga 11 and 13, which provide a flip-and-fold design to perform a 360 degree rotation with their unique dual-hinge were also products received encouraging feedback.

Notebook and Desktop Products

Lenovo achieved strong, balanced growth and market share gains for both notebook and desktop PCs during the fiscal year. Unit shipments for the Group's notebook and desktop PCs grew by 11 percent and 8 percent year-on-year, respectively. Lenovo's market share in the worldwide notebook PC market increased 2.8 percentage points from a year ago to 15.8 percent, while its worldwide desktop PC market share increased by 2.3 percentage points to 15.1 percent in the fiscal year under review, according to preliminary industry estimates. Lenovo maintained its position as the second largest desktop PC player and became the second largest notebook PC player in the fiscal year.

Mobile Internet Products

Lenovo's MIDH business posted strong unit shipments growth during the year under review. MIDH revenue contribution were up from 5 percent of the Group's total revenue from previous year to 9 percent in this fiscal year. Lenovo's market share in China smartphone increased by 7.0 percentage point from previous year to record-high 12.8 percent in the fiscal year under review and become the number two smartphone company in China.

Lenovo continued to capture strong growth momentum from not only entry level smartphones but also received good initial feedback from its mid- to high-end smartphones portfolio. Those models with screen sizes larger than 5 inches -- such as K860, S920 and K900 -- all attracted lots of customers' attention from the market. Overall, unit shipments of smartphones grew more than 3 times year-on-year for the year under review. In media tablets, the Group continued to experience a robust shipment growth of 74 percent year-on-year and by rolling 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 has also planned for the launch of more new smartphones and tablets to fuel future growth. The Group has also launched smart TVs in China during the fiscal year and the initial market response was encouraging.

IdeaPad Yoga

ERAZER X700

BRAND BUILDING

The Group continued its global "For Those Who Do" branding campaign, taking the next step in asserting its position as a global technology 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 as well as highlighting how Lenovo's differentiated innovation and technology are built to serve and inspire the world's greatest creators, innovators, and thinkers- the Doers.

The campaign has substantially improved the Group's brand recognition worldwide. It helped drive Lenovo's highly successful marketing launches of innovative convertible products in the fall, as well as the more recent launches of its innovative Horizon table PC, K900 smartphone, and many other products throughout the year. According to 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 – which will help enhance its position as a strong, well-respected global PC+ technology brand.

Lynx

ThinkPad X1 Carbon Touch

TALENT AND CULTURE

Pioneering New Ideas – Lenovo's Culture Driving Innovation in the PC+ Era

One of Lenovo's competitive advantages and key reasons for our success in 2012/13 has been our culture, what we call The Lenovo Way.

At its core, The Lenovo Way is about commitment and ownership and is centered on a simple but powerful value that "We do what we say. We own what we do." With the PC+ era here and innovation becoming increasingly important, the decision was made at the start of 2012 to evolve our culture to include "Pioneering New Ideas" as our fifth core vale.

Those beliefs are captured in what we refer 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

Initially, "Pioneering New Ideas" and the expanded 5P culture were launched at three sessions in Raleigh, Prague, and Beijing with executives around the globe. All Lenovo executives were charged with cascading what they had learned and encouraging their teams to embrace this new pioneering spirit. The results of these efforts have been outstanding as 88% of employees feel that they are empowered to pioneer and 94% of employees feel confident that they can incorporate pioneering in their daily work.

In addition to making innovation and pioneering a top priority for our existing employees, Lenovo has also been aggressive in seeking out external global talent and skills to enhance this critical capability. Over the past year, Lenovo has sought out and hired professionals with specific capabilities in the areas most important to winning in the PC+ era.

FINANCIAL HIGHLIGHTS

For the year ended March 31	2013 US$'000	2012 US$'000
Revenue	33,873,401	29,574,438
EBITDA*	1,067,339	821,497
Profit attributable to equity holders of the Company	635,148	472,992
Earnings per share (US cents)		
– Basic	6.16	4.67
– Diluted	6.07	4.57
Dividend per ordinary share (HK cents)		
– Interim dividend	4.5	3.8
– Proposed final dividend	14.0	10.0

* Excluding restructuring charges and other income, net

Results

For the year ended March 31, 2013, the Group achieved total sales of approximately US$33,873 million. Profit attributable to equity holders for the year was approximately US$635 million, representing an increase of US$162 million as compared with last year. Gross profit margin for the year was 0.3 percentage point up from 11.7 percent reported in last year. Basic earnings per share and diluted earnings per share were US6.16 cents and US6.07 cents, representing an increase of US1.49 cents and US1.50 cents respectively as compared with last year.

The Group adopts geographical segments as the reporting format. Geographical segments comprise China, APLA, EMEA and North America. Analyses of revenue by segment are set out in Business Review.

	2013		2012	
For the year ended March 31	Revenue from external customers US$'000	Adjusted pre-tax income US$'000	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	14,538,534	677,938	12,395,324	568,565
APLA	6,860,380	23,591	6,337,521	(455)
EMEA	7,535,483	146,674	6,295,860	82,729
North America	4,939,004	167,558	4,545,733	160,705
	33,873,401	1,015,761	29,574,438	811,544

For the year ended March 31, 2013, overall operating expenses across the board increased when compared to last year as the current year includes a full year results of NEC JV and Medion. Employee benefit costs increased by 22 percent as compared to last year due to increased headcount and performance-driven incentive payments. Branding and promotional expenses increased by 7 percent as compared to last year as a result of the new product launches.

Further analyses of income and expense by function for the year ended March 31, 2013 are set out below:

Other income – net

This mainly represents the gain arising from the de-recognition of contingent consideration during the year. In October 2012, the Group completed the transfer of ownership interest under the business combination agreement with Medion. Details are set out in Note 29(i) to the financial statements.

Selling and distribution expenses

Selling and distribution expenses for the year increased by 12 percent as compared to last year. This is principally attributable to a US$39 million increase in promotional, branding and marketing activities and the increase in employee benefit costs.

Administrative expenses

Administrative expenses for the year increased by 16 percent as compared to last year. This is mainly attributable to the increase in employee benefit costs and a US$23 million increase in depreciation and amortization expenses.

Research and development expenses

Research and development spending for the year increased by 38 percent as compared to last year. The major part of the increase is attributable to the increase in employee benefit costs, and an increase in R&D supplies & laboratory expenses of US$32 million.

Other operating income – net

The net other operating income for the year comprises incentives and grants received of US$115 million, netted with US$38 million net exchange loss; and other miscellaneous expenses.

The net other operating income in last year comprises incentives and grants received of US$30 million, net exchange gain of US$5 million and other miscellaneous income, and is offset by a one-off license fee of US$35 million.

For the year ended March 31	2013 US$'000	2012 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	92,097	77,721
Amortization of intangible assets	117,507	97,684
Employee benefit costs, including	2,359,593	1,938,256
– long-term incentive awards	*77,724*	*66,418*
Rental expenses under operating leases	77,530	63,252

FINANCIAL POSITION

Total assets and total liabilities of the Group increased by 6 percent, which is partly attributable to the formation of EMC JV and the acquisition of CCE and Stoneware during the year. Further analyses of the Group's major balance sheet items are set out below:

Non-current assets (US$'000)	March 31, 2013	March 31, 2012
Property, plant and equipment	479,777	392,474
Prepaid lease payments	36,522	13,552
Construction-in-progress	184,051	103,986
Intangible assets	3,326,418	3,091,205
Interests in associates and jointly controlled entities	2,763	3,410
Deferred income tax assets	349,389	332,493
Available-for-sale financial assets	69,962	71,946
Other non-current assets	43,378	31,282
	4,492,260	4,040,348

Property, plant and equipment

Property, plant and equipment amounted to US$480 million as at March 31, 2013, representing an increase of 22 percent over last year, mainly attributable to the completion of the manufacturing plants in Hefei, China, and Brazil totaling US$56 million. The completion of the business combination activities during the year also contributed to an increase of US$8 million.

Prepaid lease payments

The increase of 169 percent is mainly due to the land use right in respect of the manufacturing sites in Hefei and Wuhan, China, totalling US$23 million.

Construction-in-progress

Construction-in-progress comprises mainly the Group's investments in the headquarters in Beijing, China, the manufacturing facilities in 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 EMC JV and the acquisition of CCE and Stoneware. Goodwill and other intangible assets, including trademarks and trade names and customer relationships, of US$201 million and US$99 million were recognized respectively.

Deferred income tax assets

Deferred income tax assets as at March 31, 2013 amounted to US$349 million, representing an increase of 5 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 (US$'000)	March 31, 2013	March 31, 2012
Inventories	1,964,791	1,218,494
Trade receivables	2,885,039	2,354,909
Notes receivable	572,992	639,331
Derivative financial assets	99,491	62,883
Deposits, prepayments and other receivables	3,235,465	3,303,053
Income tax recoverable	58,822	70,406
Bank deposits	119,055	413,672
Cash and cash equivalents	3,454,082	3,757,652
	12,389,737	11,820,400

Inventories

Inventories increased by 61 percent, which is in line with business growth, changes in product mix resulted from expanded consumer sales and higher demand of mobile internet and digital home products. During the year, the Group has shifted further to in-house manufacturing which resulted to the increase in raw materials and service parts. The completion of the business combination activities during the year also contributed to an increase of inventories by US$158 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 arising from the formation of EMC JV and the acquisition of CCE and Stoneware increased the trade receivables of the Group by US$118 million.

Derivative financial assets/liabilities

Derivatives relate to foreign currency forward contracts that are designated as hedges for the fair value of recognized assets or liabilities or a firm commitment, or of highly probable forecast transactions. Derivatives are initially recognized at fair value on the date of a derivative contract is entered into and are subsequently re-measured at their fair values. Increase in balance is in line with increased business activities during the year.

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.

Non-current liabilities (US$'000)	March 31, 2013	March 31, 2012
Bank borrowings	303,133	–
Warranty provision	279,255	291,111
Deferred revenue	403,540	381,593
Retirement benefit obligations	163,883	204,818
Deferred income tax liabilities	113,992	83,594
Other non-current liabilities	846,539	641,986
	2,110,342	1,603,102

Bank borrowings

The Group drew down a bank loan of US$300 million during the year.

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 4 percent when compared with last year. The increase is partly attributable to the increased business activities of the year, and the amounts arising from the acquisition of CCE of US$21 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.

Deferred revenue

Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, ranging from one to four years. The aggregate current and non-current amounts of deferred revenue increased by 15% when compared with last year. The increase is attributable to the increased business activities of the year.

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.

Deferred income tax liabilities

Deferred income tax liabilities comprise withholding tax on undistributed earnings and tax liabilities on upward valuation of intangibles arising from business combination. The 36 percent increase over last year is attributable to the amounts arising from the formation of EMC JV and acquisition of CCE and Stoneware totalling US$28 million.

Other non-current liabilities

Other non-current liabilities amounted to US$847 million as at March 31, 2013, representing an increase of 32 percent, which is mainly due to the written put option liability in connection with the put option granted pursuant to the joint venture agreement entered into between the Group and Compal Electronics, Inc. of US$215 million. The remaining balances comprise mainly the present value of the contingent consideration payable of US$260 million brought forward from the previous year in connection with the arrangements with the former shareholder of NEC JV with reference to certain performance indicators.

Current liabilities (US$'000)	March 31, 2013	March 31, 2012
Trade payables	3,624,500	4,050,272
Notes payable	99,503	127,315
Derivative financial liabilities	69,053	49,253
Other payables and accruals	6,852,344	6,349,134
Provisions	776,640	725,062
Deferred revenue	393,417	310,159
Income tax payable	100,179	135,530
Bank borrowings	175,838	62,952
	12,091,474	11,809,677

Trade payables and notes payables

Trade payables and notes payables decreased by 11 percent when compared with last year. The decrease in balance is mainly due to less purchase activities during the fourth quarter, which is in line with the business projections.

Other payables and accruals

Majority of other payables and accruals represent the allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns and obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Other payables and accruals increased by 8 percent when compared with last year. The increase is partly attributable to the increased business activities of the year. The amounts arising from the acquisition of CCE also contributed to an increase of US$50 million.

Provisions

Provisions comprise warranty liabilities (due within one year), restructuring and environmental restorations. The increase is partly attributable to the increased business activities of the year, and the amounts arising from the acquisition of CCE of US$21 million.

Bank borrowings

Bank borrowings amounted to US$176 million as at March 31, 2013, representing an increase of 179 percent, mainly due to the amounts arising from the acquisition of CCE of US$111 million.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of US$441 million (2012: US$329 million) during the year ended March 31, 2013, 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, 2013, total assets of the Group amounted to US$16,882 million (2012: US$15,861 million), which were financed by equity attributable to owners of the Company of US$2,667 million (2012: US$2,361 million), non-controlling interests (net of put option written on non-controlling interest) of US$13 million (2012: US$87 million), and total liabilities of US$14,202 million (2012: US$13,413 million). At March 31, 2013, the current ratio of the Group was 1.02 (2012: 1.00).

The Group had a solid financial position. At March 31, 2013, bank deposits, cash and cash equivalents totaled US$3,573 million (2012: US$4,171 million), of which 56.5 (2012: 56.9) percent was denominated in US dollars, 32.4 (2012: 27.6) percent in Renminbi, 3.4 (2012: 7.7) percent in Euros, 3.4 (2012: 3.5) percent in Japanese Yen, and 4.3 (2012: 4.3) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2013, 76.3 (2012: 74.2) percent of cash are bank deposits, and 23.7 (2012: 25.8) 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 has a 5-Year loan facility agreement with a bank of US$300 million entered into on July 17, 2009. During the year, the Group drew down the loan of US$300 million. At March 31, 2013, the facility was fully utilized (2012: Nil).

In addition, the Group has another 5-Year loan facility agreement with syndicated banks for US$500 million entered into on February 2, 2011. The facility has not been utilized as at March 31, 2013 (2012: Nil).

The Group has also arranged other short-term credit facilities. At March 31, 2013, the Group's total available credit facilities amounted to US$6,993 million (2012: US$6,642 million), of which US$391 million (2012: US$362 million) was in trade lines, US$668 million (2012: US$521 million) in short-term and revolving money market facilities and US$5,934 million (2012: US$5,759 million) in forward foreign exchange contracts. At March 31, 2013, the amounts drawn down were US$242 million (2012: US$220 million) in trade lines, US$4,945 million (2012: US$4,720 million) being used for the forward foreign exchange contracts; and US$176 million (2012: US$63 million) in short-term bank loans.

At March 31, 2013, the Group's outstanding bank loans represented the term loan of US$303 million (2012: Nil) and short-term bank loans of US$176 million (2012: US$63 million). When compared with total equity of US$2,680 million (2012: US$2,448 million), the Group's gearing ratio was 0.18 (2012: 0.03). The net cash position of the Group at March 31, 2013 is US$3,094 million (2012: US$4,108 million).

The Group is confident that all the loan and other short-term credit facilities on hand can meet the funding requirements of the Group's operations and business development.

At March 31	2013 US$'000	2012 US$'000
Bank deposits and cash and cash equivalents	3,573	4,171
Less: total borrowings	(479)	(63)
	3,094	4,108

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2013, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$4,945 million (2012: US$4,720 million).

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

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

At March 31, 2013, the Group had approximately 35,026 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

LOOKING FORWARD, THE GROUP WILL CONTINUE ITS INVESTMENT IN BUILDING ITS CORE COMPETENCIES, PRODUCT INNOVATION, BRANDING TO HELP THE GROUP CAPTURE MORE MARKET OPPORTUNITIES IN THE PC+ ERA.

Lenovo remains optimistic about the future of the PC+ market and is confident that it will continue to deliver above market performance and profit growth with margin expansion in the new fiscal year. Although worldwide PC demand remains challenging due to remain weak economic conditions, the Group is confident it will continue to outgrow the worldwide PC market with balanced growth across the board and continued profit improvement. Meanwhile, the Group is also on course in transforming into a leading PC+ company, and is committed in investment in innovation to drive PC+ product portfolio across PC, smartphone, tablets, and new form factors. The Group will continue to strive for strong growth in smartphones globally, by solidifying China leadership and expanding into Emerging Markets and Mature Markets over time. In the meantime, the Group will also invest in driving more new differentiated tablet products to expand its leadership in China and globally.

In China, where the growth momentum may be influenced in the short-term by the government budget control and more moderate economic growth, Lenovo will continue to expand its market leading position in PC market. Lenovo will enhance its server business through its alliance with EMC in the commercial market, leveraging its strong leadership in the consumer market and penetrate to more high growth emerging cities, while executing its Protect and Attack strategy to evolve from a winning PC company to a winning PC+ company in China.

Outside China, the Group will continue to drive its strong growth momentum under its attack strategy with the aim of capturing market share and improving profitability as the Group expands its market share to double-digit share in key regions. Lenovo will continue to focus on improving profitability by protecting its relationship business and attacking the growth opportunity in both consumer and SMB PC segments. The Group closed the transactions of CCE, EMC and Stoneware, which will help to enhance Lenovo's products and services to its global customers and fully deliver on its PC+ strategy.

PROTECT AND ATTACK FY13/14

PROTECT PC

PROFIT POOLS

1. China PC Leadership
2. Deliver steady relationship business profits in all regions
3. Drive attachment of Peripherals/ Monetization/Services

PROFITABLE GROWTH

1. Build scale in transactional business, especially in consumer market
2. Drive share in rest of emerging countries to 10%+

ATTACK PC+

SMARTPHONE AND TABLET

1. Solidify China leadership position in Smartphone and Tablet markets
2. Aggressively expand smartphone into emerging markets while preparing mature infrastructure
3. Jumpstart Tablets outside of China

ENTERPRISE SYSTEMS

1. Grow Server to a relevant global player
2. Drive Workstation to stronger Tier 1 player

INNOVATION LEADERSHIP

Product Offerings & User Experience | New Categories & Businesses | Global Branding

OPERATIONAL EFFECTIVENESS

Integrated Business Groups | Global-Local Business Model | Improve time-to-volume | Sustainable

GLOBAL CULTURE

Meet commitments/Take ownership | Build a world class organization

To become faster, more efficient, more innovative and to more deeply implement our strategy in every key market, Lenovo refined its front end structure. The new structure brings North America and Latin America together to improve efficiency and better leverage synergies between these regions, while maintaining the rest of our sales structure. The Group will also create two new end-to-end business groups: Think Business Group (TBG) and Lenovo Business Group (LBG). These new groups will further enhance Lenovo's end-to-end efficiency across the value-chain and sharpen branding, innovation and response to market changes, operational efficiency, new product development and time to market. TBG will focus on premium products in both commercial and consumer segments, and enterprise solutions. LBG will focus on mainstream consumer and commercial desktop, notebook and MIDH products. The organizational change will continue to fuel growth and anticipate shifts in our business and the market.

Lenovo has achieved strong initial success in entering the PC+ era in the year under review. Lenovo believes it has established a solid foundation to let the Group embrace the new challenges of the PC+ era. Looking forward, the Group will continue its investment in building its core competencies, product innovation, and branding to help the Group capture more market opportunities. Lenovo will continue to pursue its leadership in the PC+ age and transforming itself to a global PC+ innovation leader. The Group, given its solid financial position, will continue to actively look for inorganic growth opportunities which will supplement its organic growth strategy to accelerate future expansion. The Group will build on its success by continuing to focus on scaling its growth and controlling costs, thereby enhancing its competitiveness to ensure future sustainable profit growth.


PEOPLE+
LEADERSHIP+
FUTURE+
BRAND+
PIONEER+
IDEA+
LENOVO
ideapad
ThinkPad
FOR THOSE WHO DO.
lenovo

IdeaPhone K900

DO EVERYWHERE

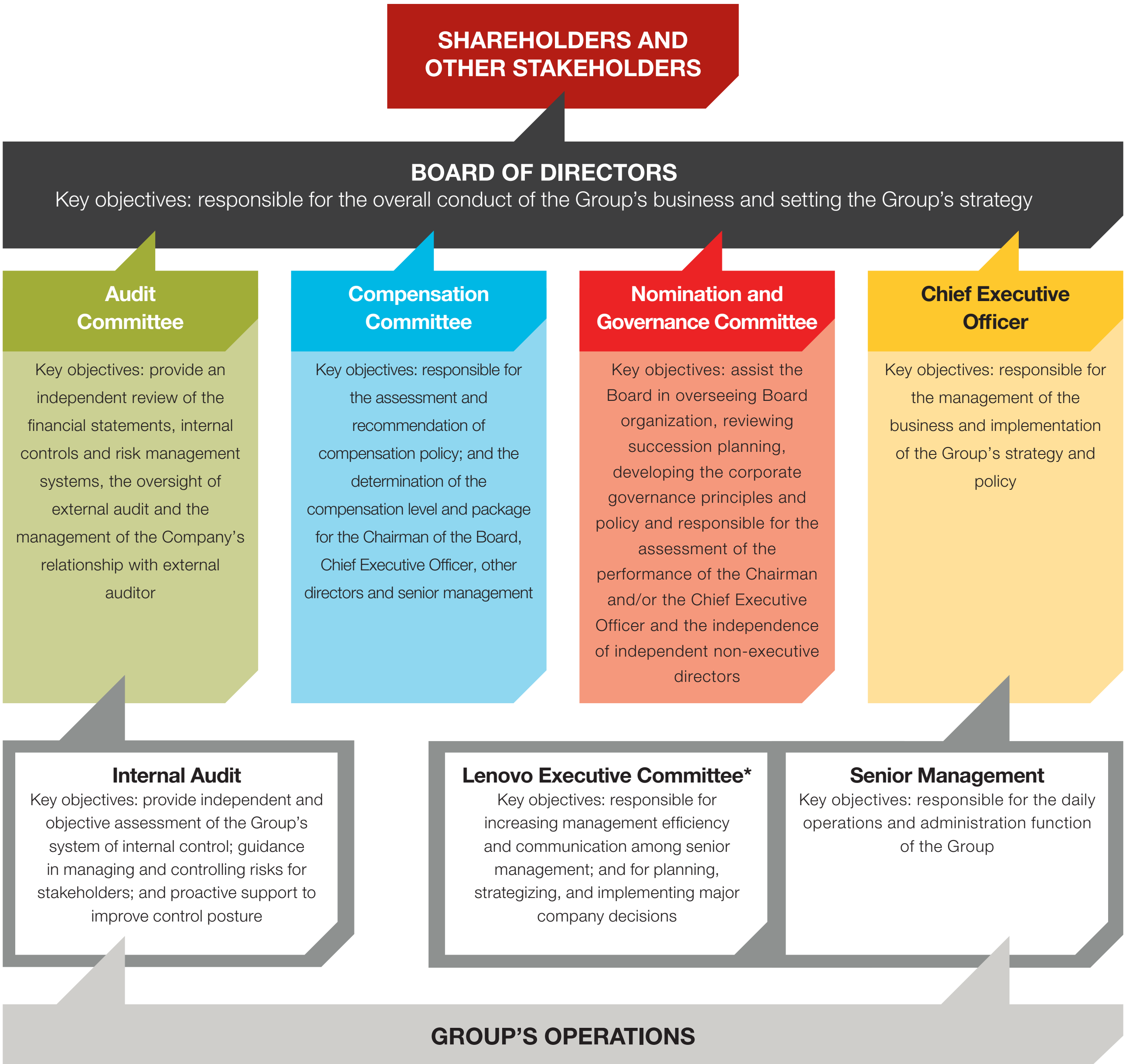
Stay connected everywhere with Lenovo's sleek, slick, handsome and thin smartphones, devices that are both powerful and refined.

CORPORATE GOVERNANCE REPORT

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 of its corporate governance system to ensure it is in line with international and local best practices.

CORPORATE GOVERNANCE STRUCTURE

The Board continuously reviews its governance structure to ensure its relevance and ability to meet the challenges of the future.



* *a management committee comprising the Chief Executive Officer and certain members of the senior management*

CORPORATE GOVERNANCE CODE COMPLIANCE

Throughout the year ended March 31, 2013, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (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 "**Stock Exchange**") (the "**Listing Rules**"), and where appropriate, met the recommended best practices in the CG Code, save for the exception which is explained below.

Code Provision A.2.1 (Separate the roles of Chairman and Chief Executive Officer)

Since November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been performing both the roles as the chairman of the Board (the "**Chairman**") and chief executive officer of the Company (the "**CEO**"). The Board has recently reviewed the organization human resources planning of the Company and is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of 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.

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 reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual financial results.

THE BOARD

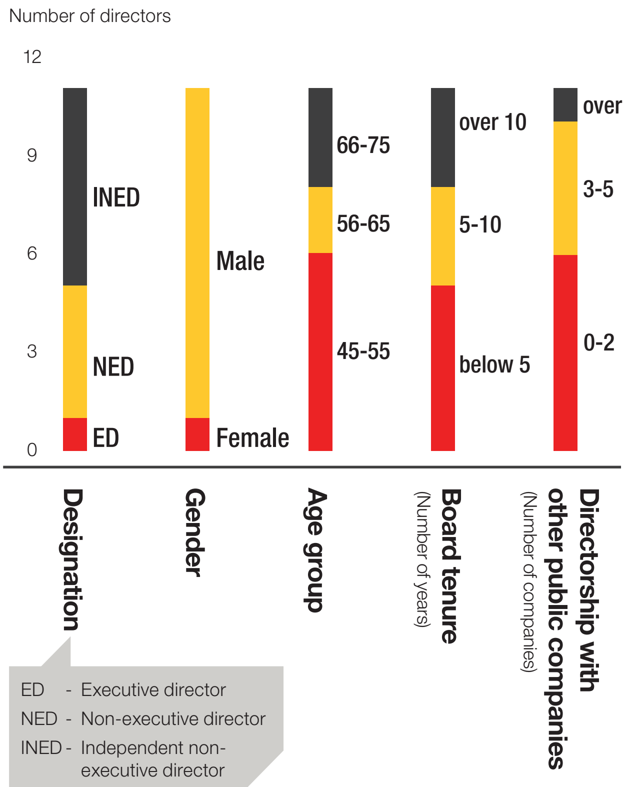
As of the date of this annual report, there were eleven Board members consisting of one executive director, four non-executive directors and six independent non-executive directors.

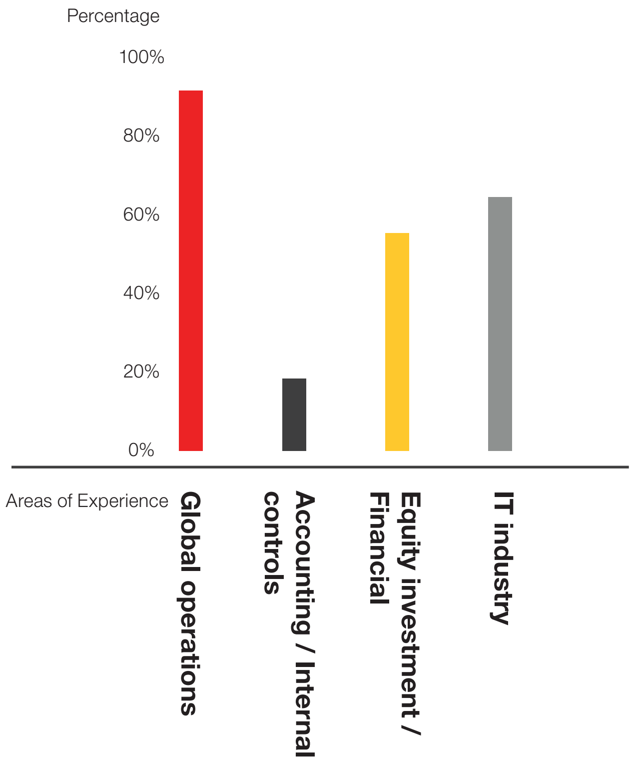
On February 20, 2013, Mr. Chih-Yuan (Jerry) Yang was appointed as an observer of the Board of the Company (the "**Board Observer**"). As a Board Observer, Mr. Jerry Yang will not have the power to vote at any Board meeting and will not exercise any other rights of a director at such meeting. He is neither a director nor 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. His primary role is to attend relevant Board meetings and to participate in such meetings by providing his views on matters being considered by the Board.

Board Composition

During the year, the Company has made further progress in shaping its Board for the future, ensuring that diversity, in its broadest definition, is at the Company's focus. Summary of the Board diversity policy including the views and measurable objectives is set out on page 40 of this report.

The Board diversity mix is shown below while the detailed biographies and a snapshot of the Board's experience are set out on pages 96 to 98 of this annual report.





The current composition of the Board exceeds the requirements under rule 3.10A of the Listing Rules, as more than half of its members are independent non-executive directors, thus exhibiting a strong independent element which enhances 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.

The Company has 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. Except for the relationships (including financial, business, family, and other material and relevant relationships) as detailed above and in the biographies of directors set out on pages 96 to 98 of this annual report, there are no other relationships among the Board to the best knowledge of the Board members as of 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. The CEO has delegated authority from the Board to take direct charge of the Company and its subsidiaries (collectively 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.

Lead Independent Director

As a means of enhancing corporate governance of the Company, Mr. William O. Grabe ("**Mr. Grabe**"), an independent non-executive director of the Company, has been appointed by the Board as the lead independent director of the Company ("**Lead Independent Director**") on May 23, 2013. The Lead Independent Director is not an executive position in the Company and does not have any management role in the Company or any of its subsidiaries. Subsequent to this appointment, Mr. Grabe will continue to serve as an independent non-executive director, the chairman of the Compensation Committee and a member of Nomination and Governance Committee of the Company.

As the Lead Independent Director, Mr. Grabe has the following roles: (1) to chair the Nomination and Governance Committee meeting and/or the Board meeting when considering (a) the combined roles of Chairman and CEO; (b) assessment of the performance of Chairman and/or CEO; (2) to call and chair meeting(s) with all non-executive directors at least once a year on such matters as are deemed appropriate and provide feedbacks to Chairman and/or CEO; (3) to serve a key role in the Board evaluation process; (4) responds directly to shareholders and other stakeholder questions and comments that are directed to the Lead Independent Director or to the independent non-executive directors as a group, when appropriate; (5) if requested by major shareholders, ensures that he is available, when appropriate, for consultation and direct communication; and (6) to perform other duties as directors may designate.

Independence of Non-executive Directors

The current composition of the Board, with a high proportion of independent non-executive directors, ensures and provides strong and meaningful oversight over management. The independent non-executive directors do not participate in the day-to-day management of the Company and do not engage in any business dealing or other relationships with the Group (other than in situations permitted by the applicable regulations) in order to ensure that they remain truly capable of exercising independent judgement and act in the best interests of the Group and its shareholders. Further, the Board is satisfied and assured that no individual or group of directors has unfettered powers of decision that could create a potential conflict of interest.

The non-executive directors of the Company continue to proactively engage with senior management and other relevant parties, such as the external or internal auditors as well as the Company's legal and compliance departments, to ensure that the various concerns and issues relevant to the management and oversight of the business and operations of the Company and the Group are properly addressed.

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, 2013, the Nomination and Governance Committee of the Board conducted an annual review of the independence of all independent non-executive directors of the Company for the year ended March 31, 2013. 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 abstaining from voting on the resolution concerning his own independence) concluded that all of the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

In addition, the Nomination and Governance Committee affirmed that all independent non-executive directors of the Company provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended March 31, 2013.

Appointment and Election of Directors

Board diversity

The Board values diversity as a factor in selecting candidates to serve on the Board, and believes that the diversity which exists in its composition provides significant benefits to the Board and the Company.

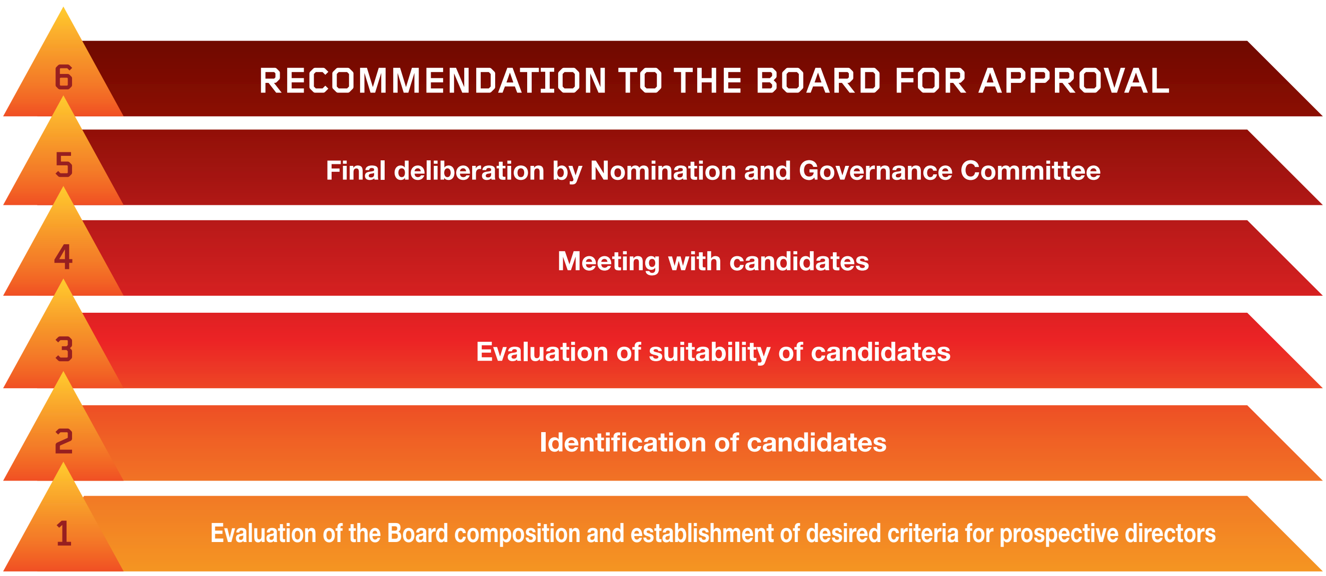
There is a formal and transparent procedure for the appointment of new directors to the Board, the primary responsibility of which has been delegated to the Nomination and Governance Committee. The Nomination and Governance Committee is composed of the Chairman and two independent non-executive directors. This composition ensures that any decisions made are impartial and are in the best interest of the Company.

On May 23, 2013, the Board adopted the Board diversity policy (the "**Diversity Policy**") which relates to the selection of candidates for the Board. The Diversity Policy was adopted to ensure that diversity in its broadest sense continues to remain a feature of the Board. The Nomination and Governance Committee's assessment of the candidates includes, but is not limited to, consideration of the relevant knowledge and diversity of backgrounds, skills, experience and perspectives that would complement the existing Board. The Company has set out the following objectives for fiscal year 2013/14:

Measurable objectives		Goal for meeting objective
Objective 1	Consider candidates for appointment as independent non-executive directors from a wide pool of backgrounds, skills, experience and perspectives that would complement the existing Board	In the ordinary course of the Board succession process
Objective 2	Report annually against the objectives and other initiatives taking place within the Company which promote diversity	FY2013/14 and ongoing
Objective 3	Report annually on the outcome of the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make up of the Company	FY2013/14 and ongoing

Board appointment process

The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination and Governance Committee to ensure that the Board has a balance of skill and expertise for providing effective leadership to the Company. The Nomination and Governance Committee also ensures that candidates satisfy the requisite skills and core competencies to be deemed fit and proper, and to be appointed as director. The nomination process involves the following six stages:



Board tenure

In accordance with the articles of association of the Company (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 retirement from office by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

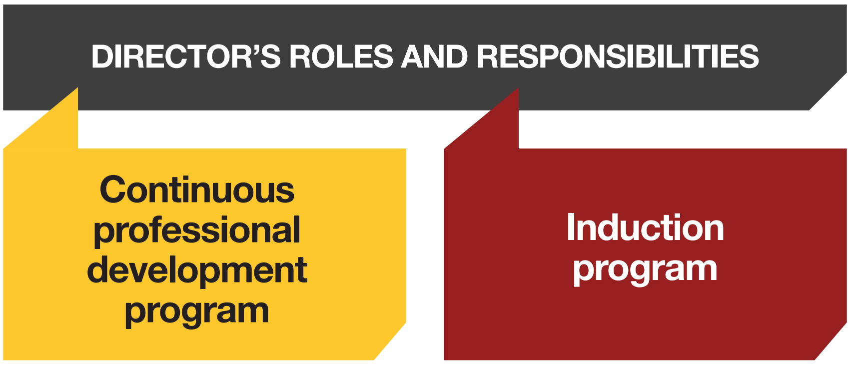
The Company agreed that the independence of directors is an important principle of the Company. In line with the best practices on corporate governance, the Board adopted the principle that each term of an independent non-executive director of the Company shall not be more than three years and shall, 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.

Directors' commitments

All directors are committed to devote sufficient time and attention to the affairs of 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. With respect to those directors who stand for re-election at the 2013 annual general meeting, all of their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the 2013 annual general meeting.

Director induction and continuous professional development

The Company is aware of the requirement to regularly review and agree with each director their training needs. Keeping up-to-date with key business developments is essential for directors to maintain and enhance their effectiveness.



Induction program

Upon joining the Company, directors undergo a comprehensive, formal and tailored induction program covering amongst other things:

RECEIVING DIRECTOR'S INDUCTION HANDBOOK

- to ensure that he/she has a proper understanding of the operations, business and governance policies of the Company

ATTENDING BRIEFING / TRAINING BY EXTERNAL LAWYER

- 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

MEETING WITH CHAIRMAN, DIRECTORS AND A WIDE RANGE OF SENIOR MANAGEMENT FROM ACROSS THE BUSINESS

- to ensure that he/she has a proper understanding of the culture of the Board and the operations of the Group

If appropriate, the induction will also include attending briefings and presentations from relevant senior executives, and opportunities to visit business operations. During the year, the Company arranged Mr. William Tudor Brown, who joined the Board in January, 2013, to visit Lenovo showroom in India, the Lenovo Products Exhibition Center, manufacturing plant and MIDH showcase in Beijing to enhance his understanding of the businesses and operations of the Group.

Continuous professional development program

As part of the continuous professional development program, the Board members from time to time receive presentations from senior executives in the business on matters of significance. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. The Company would arrange, where appropriate, site visits and meetings with senior management for directors to facilitate their understanding of the Group's businesses and have a better awareness of the risks associated with the Group's operations.

To facilitate the training for directors, the Company had also introduced an online training at Lenovo University for directors. In fiscal year 2012/13, the focus of the online training was "Ethics and Compliance" and the attendance rate of directors was 100%.

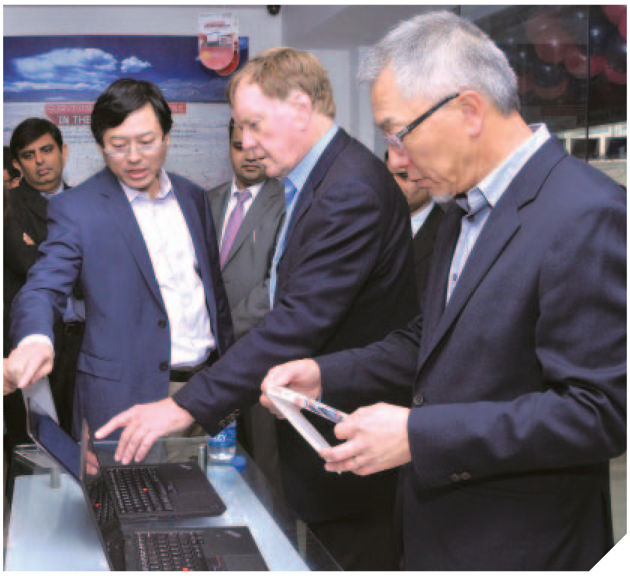
Self directed and convenient training tool

Lenovo University is extended to directors which enables them to learn at their own pace and maintain control of learning "where, when and how" with unlimited access.

The directors are updated on a continuing basis by the Company Secretary on any new regulations and guidelines, as well as any amendments thereto issued by the Stock Exchange and other regulatory authorities, particularly the effects of such new or amended regulations and guidelines on directors specifically, and the Company and the Group.

The directors are also encouraged to attend relevant external professional programs at the Company's expense as necessary to keep abreast of issues facing the changing business environment within which the Group operates.

The Board considers the aforementioned training attended and/or participated in by the directors, and the continuing legal updates provided to the directors, as adequate to enhance the directors' skills and knowledge to carry out their duties as directors. The Nomination and Governance Committee will, on a continuing basis, evaluate and determine the training needs of the directors, particularly on relevant new laws and regulations and essential practices for effective corporate governance and risk management, to enable the directors to sustain their active participation in Board deliberations and effectively discharge their duties.



Gaining valuable industry insight

During the year, the Board had the opportunity to meet with senior management of the Japan and India teams, visit Yamato Laboratory in Japan, IT street of Nehru Place and Lenovo showroom in India. These arrangements provided the Board with valuable insight into views on business trends in Japan and India and their likely developments.

In addition to directors' attendance at meetings and review of relevant materials provided by senior management during the year, the professional trainings attended by the directors are set out as follows:

Type of training / Name of directors	Reading regulatory updates/ Company Policies	Visiting the place of operations, Company's facilities and meeting with local management	Attending experts briefing/ seminar/ conference relevant to the Company's business or director's duties	Attending online training at Lenovo University
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 *(Note 1)*	✓	N/A	✓	N/A
Mr. Ting Lee Sen	✓	✓	✓	✓
Dr. Tian Suning	✓	✓	✓	✓
Mr. Nicholas C. Allen	✓	✓	✓	✓
Mr. Nobuyuki Idei	✓	✓	✓	✓
Mr. William O. Grabe	✓	✓	✓	✓
Mr. William Tudor Brown *(Note 2)*	✓	✓	✓	✓

Notes:

(1) Professor Woo Chia-Wei resigned as independent non-executive director on July 3, 2012.

(2) An induction was conducted for Mr. William Tudor Brown, who was newly appointed to the Board in January 2013.

In-house seminar

Visit to Yamato Laboratory in Japan

Online Training at Lenovo University

Visit to Lenovo showroom in India

Board Process

The Board recognises the importance 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.

Regular Board Meeting
Dates set 2 years in advance

- To facilitate maximum attendance

The Board meets at least 4 times a year at approximately quarterly intervals

- To review financial performance, strategy & operations

Meeting agenda and notice

- Finalized by the Chairman in consultation with Board members
- Notice of not less than 30 days be given

Dispatch Board papers to directors

- Agenda and supporting documents 7 days, with updated financial figures 3 days (or other reasonable period) prior to the meeting

BOARD MEETING

- Pursuant to the Articles of Association that, unless otherwise permissible in the Articles of Association, a director shall not vote on any resolution of the Board approving contract or arrangement or any other proposal in which he/she is materially interested nor shall he/she be counted in the quorum present at the meeting.
- Minutes of Board meeting recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by directors or dissenting views expressed.
- Minutes of Board meeting were circulated to the respective Board members for comment where appropriate and duly kept in minutes book for inspection by any director.

Other Board Meeting

- To consider ad hoc matters

Convene Board Meeting

- Notice of not less than 7 days (or other reasonable period) be given

Dispatch Board papers to directors

- Generally, not less than 3 days (or other reasonable period) before the meeting
- If appropriate, one-on-one briefing offered to each director prior to the meeting

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. Monthly updates of the financial performance of the Company are furnished to the Board between regular Board Meetings.
- In addition to standing agenda items, there may be discussions on "deep-dive" topics. During the year "deep-dive" presentations included the Group's specific strategy and business in a specific market.
- 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 with respect to 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 expense, 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 directors of the Company have confirmed, after specific enquiry, their compliance with the required standard during the year.

DELEGATION BY THE BOARD

Board's Role and Responsibilities

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 also sets the Group's core values and adopts proper standards to ensure that the Company operates with integrity and complies with the relevant rules and regulations.

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 external auditor; and other significant operational and financial matters.

Board activities in the financial year ended March 31, 2013

Board activities are structured to assist the Board in achieving its goal to support and advise senior management on the delivery of the Group's strategy within a transparent governance framework. The diagram below shows the key areas of focus for the Board, which appear as items on the Board's agenda at relevant times throughout the financial year. Concentrated discussion of these items assists the Board in making the most appropriate decision based on the long-term opportunities for the business.

Overview of various items on the Board's agenda for fiscal year 2012/13

During the fiscal year 2012/13, a total of seven Board meetings were held, of which four Board meetings were primarily to review quarterly business performance and strategy execution and the remaining three were for reviewing specific strategy in the geography, business or other relevant areas and also new projects. Given the geographical spread of the Group's business, in addition to the meetings in Hong Kong and New York, the Company also held meetings in Japan and India with a particular focus on reviewing the strategies and business in these areas which provided an opportunity for directors to meet with management teams in those countries.

The regular items of a Board meeting for reviewing quarterly results include a report from CEO on business performance and strategy execution, a report from Chief Financial Officer on financial performance and reporting and reports from the chairman of the respective Board committees on matters discussed and/or approved at the relevant Board committees' meetings held prior to the Board meetings. In addition to these regular reports, the Board considered and/or resolved the following non-routine matters during the year:

- Formation of a joint venture with EMC Corporation
- Resignation of Professor Woo Chia-Wei as director
- Appointment of Mr. William Tudor Brown as director
- Appointment of Mr. Chih-Yuan (Jerry) Yang as Board Observer
- Acquisition of CCE (or formally known as Digiboard Eletrônica da Amazônia Ltda., Digibrás Indústria do Brasil S.A. and Dual Mix Comércio de Eletrônicos Ltda.)
- Acquisition of Stoneware Inc.
- Acceleration of put option in relation to the option shares in Medion AG
- Adoption of the continuous disclosure policy of the Company
- Discussion on Board and Board committees' evaluation results

Board Committees

As at the date of this annual report, the Company has preserved three Board committees (the "**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. 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
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe *(Lead independent director)*
Mr. William Tudor Brown

AUDIT COMMITTEE

Chairman: Mr. Nicholas C. Allen

Members: Mr. Ting Lee Sen
Ms. Ma Xuezheng

COMPENSATION COMMITTEE

Chairman: Mr. William O. Grabe

Members: Mr. Ting Lee Sen
Ms. Ma Xuezheng
Mr. William Tudor Brown

Observer: Mr. Zhu Linan

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 the 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 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 2012/13, are summarized in the Audit Committee Report as stated on pages 66 to 69 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 2012/13, are summarized in the Compensation Committee Report as stated on pages 70 to 79 of this annual report.

Nomination and Governance Committee

Membership

The Nomination and 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

The Committee is to assist the Board in overseeing Board organization, developing its corporate governance principles and policy, and assessing the independence of non-executive directors. The Committee is also responsible for making recommendation to the Board on succession planning for directors and CEO, assessment of the performance of the Chairman 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.

Summary of work done

During the year ended March 31, 2013, the Committee held three meetings in which the following activities were considered and/or resolved:

- Overseeing the process for identifying and making recommendations to the Board regarding the appointments of Mr. William Tudor Brown as independent non-executive director and Mr. Chih-Yuan (Jerry) Yang as Board Observer
- Review of and recommendations to the Board in relation to the structure, size and composition of the Board including the diversity and balance of skill, knowledge and experience of the directors
- Overseeing the process of the Board and Board Committees' evaluation including review and recommendation to the Board for follow up actions
- Review of and recommendation to the Board for adoption of continuous disclosure policy
- Assessment of the performance of the Chairman and CEO for fiscal year 2011/12 and recommendation to the Compensation Committee
- Review of and recommendation to the Board for adoption of Diversity Policy on May 22, 2013

Board and Board Committees Meetings and Attendance

Details of directors' attendance at the annual general meeting, Board and Board Committees meetings held during the year ended March 31, 2013 are set out below:

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

Notes:

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

(2) The Board held four regular meetings, two strategy meetings and one ad hoc meeting during the year.

(3) Representatives of the external auditor participated in every Audit Committee meeting and the annual general meeting held during the year.

(4) Ms. Ma Xuezheng has been re-designated from observer to member of the Compensation Committee with effect from August 15, 2012.

(5) Professor Woo Chia-Wei resigned as an independent non-executive director, member of the Audit Committee and the Compensation Committee with effect from July 3, 2012.

(6) Mr. William Tudor Brown was appointed as an independent non-executive director with effect from January 30, 2013.

(7) For corporate governance reasons, Mr. Yang Yuanqing was required to excuse himself from the agenda item relating to assessment of the performance of the Chairman and CEO of the Nomination and Governance Committee meeting to avoid conflict of interest.

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.

Board and Board Committees' Evaluation

The Board is aware of the importance of continually assessing its own performance in support of the leadership of the Group. During the year, the Board has established a formal process, led by the Nomination and Governance Committee, for the annual evaluation of the performance of the Board and Board Committees, to ensure that they continue to act effectively and efficiently and to fulfill their respective duties.

Scope of Evaluation	Evaluation Approach	Review of Evaluation Results
• Board and Board Committees	• Conducted by completing a comprehensive questionnaire	• Compiling an evaluation results report • Feedback/ Discuss the results • Finalized the results report • Implementation/ Action Plan

In fiscal year 2012/13, the Board conducted the first formal evaluation of its own performance and that of its Committees. The aim of the evaluation was to capture open and constructive feedback from Board members that would:

- provide insights into the effectiveness of the Board and Board Committees; and
- determine areas within the Board and Board Committees where additional competence is needed.

The evaluation process involved each of the directors completing a comprehensive questionnaire, which was structured to include a wide range of questions that focused on the six areas shown below. The process took place between November 2012 and January 2013.

A consolidated report of the outputs from the evaluation was prepared by the Nomination and Governance Committee for review and consideration by the Board. The results of the evaluation were thoroughly discussed at a Board meeting in order to further improve the work of the Board. The evaluation report concluded that the Board and Board Committees continue to operate effectively. The Board also identified enhancement areas, which will be incorporated into the future Board program to ensure that the operation of the Board and Board Committees continue to improve. These areas will continuously be reviewed by the Board.

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 the Company's needs. The list of members of senior management and their biographies are set out on pages 98 to 99 of this annual report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility 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 going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on page 111 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, for many years the Company has had in place an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework.

Control Environment
The internal organizational environment driven by the management operating philosophy, risk appetite, integrity, and ethical values.

Risk Assessment
Risks are identified and the likely impact on the organization is assessed.

Control Activities
Policies and procedures are implemented to ensure organizational objectives and risk-mitigation activities are effectively executed.

Information and Communication
Relevant information is communicated in an acceptable format and timely fashion to enable the organization to meet its objectives.

Monitoring
The internal control process is continually monitored. Modifications are made to improve internal control activities as a result of the monitoring process.

Management of Internal Controls

Essential to Lenovo's internal control framework as well as the management of internal controls are well defined policies and procedures that are properly documented and communicated to employees. Corporate policies are the foundation of major guidelines and procedures and set out required control standards which guide employees' everyday work at Lenovo. The policies address legal, regulatory, and operational topics, including, for example, intellectual property, data privacy, employee health and safety, delegation of authority, information security, and business continuity.

Additionally, the Company's Code of Conduct, which applies to all employees, forms the basis of Lenovo's commitment to conducting all business with 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 and investigating 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. Additionally, the senior executives have an obligation to maintain the effectiveness of the disclosure controls, certify execution of the quarterly disclosure process, take appropriate actions to resolve disclosure items, and report to the Audit Committee as well as the Company's external auditor.

To enhance the monitoring of 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 of Directors 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. From the audit work performed, process owners are able to confirm to senior management that internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. In keeping with best practices, Internal Audit regularly monitors the status of management action plans with respect to audit findings 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 last year, Internal Audit issued multiple reports covering all significant 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. Management and the Audit Committee are informed of any required actions resulting from these reviews, and Internal Audit monitors the corrective actions to completion.

Inside Information

Regarding procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules as well as the overriding principle that inside information 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 inside 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 Corporate Governance Code.

Enterprise Risk Management

At Lenovo, risk is defined as a potential action, event or circumstance that could impact the Group's ability, favorably or unfavorably, to meet its strategic goals. Risk is an inherent part of the Group and needs to be understood and managed properly to provide a foundation for the Group'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 Lenovo's Board of Directors and management team, and is applied in strategy setting and across all major functions of the Group. 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 Risk 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 at the business planning stage. For each of these risks, decisions are made on the appropriate risk strategy to adopt to manage the risk (i.e. avoidance, retention, reduction, or transference) and resources are allocated accordingly. These risks, as well as the effectiveness of the relevant risk strategies, are monitored and reviewed by each business function. Where necessary, Internal Audit or the Business Control teams are engaged to reinforce the effectiveness of the risk strategies. At the group level, the risks are also reviewed by the ERM team, and cross-functional cooperation engaged where relevant. At least annually, top risks and corresponding risk strategies are highlighted to the Audit Committee.

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

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 the external auditor for non-audit services, under which the external auditor is required to comply with the independence requirements under the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants. The 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; do not perform any self assessments; and do not act 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 is equal 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, 2013 and the comparative figures for the financial year ended March 31, 2012 are as follows:

	2013 US$mn	2012 US$mn
Audit		
– 2011/12	**–**	5.5
– 2012/13	**5.6**	–
	5.6	5.5
Non-audit	**0.8**	1.9
Total	**6.4**	7.4

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A formal and transparent procedure for fixing the remuneration packages of individual directors and senior management is in place. Details of remuneration policies and other relevant information are set out in the Compensation Committee Report of this annual report while particulars of directors' remuneration (including the CEO) and the five highest paid employees are set out in note 11 to the financial statements. The remuneration of senior management as disclosed in this annual report is as follows:

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2013:

Remuneration bands	Number of senior management
US$2,189,847 to US$2,254,253	1
US$2,898,327 to US$2,962,733	1
US$3,155,956 to US$3,220,362	1
US$3,413,585 to US$3,477,991	1
US$3,800,028 to US$3,864,435	1
US$4,122,065 to US$4,186,471	1
US$4,186,472 to US$4,250,878	1
US$4,315,287 to US$4,379,693	1

COMPANY SECRETARY

The Company Secretary, Mr. Mok Chung Fu is responsible for facilitating the Board process, as well as communications among Board members with shareholders and management. During the financial year ended March 31, 2013, the Company Secretary undertook appropriate professional training to update his skills and knowledge.

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.

COMMUNICATION CHANNELS WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

- Teleconferences and webcasts for analysts and media briefings
- Publication of financial reports, announcements, circulars and press releases
- Shareholders meetings
- Investment community communication e.g. roadshow, site visits and annual analyst roundtable
- Company's website

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.

2012 Annual General Meeting

The 2012 annual general meeting of the Company held on July 3, 2012 was attended by, among others, the CEO, Chief Financial Officer, chairmen of the Audit Committee and Compensation Committee, and representatives of the 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:

Matters being voted upon	Percentage of affirmative votes
Received the Group's audited accounts for the year ended March 31, 2012 together with the directors' report and independent auditor's report	99.99%
Declaration of a final dividend for the issued ordinary shares for the year ended March 31, 2012	100%
Re-election of retiring directors and authorization of the Board to fix directors' fees	*96.57% to 99.95% with respect to each individual resolution*
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.89%
Approval of granting the general mandate to the directors to allot, issue and deal with the additional Company's ordinary shares	69.42%
Approval of granting the general mandate to the directors to repurchase the Company's ordinary shares	99.96%
Approval of authorisation to directors to extend the general mandate to issue new ordinary shares by adding the number of ordinary shares repurchased	70.53%

All of the resolutions proposed at the 2012 annual general meeting were decided by way of poll voting. Procedures for conducting the poll were explained by the Chairman at the commencement of this meeting. 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 July 3, 2012.

2013 Annual General Meeting

All shareholders are encouraged to attend and participate in the Company's 2013 annual general meeting. Details of the proposed resolutions for the 2013 annual general meeting are set out in the circular which will be dispatched to the Company's shareholders with this annual report.

Constitutional Documents

During the year, there was no change to the Company's constitutional documents. An updated version of Memorandum and Articles of Association of the Company is available on the Company's website and the HKEx's website.

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 2012/13, the Company's senior management team presented its annual and quarterly earnings results through webcast and physical meetings to communicate with shareholders, investors and analysts. Through various investor relations activities such as analyst briefings, conference calls and global investor roadshows, the senior management team presented and communicated with investors and analysts on the Company's strategy and development.

During the fiscal year, in order to help the investor community better understand the company's China strategy and competitive advantages in the world's largest PC market, the Company also organized an analyst trip to China to visit its Beijing hub and its PC stores in China mature cities and rural areas where PC demand is much stronger from remaining low PC penetration rate. The Company also hosted a sell-side roundtable event and invited the chief financial officer of EMEA region to share the Company's latest progress of its EMEA business. Various site visits were also organized to Lenovo's innovation center and manufacturing plants, as well as its stores in China.

In addition to regular one-on-one investor meetings, the senior management team also participated in 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 FY2012/13

Date	Conference	Location
May 2012	Deutsche Bank Access Asia Conference	Singapore
May 2012	Nomura Pan-Asia Technology Forum	Hong Kong
June 2012	J.P. Morgan's Annual China Conference	Beijing
June 2012	UBS Taiwan Conference	Taipei
June 2012	Daiwa Hong Kong China Investment Seminar	Tokyo
August 2012	Mizuho Investment Conference Asia	Hong Kong
September 2012	Citigroup Global Technology Conference	New York
September 2012	JP Morgan Annual Asia Pacific Equity Conference	Boston
September 2012	Credit Suisse Asian Technology Conference	Taipei
September 2012	CLSA Investor's Forum	Hong Kong
November 2012	Daiwa Investment Conference	Hong Kong
November 2012	Credit Suisse US Technology Conference	Arizona

Date	Conference	Location
January 2013	Citi 2013 Global Internet, Media & Telecommunications Conference	Las Vegas
January 2013	Nomura @ CES 2013	Las Vegas
January 2013	UBS Corporate Day	Las Vegas
February 2013	HSBC Technology Day	Hong Kong & Singapore
March 2013	Morgan Stanley Inaugural Asia TMT & Internet Conference	Hong Kong
March 2013	Barclays Asia Smart Mobility Corporate Day	London
March 2013	Bank of America Merrill Lynch Technology & Beyond Conference	Taipei
March 2013	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 **2012 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 2012**, Lenovo was awarded as the "**Grand Prix for Best Overall Investor Relations – Mid or Small Cap**", "**Best Investor Relations during a Corporate Transaction**" and was also ranked as one of the Top 3 best performing company in other seven award categories, including "**Best overall investor relations by a mainland Chinese company**", "**Best investor relations officer – mainland China**", "**Best investor relations by a CFO – mainland China**", "**Best corporate literature**", "**Best use of technology**", "**Best corporate governance and disclosure**" and "**Best investor relations in technologies & telecoms**".

Lenovo was also recognized in **Institutional Investors' Top Asian Executive Ranks** awards as "**Best IR Company (Technology/Hardware)**", "**Best IR Professional (Technology/Hardware) – Gary Ng**", "**2nd in Most Honored Companies**", "**1st in Best Company (Hong Kong)**", "**Best CEO (Technology/Hardware)**" and "**Best CFO (Technology/Hardware)**".

Lenovo's fiscal year 2011/12 annual report which themed as "Journey from PC to PC+" has also won a number of awards fully demonstrates our leading international best practices of our Annual Report is being highly recognized. The report has won the **Gold Award of "Annual Reports – Overall Presentation: Electronics**" in **Mercury Awards 2012**; **Silver Award of "Covers – Annual Reports – Artistic/Illustrations**" and "**Honors of "Annual Reports: Electronic Manufacturing**" in **Galaxy Awards 2012**, as well as **Silver Award of "Covers – Annual Report – Illustrations**" in **Astrid Awards 2013**.



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, Hang Seng China-Aff Corp Index and Hang Seng Corporate Sustainability Index. It has also been selected as a constituent stock of the Main Board of Hang Seng Index in Hong Kong with effective from March 2013, which indicated market recognition for the Company's achievements in the industry. The investor relations team will continue to endeavor to do the best in providing award-winning investor relations services.

Key Shareholders Information

Listing Information

Lenovo Group Limited's shares are listed on the Stock of 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, 2013, the market capitalization of listed shares of the Company was approximately HK$80.5 billion based on the total number of 10,439,152,059 issued Shares of the Company and the closing price of HK$7.71 per share.

The daily average number of traded shares was approximately 49.2 million shares over an approximate free float of 6.3 billion shares in the fiscal year 2012/13. The highest closing price for the Share was HK$9.1 per share on March 1, 2013 and the lowest was HK$5.35 per share on August 1, 2012.

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% of the Company's issued shares throughout the financial year ended March 31, 2013 and has continued to maintain the public float as at the date of this annual report.

SHAREHOLDERS

Shareholders' Rights

Procedures for convening an extraordinary general meeting

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company may, in accordance with the requirements and procedures set out in section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "**Companies Ordinance**"), request the Board to convene an extraordinary general meeting by requisition, by stating the objectives of the meeting and depositing the signed requisition at the registered office of the Company for the attention of the Company Secretary.

Procedures for putting forward proposals at an annual general meeting
(a) Shareholder(s) holding not less than one-fortieth of the total voting rights or (b) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may at their expense, unless the Company otherwise resolves, propose any resolution at any general meeting under section 115A of the Companies Ordinance. Such written request must (i) state the resolution and signed by all the requisitionists in one or more documents in like form; and (ii) be deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the annual general meeting. The requisitionists may also circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution and they must also deposit or tender a sum reasonably sufficient to meet the Company's expenses in respect thereof.

The detailed procedures for shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting, including proposing a person other than a retiring director for election as a director 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 meeting 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 of March 31, 2013
According to the register of members of ordinary shares of the Company as of March 31, 2013, there were 1,034 registered shareholders of whom 97.78% had their registered addresses in Hong Kong. However, the actual number of investors in the ordinary shares of the Company (the "**Shares**") may be larger than that as a substantial portion of the Shares are held through nominees, custodian houses and HKSCC Nominees Limited.

Shareholding as of March 31, 2013

Size of registered shareholding	Number of shareholders	Percentage of shareholders	Number of Shares held	Percentage of issued share capital
1-2,000	291	28.14%	489,765	0.00%
2,001-10,000	508	49.13%	3,512,000	0.03%
10,001-100,000	209	20.21%	6,213,745	0.06%
100,001-1,000,000	16	1.55%	5,754,000	0.06%
1,000,001 and above	10	0.97%	10,423,182,549	99.85%
Total	1,034	100.00%	10,439,152,059	100.00%

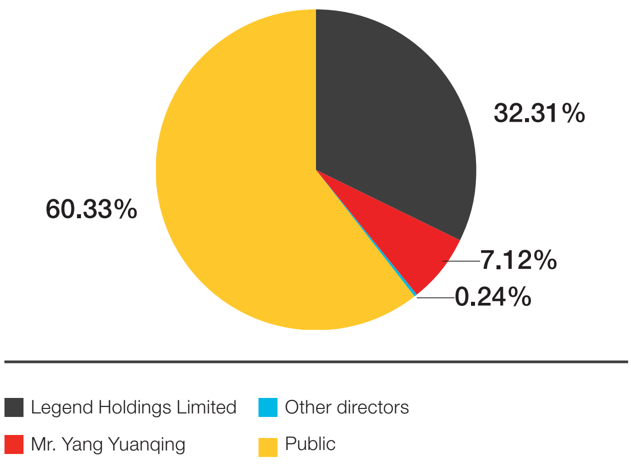
Remarks:

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

(ii) 66.37% 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 of March 31, 2013

Shareholding Structure as of March 31, 2013



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 10,439,152,059 Shares of the Company in issue as of March 31, 2013.

INFORMATION FOR INVESTORS

Ordinary Shares (as at 31 March 2013)	
Listing	Hong Kong Stock Exchange
Stock code	992
Board lot size	2,000 shares
Ordinary shares outstanding as of March 31, 2013	10,439,152,059 shares
Free float	6.3 billion shares
Market capitalization as of March 31, 2013	HK$80.5 billion (Approx. US$10.4 billion)

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, 2013	6.16 U.S. cents

Dividend per Share	
Dividend per ordinary share for the year ended March 31, 2013	
– Interim	4.5 HK cent
– Proposed final dividend	14.0 HK cents

Financial Calendar 2012/2013 (Hong Kong Time)	
First Quarter Results Announcement	August 16, 2012
Interim Results Announcement	November 8, 2012
Closure of Register of Members for Interim Dividend	November 23, 2012
Payment of 2012/13 Interim Dividend	December 3, 2012
Third Quarter Results Announcement	January 30, 2013
Annual Results Announcement	May 23, 2013
Annual General Meeting	July 16, 2013

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 as at the date of this annual report, is comprised of three members, all of whom are non-executive directors and the majority of whom including the Audit Committee chairman are independent non-executive directors.

The members who held office during the year and up to the date of this annual report are:

Chairman	Mr. Nicholas C. Allen	Independent non-executive director	
Member	Mr. Ting Lee Sen	Independent non-executive director	
Member	Ms. Ma Xuezheng	Non-executive director	
Member	Professor Woo Chia-Wei	Independent non-executive director	(resigned on July 3, 2012)

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**").

RESPONSIBILITIES

The Audit Committee is responsible for assisting the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls. It also reviews the effectiveness of the Company's internal audit function and manages the Company's relationship with PricewaterhouseCoopers ("**PwC**"), the external auditor. It acts in an advisory capacity and makes recommendations to the Board. The main responsibilities of the Audit Committee can be grouped into four different areas of competency:

AUDIT COMMITTEE
Main areas of oversight

Financial Reporting

- The quality and acceptability of accounting policies and practices
- The clarity of the disclosures and compliance with financial reporting standards
- Material areas in which significant judgements have been applied

Internal Audit and Controls

- Effectiveness of internal control system
- Scope of the internal audit work
- Analysis of main areas of risk
- Efficiency of internal audit function

External Audit, Engagement and Policies

- Appointment and remuneration
- Scope of the audit work
- Independence requirements
- Significant audit points
- Assessment of performance of external auditor

Others

- Tax and treasury matters
- Key litigation and legal exposure
- Compliance with ethical rules and concerns
- Related-party transactions

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 is authorised to obtain outside legal or other independent professional advice in performing its duties at the Company's expense. No request was made by any member for such advice during the year.

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. The General Counsel and other relevant people from the business are also invited to attend certain meetings in order to provide insight and enhance the Audit Committee's awareness of key issues and developments.

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.

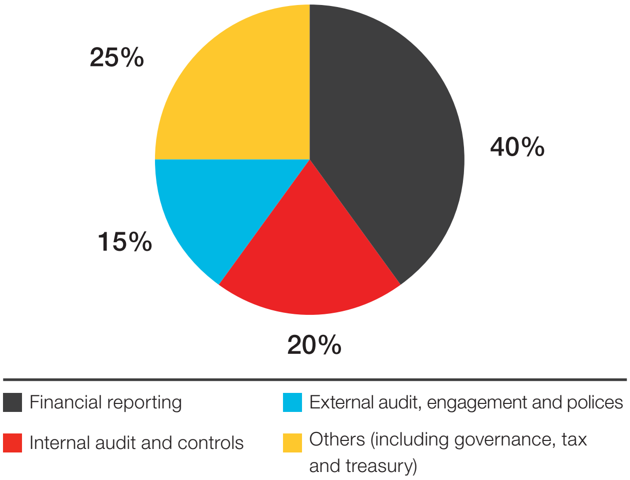
SUMMARY OF WORK DONE

In the fiscal year ended March 31, 2013, the Audit Committee held four meetings, with all members in attendance at each meeting. The attendance record of the Audit Committee's members is set out in the Corporate Governance Report on page 51.

The work of the Audit Committee follows an agreed annual work plan and principally falls under three main areas: financial reporting; internal audit and controls; and the oversight of external audit and the management of the Company's relationship with PwC. The chart shows how the Audit Committee allocated its time during the fiscal year 2012/13.

Audit Committee

Allocation of agenda time



At its four meetings during the year, the Audit Committee:

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, 2012 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, 2012 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, 2012 and for the nine months ended December 31, 2012 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 Compal Electronics, Inc. and EMC Corporation respectively and the acquisitions of Stoneware Inc. and CCE (or formally known as Digiboard Eletrônica da Amazônia Ltda., Digibrás Indústria do Brasil S.A. and Dual Mix Comércio de Eletrônicos Ltda.); (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, indirect tax receivables, slow moving inventories and doubtful receivables;
- Reviewed worldwide accounting and finance business transformation organization of the Group;

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 Group 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 FY2011/12 and the plan for FY2012/13; assessed the risk universe and the high risk items and reviewed the steps taken by management to control these risks;
- Reviewed the management letter point status and management system in related to revenue recognition and inventory, and reviewed the process taken by the Group;
- Reviewed the management process of investment projects and the internal controls related thereto, and reviewed the steps taken by the management for its improvement;

RELATIONSHIP WITH EXTERNAL AUDITOR

- Reviewed and considered the external auditor's statutory audit scope for the fiscal year 2012/13, 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, 2013, together with management's responses and/or comments to the findings;
- Assessed the external auditor's independence and objectivity including a review of the non-audit services provided 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, 2013;

OTHERS

- Reviewed the continuing connected transactions as set out in the directors' report of 2011/12 annual report of the Company and received the external auditor's confirmation letter on continuing connected transactions of the Group;
- Received and reviewed the reports from General Counsel regarding legal matters of the Group;
- Reviewed the whistleblowing mechanism of the Group for employees to raise concerns about possible improprieties in financial reporting, internal controls or other matters, and the proposed enhancements to this mechanism;

- Reviewed the cash management and investment of the Group;

- Reviewed the tax update of the Group;

- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2012/13.

At the meeting held on May 22, 2013, the Audit Committee reviewed and recommended to the Board the approval the audited financial statements of the Group for the year ended March 31, 2013 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 auditor, the Audit Committee concluded that for the year ended March 31, 2013, 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 53 to 56. The Audit Committee also confirmed that the Group had, in the fiscal year 2012/13, satisfactorily complied with the code provisions on internal controls as set forth in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

RECOMMENDATION FOR RE-APPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee recognizes the importance of maintaining the independence of the 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 57. 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, 2013 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 the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2014 for shareholders' approval at the forthcoming annual general meeting to be held on July 16, 2013.

PERFORMANCE AND EFFECTIVENESS

The Board undertook an annual review of its committees' performance and effectiveness. The review concluded that overall the Audit Committee was effective in carrying out its duties. Details of the Board and Board committees' evaluation process can be found under "Board and Board Committees' Evaluation" as set out in the Corporate Governance Report on pages 52 to 53.

PRIORITIES FOR 2013/14

Looking ahead, the priorities of the Audit Committee for the fiscal year 2013/14 are:

- To stay focused on financial accounting and reporting, audit quality, internal controls and risk management.

- To remain vigilant on the impacts of the economic conditions on the Group.

- To focus on the integration of the Group's control processes into new acquisitions and joint ventures.

Members of the Audit Committee

Mr. Nicholas C. Allen *(Chairman)*
Mr. Ting Lee Sen
Ms. Ma Xuezheng

COMPENSATION COMMITTEE REPORT

THE COMPENSATION COMMITTEE

The compensation committee (defined as "**Committee**" in this section) of the board of directors (the "**Board**") of Lenovo Group Limited (the "**Company**") as at the date of this annual report is comprised of four members, all of whom are non-executive directors of the Company (the "**Non-executive Directors**") and majority of whom including the Committee chairman are independent non-executive directors of the Company (the "**Independent Non-executive Directors**").

The members who held office during the year and up to the date of this annual report are:

Chairman	Mr. William O. Grabe	Independent Non-executive Director	
Member	Mr. Ting Lee Sen	Independent Non-executive Director	
Member	Ms. Ma Xuezheng	Non-executive Director	
Member	Mr. William Tudor Brown	Independent Non-executive Director	(appointed on May 23, 2013)
Observer	Mr. Zhu Linan	Non-executive Director	
Member	Professor Woo Chia-Wei	Independent Non-executive Director	(resigned on July 3, 2012)

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, 2013, the Committee held four meetings. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 51.

During the year, the Committee:

Review of Company and Market Information

- Reviewed the performance of the Company in FY2011/12 and market compensation update for executive
- Reviewed the analysis and the recommendation of an independent consultant on the FY2012/13 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
- Reviewed executive incentive plan

Compensation Program

- Reviewed and approved the FY2011/12 bonus payments and FY2012/13 compensation for senior management
- Reviewed and approved the FY2011/12 bonus payments and FY2012/13 compensation for Chairman of the Board and CEO
- Reviewed and approved the updated bonus plan design
- Reviewed and approved the compensation arrangements relating to retirement of Director
- Reviewed and approved FY2012/13 annual long-term incentive program ("**LTI Program**") awards for senior management
- Reviewed and approved FY2012/13 annual LTI Program awards for Chairman and CEO
- Reviewed and approved FY2013/14 LTI Program budget and timing change
- Reviewed and approved the compensation of Board observer

Others

- Reviewed and approved the compensation disclosure in the FY2011/12 annual report
- Reviewed the annual agenda 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

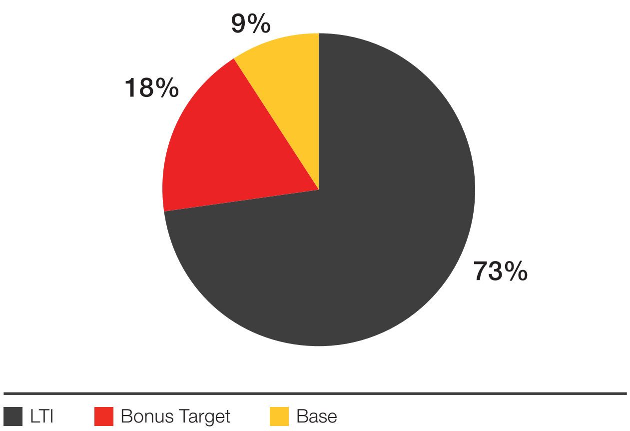
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of the current package and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

Chairman/CEO and Senior Management

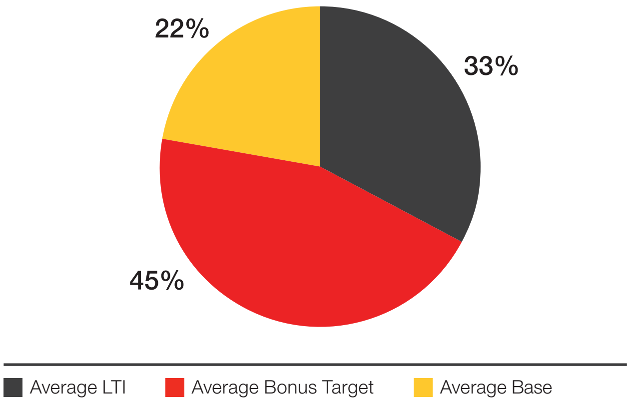
To ensure Lenovo's compensation for the Chairman/CEO and senior management reflect the policy and principles described above, the Committee considers a number of relevant factors in the determination of their compensation. Such factors include: salaries and total compensation paid by peer companies, 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.

Chairman and CEO Pay Mix



Senior Management Pay Mix (Average)



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 Scheme are set out on pages 101 to 102 in the Directors' Report.

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 103 to 106.

General Employees

As of March 31, 2013, the Group had approximately 35,026 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 Long Term Incentives ("**LTI**") awards are conducted on a yearly basis. Non-executive Directors' fees are reviewed for alignment with market practice on an annual basis as well.

Fiscal year 2012-13 Non-executive Directors Review

In May 2012, the Committee engaged an independent international compensation consulting firm to conduct an analysis of the compensation package of the 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 executive director of the Company only) based on the delegation from shareholders of the Company are summarized in the table below:

Compensation Element	2012/13	2011/12
Cash Retainer	**$82,500 USD**	$80,000 USD
LTI Award	**$180,000 USD**	$180,000 USD
Total Remuneration	**$262,500 USD**	$260,000 USD

* The LTI 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$27,500 (approximately HK$215,000), and the Chairman of the Compensation Committee received an additional cash payment of US$10,500 (approximately HK$81,500).

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, 2013 under this scheme are presented in the "Long-Term Incentive Schemes" section of this report.

Fiscal year 2012-13 Chairman/CEO and Senior Management Review

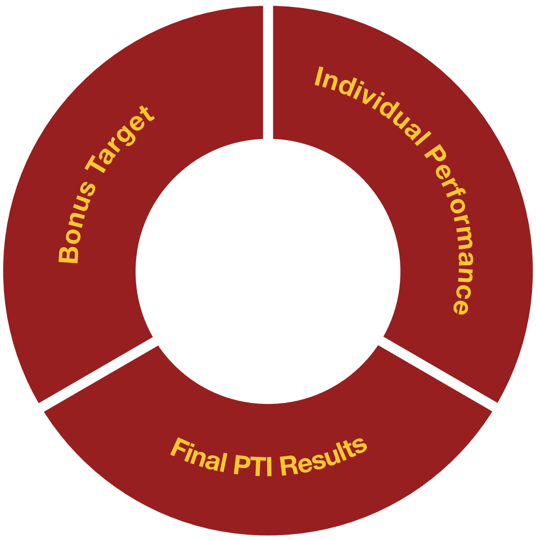
Fixed Compensation

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 2012, effective July 1, 2012.

To ensure the Chairman/CEO's compensation package remains competitive with the market, base pay for the Chairman/CEO was increased to US$1,200,000 (actual pay delivered in local currency). Base pay for senior management has been increased by 3% to 12% 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 2012/13 bonus payouts were approved in the May 2013 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 2012/13 will be delivered in June 2013.

Long-Term Incentive Program

In February 2013, 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, 2013 under the LTI Program are set out in the Long-Term Incentives Schemes section of this report.

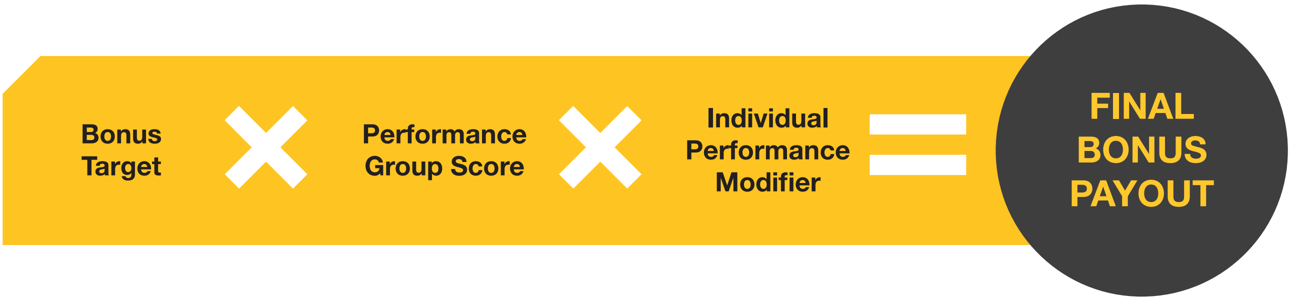
Fiscal Year 2012-13 Employees Review

Fixed Compensation

Each year management conducts a market review to ensure fixed compensation changes are aligned and competitive with market trends. The review incorporates input from several external survey providers and formal assessments of individual performance. Any approved market-based merit increases were effective from July 1, 2012.

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 2012/13 performance bonus, mid-year progress payment was made in December 2012, and full payment based on annual business outcomes will be trued-up in June 2013 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 2012/13, 12% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in February 2013.

Emoluments of Directors for FY2012/13 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 share option scheme 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 an 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 (the "**New Option Scheme**") and termination of the share option scheme that was adopted on January 18, 1994.

Pursuant to the terms of New Option Scheme, the New Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the New Option Scheme had been expired on April 26, 2012, and no further options could thereafter be granted under the New Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the New Option Scheme prior its expiration. Further details of the New Option Scheme are set out in the Directors' Report on pages 101 to 102.

Details of the movement of the share options of the Company during the year ended March 31, 2013 were as follows:

	Number of share options						
Category of participants	Held at April 1, 2012	Exercised during the year	Lapsed during the year	Held at March 31, 2013	Exercise price (HK$)	Grant date (mm. dd. yyyy)	Exercise period (mm. dd. yyyy)
Continuous contract employees	6,462,000	1,080,000	5,382,000	–	2.435	10.10.2002	10.10.2002 to 10.09.2012
	20,326,000	4,838,000	–	15,488,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	57,379,051	8,928,000	–	48,451,051	2.545	04.27.2004	04.27.2004 to 04.26.2014
Other participants	6,964,000	4,110,000	2,854,000	–	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,530,000	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$7.689.

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$6.624.

3. No share options are granted and/or cancelled under the New Option Scheme during the year.

4. The accounting policy adopted for the New Option Scheme is set out in note 2(x)(iv) to the financial statements. Other details are set out in note 30(b) to the financial statements.

LTI Program

The movements in the share awards during the financial year are as follows:

Long-Term Incentive Program

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2012 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2013 (unvested)	Total outstanding as at March 31, 2013	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	06/07	2.35	–	–	–	13,385,665	4,318,142	–	–	06.01.2007 – 06.01.2010
	SAR	07/08	3.94	–	–	–	6,002,009	2,861,212	–	–	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	984,963	–	984,964	–	–	–	3,939,855	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	11,400,000	–	5,700,000	–	–	5,700,000	22,800,000	05.25,2010 – 05.25,2013
	SAR	09/10	5.23	3,298,078	–	1,649,039	–	–	1,649,039	6,596,156	02.08.2011 – 02.08.2014
	SAR	10/11	4.92	8,272,664	–	2,757,555	–	–	5,515,109	11,030,219	02.21.2012 – 02.21.2015
	SAR	11/12	6.80	11,132,358	–	2,783,090	–	–	8,349,268	11,132,358	02.13.2013 – 02.13.2016
	RSU	08/09	5.88	262,657	–	262,657	–	–	–	–	06.01.2009 – 06.01.2012
	RSU	09/10	3.17	5,100,000	–	2,550,000	–	–	2,550,000	2,550,000	05.25,2010 – 05.25,2013
	RSU	09/10	5.23	2,473,559	–	1,236,779	–	–	1,236,780	1,236,780	02.08.2011 – 02.08.2014
	RSU	10/11	4.92	5,909,046	–	1,969,682	–	–	3,939,364	3,939,364	02.21.2012 – 02.21.2015
	RSU	11/12	6.80	6,679,415	–	1,669,854	–	–	5,009,561	5,009,561	02.13.2013 – 02.13.2016
	RSU	11/12	4.30	–	1,322,051	1,322,051	–	–	–	–	06.02.2012
	RSU	12/13	6.75	–	1,730,230	–	–	–	1,730,230	1,730,230	06.01.2013
Mr. Zhu Linan	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	87,932	–	87,932	–	–	–	87,932	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Ms. Ma Xuezheng	SAR	07/08	5.62	–	–	–	–	–	–	693,130	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	87,932	–	87,932	–	–	–	175,864	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2012 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2013 (unvested)	Total outstanding as at March 31, 2013	Vesting period (mm.dd.yyyy)
Dr. Wu Yibing	SAR	09/10	3.88	87,932	–	87,932	263,796	–	–	–	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	38,163	–	–	–	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	158,000	–	79,001	79,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	107,667	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Mr. Zhao John Huan	SAR	11/12	5.78	–	103,913	34,638	–	–	69,275	103,913	11.03.2012 – 11.03.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	11/12	5.78	–	49,482	16,494	–	–	32,988	49,482	11.03.2012 – 11.03.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Mr. Ting Lee Sen	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	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	87,932	–	87,932	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Dr. Tian Suning	SAR	07/08	5.14	–	–	–	–	–	–	151,950	09.01.2008 – 09.01.2010
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	87,932	–	87,932	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2012 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2013 (unvested)	Total outstanding as at March 31, 2013	Vesting period (mm.dd.yyyy)
Mr. Nicholas C. Allen	SAR	09/10	4.47	35,781	–	35,781	–	–	–	107,343	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	4.47	16,264	–	16,264	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Mr. Nobuyuki Idei	SAR	11/12	5.23	144,085	–	48,028	–	–	96,057	144,085	09.28.2012 – 09.28.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	11/12	5.23	68,612	–	22,870	–	–	45,742	45,742	09.28.2012 – 09.28.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
Mr. William O. Grabe	SAR	06/07	2.99	–	–	–	390,000	169,615	–	–	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	87,932	–	87,932	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	12,721	–	12,721	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	158,001	–	79,000	–	–	79,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	323,000	–	107,667	–	–	215,333	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	274,316	–	–	–	274,316	274,316	07.03.2013 – 07.03.2015
	RSU	09/10	3.88	39,969	–	39,969	–	–	–	–	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	5,783	–	5,783	–	–	–	–	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	79,001	–	39,500	–	–	39,501	39,501	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	153,810	–	51,270	–	–	102,540	102,540	08.19.2012 – 08.20.2014
	RSU	12/13	6.36	–	109,729	–	–	–	109,729	109,729	07.03.2013 – 07.03.2015
	RSU (Deferral)	11/12	5.78	–	30,169	30,169	–	–	–	–	Note 1
	RSU (Deferral)	11/12	6.73	–	25,961	25,961	–	–	–	–	Note 1
	RSU (Deferral)	12/13	6.23	–	28,387	28,387	–	–	–	–	Note 1
	RSU (Deferral)	12/13	6.96	–	25,940	25,940	–	–	–	–	Note 1
	RSU (Deferral)	12/13	8.07	–	22,372	22,372	–	–	–	–	Note 1
Mr. William Tudor Brown	SAR	12/13	8.07	–	53,476	–	–	–	53,476	53,476	01.31.2014 – 01.31.2016
	RSU	12/13	8.07	–	14,453	–	–	–	14,453	14,453	01.31.2014 – 01.31.2016

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.

PERFORMANCE AND EFFECTIVENESS

The Board undertook an annual review of its committees' performance and effectiveness. The review concluded that overall the Committee was effective in carrying out its duties. Details of the Board and Board committees' evaluation process can be found under "Board and Board Committees' Evaluation" as set out in the Corporate Governance Report on pages 52 to 53.

Members of the Compensation Committee

Mr. William O. Grabe *(Chairman)*
Mr. Ting Lee Sen
Ms. Ma Xuezheng
Mr. William Tudor Brown

CORPORATE SOCIAL RESPONSIBILITY REPORT

SUSTAINABILITY

Social responsibility can take many forms and mean different things to different people. Lenovo's viewpoint reflects our unique heritage, formed from our roots in both the East and the West. On our journey to becoming one of the world's largest personal technology companies, we have created new ways of doing things. We look at the world and see what it is becoming more than where it has been. We take our role in responsibly shaping the future seriously, and thus our approach to corporate citizenship reflects that dedication and commitment. We consistently work to improve, not only our performance and the quality of our products, but also how we do business, how we treat our people, the many communities we serve and the environment around us. That means we live up to our commitments and take ownership for what we do.

Under the leadership of Senior Vice President Peter Hortensius, our chief sustainability executive, Lenovo creates value for our local communities through planning, research and collaboration. As we expand globally, we hire top local and international talent to operate our businesses, and we invest in the future of each of these local markets. 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 causes that better our world.

Lenovo continues to set an example with sustainability programs that have been recognized by the global community. Lenovo was selected as a constituent stock of the 2012 Hang Seng Corporate Sustainability Index (HSCSI) for the third year in a row, acknowledging Lenovo's ongoing commitment to sustainability. Lenovo's "AA" ranking in 2012 is an improvement from the "A+" rating received in 2011 and is representative of our continuous efforts to be both sustainable and socially responsible. For the second consecutive year, Lenovo earned a position on the index's Honour Board, which puts it among the top 10 out of 636 companies examined. In addition, Lenovo is the top rated company in the index's Information Technology sector and the only company in its sector among the Hong Kong top 20. Lenovo is also 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 our 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 our long-term prospects for profitability.

Lenovo's sustainability commitments encompass:

- Ethics and Compliance at Lenovo
- Employee Health and Welfare
- Diversity
- Product Quality and Safety
- The Environment
- Global Supply Chain, and
- Social Investments

Lenovo is a signatory to 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 areas of human rights, labor, environment and anti-corruption.

In FY2012/13, Lenovo demonstrated progress in formalizing our sustainability programs, including publishing our first Corporate Sustainability Policy, signed and endorsed by Chairman and CEO Yuanqing Yang, and documenting sustainability factors in our risk management program's "Risk Registration Review."

Corporate Sustainability Policy

Lenovo is committed to ethical corporate citizenship and to promoting sustainability in all of its activities. We demonstrate these commitments through transparent and responsible management of our social, environmental, and economic values. These values respect and are informed by those of all of our stakeholders, including the communities with which we interact. The requirements listed below apply to Lenovo's worldwide operations. Every organization must support this policy and each manager and employee, as well as any contractor performing work on behalf of Lenovo, bears a personal responsibility to abide by the following principles:

Social

- Provide a safe, healthy, and enriching working environment for our employees
- Be a fair and responsible member of the communities in which we operate
- Work with our supply chain to ensure that Lenovo's values and expectations are upheld
- Extend the benefits of Lenovo experience, products, and successes to the communities in which we operate and contribute to their development
- As employees and as a company, be ethical and responsible citizens

Environmental

- Meet or exceed all environmental requirements wherever Lenovo does business
- Maintain an awareness of potential environmental influence and strive to continually reduce the environmental impacts of Lenovo's operations, products, and services
- Minimize Lenovo's climate change impact
- Be a responsible steward of resources

Economic

- Provide long term value for our investors and stakeholders
- Enable our customers to improve their own economic situation by providing the best technology and solutions
- Provide appropriate resources to fulfill these objectives

Each business unit at Lenovo is expected to incorporate sustainability objectives in their strategies and to continually improve their performance in this area.

Original signed by
Yuanqing Yang, Chief Executive Officer

Lenovo's sustainability commitments and 2012 highlights are summarized below. More extensive information on sustainability can be found at: http://www.lenovo.com/csr.

Ethics and Compliance at Lenovo

Lenovo promotes an organizational culture that encourages the highest ethical standards of business conduct and a commitment to compliance with all laws wherever we operate. Headed by the company's Chief Ethics and Compliance Officer, Lenovo's Ethics and Compliance Office works in partnership with our business units across the globe to ensure they operate within the letter and spirit of our legal and ethical obligations. The Office plays a critical role in providing the resources and information employees need to make well-informed choices and decisions.

An integral part of our ethics and compliance program is Lenovo's Code of Conduct that applies to all employees worldwide, describes clear expectations, and holds employees accountable for their behavior. The Code is available in seven languages and is accessible on our website along with other corporate policies at http://www.lenovo.com/CSRPolicies. Each newly hired Lenovo employee receives training and information about our ethics and compliance program, and all employees are required to participate in subsequent mandatory training sessions held on a regular basis.

Employees are directed to report to their managers or other company resources, including Human Resources, the Ethics and Compliance Office, Internal Audit, Corporate Security, or the Legal Department, any information pertaining to:

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

Lenovo provides formal, confidential ways to report potential violations of law, company policy or the Code of Conduct, including the LenovoLine, a confidential reporting system available 24 hours a day, seven days a week. Where allowed by law, employees may anonymously report concerns about business practices. All reported concerns are addressed and tracked to resolution.

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

- Makes a 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

Employee Health and Welfare

Lenovo is committed to providing a safe and healthy working environment for our employees. The Company's Global Occupation Health and Safety organization has established world-class standards for employee workplace safety. Lenovo is pursuing global volunteer initiatives, including having our global supply chain certified OHSAS 18001 compliant by Bureau Veritas.

Lenovo has received numerous "Best in Class" awards by government agencies for its wellness programs and low work-related injury and illness rates:

In December 2012, the Mexico State Secretary of Labor recognized the Lenovo Monterrey plant with the Program of Self-Assessment on Safety and Occupational Health in the Workplace certificate award.

In 2012, Lenovo Shenzhen (LIPC), China received governmental awards for *Model Safety Culture Enterprise Performance, Outstanding Contribution Organization* in occupational, health and safety, and the *Enterprise Health Management Excellence Performance* award at the Insurance Summit Forum and Organizing Committee, a forum organized by Chinese medical doctors.

Lenovo Beijing was recognized with the *Model Safety Culture Enterprise Performance Award* in workplace safety management and also received its second consecutive *Safety Outstanding Contribution Award* from the FuTian People's Government and Safety Management Committee.

Lenovo Shanghai was recognized with the 2012 *Production Safety Knowledge Competition* and *Excellent Occupational Health, Safety and Environmental Performance* awards by the local government.

Lenovo Huiyang was presented with the *Model Safety Management Enterprise Award* by the Huiyang Safety Management Bureau.

Lenovo Chengdu received the *ISO 14001 RMB 3000* Certificate from the High-Tech District.

In India, Lenovo Pondicherry was the recipient of the *Gold Certificate of Merit on Health and Safety*.

The North Carolina Department of Labor presented Lenovo's U.S. Fulfillment Center (USFC) in Whitsett, North Carolina, with its fifth consecutive *Gold Award* for accident prevention.

And, the Morrisville, North Carolina headquarters location was recognized by the North Carolina Department of Labor with its eighth consecutive *Gold Award* and will also be honored for recording almost 13 million hours without a lost time incident dating back to 2008.

Diversity

Lenovo views diversity as a key competitive advantage for the company and believes that leveraging our national and regional differences enables us to better understand our customers and address their needs. Having a workforce composed of people from various cultures enables us to capitalize on diverse perspectives in the development, manufacturing, marketing and sale of our products.

Diversity 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 our company successfully maneuver this new global reality because we have such a strong foundation for advocating for and advancing inclusion in our workplace. Diversity is an essential part of creating a process for how our current and future leaders can develop and leverage their skills to help make all of our business units more successful on a global scale.

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.

Our Women in Lenovo Leadership (WILL) initiative was launched in 2007 on International Women's Day with the objective of supporting a woman's growth and contributions to the company. WILL involves events, programs and processes to enhance work life balance, mentoring, networking, training and external partnerships with other women's initiatives. 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.

Another key diversity initiative is the quarterly Diversity Book Review. This initiative was started by Lenovo African American employees to enhance their personal and professional development. The group selects a business-related book to read and discuss. The discussions are usually lead by a senior manager or executive. The idea is to identify the key messages and learning points from the books that can be applied to the employee's personal and career growth. The book reviews have become very popular and are open to all employees.

Lenovo's Commitment to Diversity and Nondiscrimination is accessible on our website along with other corporate policies at http://www.lenovo.com/CSRPolicies.

Product Quality and Safety

Lenovo has a well-earned industry reputation for delivering superior quality products and is committed to ensuring that its products are safe throughout their life cycle. 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. Lenovo strives to ensure that our products meet all applicable legal requirements and voluntary safety and ergonomics practices to which Lenovo subscribes wherever our products are sold.

Lenovo's global Quality Management System, which has earned ISO 9001 certification, aims to achieve customer satisfaction and deliver superior products, solutions, and services, while meeting customer requirements. Lenovo's Quality Policy (see below) forms the foundation of our Quality Management System.

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.

Original signed by
Yuanqing Yang, Chief Executive Officer

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 affairs policy which applies to all operations and forms the foundation of Lenovo's Environmental Management System (EMS). The EMS establishes the framework through 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 the company'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.

ISO 14001 Registered Manufacturing & Development Facilities

Location	Primary Function(s)
No. 6 Chuangye Road, Beijing, China	Manufacturing – Administration
No.2 Building, No. 8 Chuangye Road, Beijing, China	Manufacturing – Administration
No. 32 Chuangye Middle Road, Beijing, China	Manufacturing – Administration
No. 6 Shangdi West Road, Beijing, China	Development
Lenovo Science & Technology Park, Huiyang , China	Manufacturing
No. 316 Boulevard Escobedo, Apodaca, NL, Mexico	Manufacturing
1009 Think Place, Morrisville, NC, U.S.	Development – Administration
No. 68 Building, 199 Fenju Road, Shanghai, China	Manufacturing
No. 2 Building, 955 Shangfeng Road, Shanghai, China	Manufacturing
696 Songtao Road, Shanghai, China	Development
No. 88 Tianjian Road, Chengdu, China	Manufacturing
ISH2 and Shuncang Buildings, Shenzhen, China	Manufacturing
Nanyi Road, Shenzhen, China	Development
RS No. 19, Thavalakuppam Village, Pondicherry, India	Manufacturing
6540 Franz Warner Parkway, Whitsett, NC, U.S.	Fulfillment Center
3-6-1 Minatomirai, Nishi-ku, Yokohama, Japan	Development
No. 999 Qisan North 2nd Road, Xiamen, China	Manufacturing

The Lenovo Environmental Affairs Policy (see below) provides corporate direction regarding how Lenovo manages its environmental impacts. The policy shapes our global environmental management system, the procedures and practices that make up that system and related objectives and targets. The importance of the direction established by this document is never more evident than in times of change. During FY 2012/13 Lenovo continued to experience great change – as we grew to become one of the leading personal technology companies in the world.

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.

Original signed by
Yuanqing Yang, Chief Executive Officer

This continued 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. During this major growth period we maintained focus on the key commitments of our Environmental Policy: working to ensure compliance, acting to prevent pollution and reduce our environmental impact, striving to develop products with industry leading environmental attributes and pushing to continually improve our global environmental performance.

These challenges included:

- Assuring the environmental attributes of network storage products under the LenovoEMC and Iomega brands are aligned with Lenovo's EMS requirements. The alignment of environmental processes and targets are still in the integration process for the newly formed LenovoEMC joint venture.

- Integrating Stoneware, the cloud computing company based in Indiana, U.S., into Lenovo's PC+ business. The environmental system of this acquired company will comply with all of Lenovo's environmental requirements.

- Assuring the design of the new manufacturing site in Itu, Brazil, has environmental attributes that minimize its environmental impact. The EMS for this site will be integrated into Lenovo's global EMS.

- Integrating the acquired CCE operations in Brazil into Lenovo's EMS. Taking into account unique opportunities of environmental features that this facility can offer will help Lenovo incorporate CCE into its EMS.

- Completing the expansion of the Whitsett, North Carolina, U.S. manufacturing and distribution center by including several environmental practices into the construction and fit-out of the building such as using recycled material, regional products, and/or implementing energy efficiency features.

- Ensuring a smooth integration of a new MIDH facility in Wuhan, China into Lenovo's EMS procedures.

Environmental compliance management during rapid growth can also be a challenge. FY 2012/13 saw increases in the number of products offered by Lenovo and the number of countries in which we offer them. At the same time, the year brought new regulatory and voluntary compliance commitments. Lenovo's compliance organization is supported by a global network of internal environmental focal points and external partners.

We also support our commitment to compliance through internal and external audits of our own facilities and those of our suppliers. The environmental and health and safety management systems at both our manufacturing and development sites are subjected to internal audits at least annually. These sites also undergo third-party environmental and health and safety audits at least once every three years, with most sites being audited twice every three years.

Lenovo also acts to ensure compliance in its supply chain, with Lenovo personnel performing environmental audits at the sites of our largest suppliers and those whose services potentially present significant environmental risks. We also require that our largest suppliers comply with the Electronics Industry Code of Conduct and verify this compliance through third-party audits. During FY 2012/13 Lenovo drove Tier 1 suppliers to perform 22 self-audits. Moreover, Lenovo has validated common suppliers for Medion, NEC and suppliers covered by our existing audit program.

In FY12/13, Lenovo added increased focus on environmental and sustainability risks into Lenovo's formal risk management process. Lenovo's risk management evaluation template now includes environmental risk categories such as environmental incidents, catastrophic weather conditions, and supply chain disruptions, among others. Annually, each business unit is required to identify risks, assess their impacts on Lenovo's strategy execution and develop risk mitigation plans.

Lenovo also continues to work internally and externally to reduce the environmental impact of its operations. The positive results of these efforts were demonstrated by the achievement of the first milestone of our ten-year greenhouse gas (GHG) reduction commitments at the beginning of FY 2011/12. As of March 31, 2011, we reduced our absolute Scope 2 greenhouse gas emissions relative to FY2009/10 by 10.4%. We also met our goal of either offsetting or eliminating all Scope 1 emissions, reducing our actual emissions by greater than 16.5% and purchasing offsets to carbon balance the remainder.

Lenovo achieved our second milestone to reduce Scope 2 emissions by 13% relative to FY 2009/10 and offset or eliminate all Scope 1 emissions on target by March 31, 2013. We accomplished this by:

1. Implementing energy efficiency projects at our facilities (HVAC upgrade in Bratislava, Slovakia; low energy lighting in Huiyang, Beijing, Shanghai, China and Yokohama, Japan; AC control optimization in Chengdu, China).

2. Installing a solar array at the manufacturing plant in Shanghai, China, which generated 209,835 kWh of solar energy between July 2012 – March 2013. This represents between 10-15% of the site's annual electricity consumption and is targeted to reduce GHG emissions by more than 400 MT CO_2e yearly.

3. Purchasing carbon offsets (4,000 MT CO_2e) and Renewable Energy Credits (40,303 MWh) from a carbon offset provider in China and the 2012 U.S. EPA Green Power supplier of the year in the United States.

For additional details on Lenovo's GHG emissions inventory and management, see Lenovo's Sustainability Reports and climate change website: http://www.lenovo.com/climate.

We are focusing on the next milestone in our ten-year initiative to reduce Scope 2 emissions by 16% relative to FY 2009/10 by March 31, 2016. All sites continue to identify and implement energy efficiency projects and evaluate opportunities to implement the use of renewable energy.

While we have demonstrated good progress during the early stages of our ten-year GHG reduction commitment, we are keenly aware there is still much to be done. In light of our impressive growth, we realize that accomplishing our longer term goals will be a significant challenge. With a continued focus on energy efficiency, Lenovo's Global Energy Management 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.

We are exploring opportunities to take energy efficiency to the next level through energy efficiency audits in our Huiyang and Xiamen manufacturing facilities and installing more renewable energy sources in facilities worldwide. Moreover we are looking into a carbon fee program and green revolving funds as a mean for financing energy and GHG reduction projects and making Lenovo's business units accountable for their own emissions and targeted reductions.

Lenovo's Global Real Estate team benchmarked energy, waste and GHG emissions best practices at all sites larger than 10,000 square feet and is working on developing management practices for sustainable real estate.

We continue efforts to improve our ability to quantify, track, and mitigate the impacts of our supply chain and our products. During FY 2012/13 we continued work with the Electronics Industry Citizenship Coalition (EICC) on the development of a carbon system to track the GHG emissions of our supply chain, engaging our suppliers' support in helping reduce GHG emissions. Working with suppliers representing 95% of our procurement spend we have improved our suppliers' inventory relative to GHG emissions. Our efforts with the EICC also continue to include work on tracking water impacts in our supply chain. This has allowed us to begin tracking the water performance of our suppliers and initiate dialogue regarding opportunities for improved performance and corrective actions for identified compliance issues.

Lenovo has established a product transportation carbon emissions baseline for FY 2011/12 and is working on improving data collection processes and increasing carriers' coverage in the baseline through the use of a web-based carbon dashboard. Lenovo participates in U.S. EPA SmartWay and is committed to support the incorporation of Green Freight Asia Network for promoting sustainable logistics practices.

We continue our engagement in the development of standards and tools to accurately quantify the lifetime impact of our products. Our 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 information and communications technologies (ICT) products. Lenovo is planning to participate in an ICT Product LCA Database project which is anticipated to kick off in May 2013. The project's goal is to develop a Chinese product life-cycle database for ICT products, parts and components. The initial step is gathering suppliers' data for carbon emissions determination. In the future, it is expected that the database will store information about water, air emissions, hazardous substances, etc., and provide methodologies, tools and training for users.

In addition, Lenovo continues to work with other members of the ICT industry, academia and the U.S. Environmental Protection Agency in the Product Attribute Impact Algorithm (PAIA) project. The project's goal is to develop a methodology and tools to simplify and expedite identifying the product carbon footprint for PCs. With the release of tools for notebooks, desktops and monitors, Lenovo is planning to publish product carbon footprint values for a typical notebook, desktop and visuals product during May 2013. Lenovo is committed to participate in the next phase of the PAIA project which will extend the PAIA methodology to two additional product classes: mobile computer devices (e.g., tablets) and all-in-one computers.

Lenovo is committed to disclosing its climate change management practices, results of the evaluation of our climate change risks and opportunities and our GHG emissions inventory through the CDP public reporting system. In FY 2012/13 Lenovo achieved a 2012 CDP score of 85 (out of a possible 100) which placed Lenovo in performance band B. Lenovo's CDP reports are publicly available at http://www.cdproject.net.

Lenovo is committed to reduce and recycle waste and conserve water. Lenovo tracks waste intensity and works to identify and implement opportunities to reduce waste quantities. We achieved a greater than 90% non-hazardous waste recycling rate for manufacturing and research and development sites over the past year. Lenovo generates only minimal amounts of hazardous waste and strives to reduce this amount year to year. Lenovo tracks and monitors water consumption in its operations even though it does not have any wet processes; water is used only for human consumption and sanitation. Lenovo is evaluating water impacts in its supply chain and monitors the regulatory performance of suppliers located in China using the Institute of Public & Environmental Affairs (IPE) database.

For additional details on Lenovo's waste and water inventory, see http://www.lenovo.com/waterandwaste.

Lenovo's energy and GHG emissions data for the last three years (beginning with the baseline year FY 2009/10) was third-party verified by Bureau Veritas. In addition, Lenovo's waste and water data for FY 2011/12 was third-party verified. Please see verification statements at http://www.lenovo.com/climate and http://www.lenovo.com/waterandwaste. Lenovo plans to verify FY 2012/13 GHG, waste and water data to a reasonable level of assurance.

Further details on our strategy, objectives, targets and environmental performance are available at http://www.lenovo.com/environment. Detailed results regarding our environmental performance are published in our annual sustainability report available at http://www.lenovo.com/sustainability.

Lenovo's Environmentally Conscious Products program focused in FY 2012/13 on the following key areas:

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

Lenovo PCC & PIC Usage over Time

In using recycled plastics, Lenovo supports its objective of reducing the carbon footprint of its products and has avoided the emission of greater than 65 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.

Increasing the energy efficiency and reducing the carbon footprint of Lenovo's products is another ongoing focus area. Lenovo offers a full complement of ENERGY STAR(r) qualified notebooks, desktops, workstations, monitors, and servers. In 2012, ENERGY STAR(r) availability within Lenovo's current offerings included:

- Approximately 98% of all notebook platforms, including Think, Idea, and Essential product lines
- Approximately 71% of all desktop platforms, including Think, Idea, and Essential product lines
- Approximately 92% of all workstation platforms (for pre-configured systems)
- Approximately 50% of all server platforms
- Approximately 96% of all monitors

In addition, many available notebook and desktop configurations exceeded the current ENERGY STAR(r) energy efficiency criteria by 10% to more than 25%. Seventy-five percent of all ENERGY STAR(r) qualified monitors exceeded the ENERGY STAR(r) 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 in which it does 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 improvement 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 of 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 Industry 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 each of its Tier one suppliers to adhere to the program including agreements 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 and safety and management systems.

In FY 2012/13, Lenovo supply chain operations continued to show improvement in supplier engagement and commitment to the EICC code with a three-step program. Over 95% of our procurement spend are committed to the EICC and have signed formal agreements. All of them are tracked to ensure they have completed annual self-assessments to understand where improvements are needed. Self-assessments are conducted with EICC on-line reporting tools. More than 90% of our Tier one suppliers have conducted the EICC audit in a timely manner and corrective actions have been tracked. Overall compliance between first round and second round audits has improved over 10% and aggregate compliance is over 90%. Finally, suppliers representing over 70% of our procurement spend are EICC or GeSI (Global e-Sustainability Initiative) members.

Lenovo participates with the EICC in the Greenhouse Gas (GHG) reporting program. In FY 2012/13, over 95% of our procurement spend reported their emissions. Through focus on reduction goals, supplier Scope 1 and 2 total emissions rates are flat even though Lenovo's growth in shipments in the same period is over 30%. We have validated that 80% of these suppliers have formal published reduction goals.

Lenovo also participates in EICC Conflict Minerals activities. We attend the Extractives and Due Diligence Workgroups, the Conflict Mineral conferences and will be using EICC due diligence tools to track the supply chain. We also have posted our Conflict Minerals policy on our website.

Lenovo plans to continue optimizing our logistics programs and working closely with our partners to ship products in the most environmentally responsible manner.

Lenovo Global Logistics set up a GHG emission baseline for international shipments in April 2012. The baseline was verified by Bureau Veritas North America in June 2012. Global Logistics will expand the baseline and measurement to domestic transportation and distribution centers across all Lenovo operations.

Global Logistics has been working on a Pallet Pooling System project. This project involves the collection of used pallets from carriers' facilities in Hong Kong and their reuse in Lenovo's distribution center in Shenzhen. It was estimated that this initiative will reduce approximately 640MT CO_2e per year. The anticipated first launch is in South China in June 2013. Lenovo also plans to expand the project to East China and subsequently to the rest of the world.

Global Logistics proactively drives ocean consolidation opportunities to reduce the number of containers shipped out of China manufacturing sites to reduce carbon emissions. The Ocean Consolidation Project was implemented in the third quarter of 2012. Implementing container utilization from China to Western Europe is estimated to deliver container utilization improvement of 18% and related CO_2 emission reduction of an estimated 10%.

In North America, Lenovo Global Logistics joined the EPA SmartWay program beginning in 2008 and will continue the program with EPA SmartWay in 2013, requesting its North American carriers comply with EPA SmartWay standards. In Asia Pacific, Lenovo Global Logistics is committed to support the incorporation of Green Freight Asia Network (GFAN). GFAN is a network of private companies working to increase the fuel/CO_2 efficiency and to lower the air pollution of freight transport in Asia Pacific region. Lenovo Global Logistics is also working closely with GFAN to identify opportunities to road test the GFAN standards and methodologies with domestic transportation in China.

SOCIAL INVESTMENTS

Lenovo's *Next Generation Hope Fund* is helping redefine how Lenovo and our employees support the communities where we live and do business. We enable *doers to do more* through social investment programs targeting education, entrepreneurship, disaster relief and regional community outreach. Lenovo provides assistance through financial 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 measure success, we evaluate the effectiveness of each investment against predefined goals upon program completion.

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

During FY 2012/13, Lenovo introduced an innovative competitive grant program targeting employees who play a significant volunteer role within a local non-profit organization. This program, *Employee Doers for Youth*, which was funded by Lenovo's Next Generation Hope Fund, provided three youth-focused non-profit organizations with a total financial and Lenovo laptop donation of up to US $20,000. Three region-based selection committees reviewed nearly 30 applications from Lenovo employees and selected the winners based on various categories including organization capacity and project impact.

Of the 793 million people in the world who are illiterate, two-thirds are female. To help address this inequity, Lenovo's Asia Pacific/Latin America region established an exclusive technology partnership with Room to Read, one of the fastest growing NGOs in the world, Lenovo has donated US $400,000 worth of ThinkPad laptops to support its Girls' Education Program in India, Vietnam and other countries in the Asia Pacific region.

The Lenovo ThinkPads will be used by Room to Read's staff and volunteers to improve their operational efficiency in monitoring and documenting the progress of more than 16,000 at-risk girls in these countries, and enhance the organization's effectiveness in program administrations. Room to Read senior spokespersons also use Lenovo ThinkPad technology as they travel around the world to raise awareness about Room to Read and its mission.

In 2012, Lenovo partnered with DoSomething.org and Microsoft Bing for "The Hunt: 11 Days of Doing," a campaign in the U.S. with TV celebrity spokesperson Shenae Grimes, inspiring teens across the nation to take action and make a real difference in their communities through 11 days of themed challenges. The Hunt embraced all facets of volunteerism on a variety of platforms focused on issues including the environment (energy), recycling, poverty and homelessness, violence and bullying, health and fitness, discrimination, disaster response and relief, education, and animal welfare. All three organizations combined resources and strategies utilizing traditional and social media to generate awareness for the 2012 campaign on a national scale.

In June 2012, Lenovo continued its support of the National Academy Foundation (NAF) by sponsoring regional students to attend NAF's annual Next conference held in Washington, DC. During fiscal year 2011/12, Lenovo donated ThinkPad laptops and tablets (US $150,000) and a financial contribution (US $75,000) to NAF to support an innovative application development competition that was held at five high schools in the United States. This pilot program was developed to encourage greater student interest in STEM (science, technology, engineering, and mathematics) subjects. At the Next conference, the sponsored NAF students presented their winning mobile application development projects and were recognized by Lenovo.

For six 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-roots 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 (approximately US $1 million) 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 3,000 employee members and approximately 50 committee members in China. This program is focused on sustainability initiatives in China, including narrowing the digital divide, environmental protection, educational assistance, poverty alleviation, and disaster relief. China's LCVA is instrumental in driving active and ongoing employee volunteer programs and is a critical component of Lenovo's social responsibility initiatives.

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 are unable to provide for themselves. In response to the May 2012 earthquake in the Emilia-Romagna region of Italy, Lenovo donated US $25,000 to the Italy Red Cross. Also, in 2011 Lenovo donated US $1,000,000 to the Japan Red Cross to support recovery efforts for the magnitude 9.1 earthquake and tsunami in Japan. In addition, Lenovo employees supported ASHINAGA, a Japan-based nonprofit that provides financial and emotional support to orphans in Japan, with a donation of over US $35,000.

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

DIRECTORS' REPORT

The directors of Lenovo Group Limited (the "Company") submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended March 31, 2013.

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 39 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 112 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2013 is set out in the consolidated and company balance sheets on pages 114 to 116 of this annual report.

The consolidated cash flows of the Group for the year are set out in the statement on page 117 of this annual report.

An interim dividend of HK4.5 cents (2012: HK3.8 cents) per ordinary share, amounting to a total of approximately HK$464.5 million (approximately US$59.9 million) (2012: approximately HK$392.2 million (approximately US$50.5 million)), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of HK14.0 cents per ordinary share for the year ended March 31, 2013 (2012: HK10.0 cents). Subject to shareholders' approval at the forthcoming annual general meeting ("AGM"), the proposed final dividend will be payable on Friday, July 26, 2013 to the shareholders whose names appear on the register of members of ordinary shares of the Company on Monday, July 22, 2013.

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

(i)	For determining shareholders' eligibility to attend and vote at AGM:	
	Latest time to lodge transfer documents for registration	4:30 p.m. on Monday, July 15, 2013
	Closure of register of members of ordinary shares	Tuesday, July 16, 2013
	Record date	Tuesday, July 16, 2013
(ii)	For determining shareholders' entitlement to the proposed final dividend:	
	Latest time to lodge transfer documents for registration	4:30 p.m. on Friday, July 19, 2013
	Closure of register of members of ordinary shares	Monday, July 22, 2013
	Record date	Monday, July 22, 2013

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at 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, 2013 and for the last four financial years are set out on page 184 of this annual report.

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, 2013, the distributable reserves of the Company amounted to US$290,204,000 (2012: US$231,799,000).

Bank Borrowings

Particulars of bank borrowings as at March 31, 2013 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$1,108,000 (2012: US$714,000).

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company during the year 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, 2013 are set out in notes 39 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 15% 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	17%
Five largest suppliers combined	24%

None of the directors of the Company, their associates or any shareholder (which to the knowledge of the directors owns more than 5% 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, the Company repurchased a total of 57,246,000 ordinary shares of HK$0.025 each in the capital of the Company at prices ranging from HK$5.54 to HK$6.49 per share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or "HKSE"). Details of the repurchases of such ordinary shares were as follows:

Month of the repurchases	Number of ordinary shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid (excluding expenses) HK$
June 2012	8,010,000	6.49	6.24	51,131,740
July 2012	49,236,000	6.48	5.54	291,171,260
	57,246,000			342,303,000

All 57,246,000 ordinary shares repurchased were cancelled on delivery of the share certificates during the year and the issued share capital of the Company was accordingly diminished by the nominal value of the repurchased ordinary shares so cancelled. The premium paid on repurchase of such ordinary shares was charged against the share premium account of the Company.

During the year ended March 31, 2013, the trustee of the long-term incentive program of the Company purchased 106,968,000 ordinary shares from the market for award to employees upon vesting. Details of the program are set out under section headed "Long-Term Incentive Program" in the Compensation Committee Report on page 72 of this annual report.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended March 31, 2013.

Directors

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

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

Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe
Mr. William Tudor Brown (appointed on January 30, 2013)
Professor Woo Chia-Wei (resigned on July 3, 2012)

In accordance with articles 92 and 101 of the Company's articles of association, Mr. William Tudor Brown, Mr. Yang Yuanqing, Dr. Wu Yibing, Dr. Tian Suning and Mr. Nicholas C. Allen will retire and are eligible for re-election at the AGM.

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 ("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, 69, has been the Honorary Chairman and a Senior Advisor of the Company since 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 Xi'an Military Communications Engineering Institute (now Xidian University) in China and has substantial experience in corporate management. Mr. Liu is the chairman of Legend Holdings Limited, the controlling shareholder of the Company.

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 48, is Chief Executive Officer and an executive director of the Company and has been appointed as the 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.

Biography of directors *(continued)*

Non-executive directors

Mr. Zhu Linan, 50, 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, president and member of executive committee 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).

Ms. Ma Xuezheng, 60, 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 Advisory Company Limited and a member of the Listing Committee of the HKSE. Besides, she is also a non-executive director of Wumart Stores, Inc., STELUX Holdings International Limited (HKSE listed), the non-executive director of Unilever N.V. (NYSE and Euronext Amsterdam listed) and Unilever PLC (NYSE and London Stock Exchange listed) and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited.

Dr. Wu Yibing, 45, has been a non-executive director of the Company since 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 a managing director and executive vice president of Legend Holdings Limited, the controlling shareholder of the Company, and the chief integration officer, chief strategy officer 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 board of China Social Entrepreneur Foundation.

Mr. Zhao John Huan, 50, has been a non-executive director of the Company since 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, executive vice president and member of executive committee of Legend Holdings Limited, the controlling shareholder of the Company and the president of Hony Capital Limited.

Mr. Zhao was a director of Jiangsu Phoenix Publishing & Media Corporation Limited (Shanghai Stock Exchange listed) and an independent director of Gemdale Corporation (Shanghai Stock Exchange listed). Besides, he currently holds the following directorship; a director of Simcere Pharmaceutical Group (NYSE listed), an executive director of CSPC Pharmaceutical Group Limited and non-executive director of Wumart Stores, Inc., China Glass Holdings Limited, Chinasoft International Limited and New China Life Insurance Company Ltd. (all HKSE listed) and an independent director of Fiat Industrial S.P.A. (MTA Italian Stock Exchange listed).

Independent non-executive directors

Mr. Ting Lee Sen, 70, 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 partner of WR Hambrecht Ventures I and II, 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, 49, 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 2004 to 2007. He was the chief executive officer of China Netcom Corporation Ltd. from 1999 to 2004 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 China Jiuhao Health Industry Corporation Limited (HKSE listed).

Biography of Directors and Senior Management *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Nicholas C. Allen, 58, 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), an independent non-executive director of VinaLand Limited (London Stock Exchange AIM listed) and Texon International Group Limited.

Mr. Nobuyuki Idei, 75, has been an independent non-executive director of the Company since 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. He was also the chairman of Sony's advisory board from June 2005 to June 2012. 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). 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, 75, has been re-designated as an independent non-executive director of the Company since February 8, 2012. He was appointed as the lead independent director of the Company on May 23, 2013. 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 LLC 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).

Mr. William Tudor Brown, 54, has been appointed as an independent non-executive director of the Company on January 30, 2013. Mr. Brown is a Chartered Engineer and holds an MA (Cantab) Degree in Electrical Sciences from Cambridge University. He is a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. Mr. Brown was one of the founders of ARM Holdings plc (London Stock Exchange and NASDAQ listed). In ARM Holdings plc, he served as an engineering director from 1993 and chief technical officer from 1997 to October 2000, executive vice president for global development from October 2000 to October 2001, and chief operating officer from October 2001 to July 2008. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. He served as a director at ARM Holdings plc from October 2001 to May 3, 2012 and became president of ARM Holdings plc in July 2008. He also served as director of ARM Ltd. since 1993. Before joining ARM Holdings plc, he was principal engineer at Acorn Computers Ltd., working exclusively on the ARM research & development programme since 1984.

Mr. Brown was a non-executive director and a senior independent director of ANT plc (London Stock Exchange listed) until his retirement from these positions in February 2013. He served on the UK Government Asia Task Force until May 2012. He also sits on the advisory board of Annapurna Labs.

Biography of senior management

(in alphabetical order of surname)

Mr. He Zhiqiang, 50, joined the Group in 1986 and is the Senior Vice President of the Company and Chief Technology Officer with responsibility for technology strategy, research & technology systems and technology exploration of emerging areas. Prior to that, Mr. He held various leadership positions in Lenovo particularly in overseeing Lenovo's research & technology 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.

Dr. Peter D. Hortensius, 52, joined the Group in May 2005 and is currently the Senior Vice President of the Company and President of Think Business Group responsible for driving leadership in Lenovo's core global commercial business, creating a premium consumer brand across a wide range of products (especially desktop, notebook and tablet), growing Lenovo's workstation business, and managing Lenovo's global enterprise products business. 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 research & development. He holds a Doctorate degree in Electrical Engineering from the University of Manitoba.

Biography of Directors and Senior Management *(continued)*

Biography of senior management *(continued)*

Mr. Gianfranco Lanci, 58, joined the Group in April 2012 and is currently Senior Vice President of the Company and President of the EMEA geography. Mr. Lanci has 31 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, 44, joined the Group in 1993 and is currently Senior Vice President of the Company and President of Lenovo Business Group responsible for driving Lenovo's mainstream consumer/commercial desktop, notebook and tablet businesses and also the growth across the Mobile Internet & Digital Home portfolio including smartphone and smart TV. 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, 45, 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 P. Smith, 49, joined the Group in August 2006 and is currently Senior Vice President of the Company and President of Americas geography. Prior to that, Mr. Smith was senior vice president of Global Operations and was responsible for end-to-end supply chain management encompassing order management, supply planning, procurement, manufacturing, logistics and fulfilment operations, as well as Lenovo's global services and quality teams. 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, 50, joined the Group in May 2005 and is currently Senior Vice President of the Company and President of the Asia Pacific geography and Global Accounts. 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, 55, 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 Chief Financial Officer 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, United Kingdom.

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, subsisted at the end of the year or at any time during the year.

Directors' Interests

As at March 31, 2013, 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

Name of director	Interests in shares/ underlying shares	Capacity and number of shares/ underlying shares held: Personal interests	Family interests	Corporate interests	Aggregate Long position	Approximate percentage of interests *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	57,661,876	–	686,000,000 *(Note 3)*	743,661,876	
	Share awards	69,964,523	–		69,964,523	
					813,626,399	7.80%
Mr. Zhu Linan	Ordinary shares	4,808,145	–	–	4,808,145	
	Share awards	1,408,162	–	–	1,408,162	
					6,216,307	0.06%
Ms. Ma Xuezheng	Ordinary shares	14,977,551	–	2,240,000	17,217,551	
	Share awards	2,189,224	–	–	2,189,224	
					19,406,775	0.19%
Dr. Wu Yibing	Ordinary shares	820,421	–	–	820,421	
	Share awards	–	–	–	–	
					820,421	0.01%
Mr. Zhao John Huan	Ordinary shares	16,494	–	–	16,494	
	Share awards	520,946	–	–	520,946	
					537,440	0.01%
Mr. Ting Lee Sen	Ordinary shares	540,955	–	–	540,955	
	Share awards	1,881,026	–	–	1,881,026	
					2,421,981	0.02%
Dr. Tian Suning	Ordinary shares	398,434	–	–	398,434	
	Share awards	1,735,976	–	–	1,735,976	
					2,134,410	0.02%
Mr. Nicholas C. Allen	Ordinary shares	181,871	–	–	181,871	
	Share awards	1,193,430	–	–	1,193,430	
					1,375,301	0.01%
Mr. Nobuyuki Idei	Ordinary shares	23,012	–	–	23,012	
	Share awards	573,872	–	–	573,872	
					596,884	0.01%
Mr. William O. Grabe	Ordinary shares	1,424,176	–	–	1,424,176	
	Share awards	1,881,026	–	–	1,881,026	
					3,305,202	0.03%
Mr. William Tudor Brown	Ordinary shares	–	–	–	–	
	Share awards	67,929	–	–	67,929	
					67,929	0.01%

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 on page 72 of this annual 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 in which Mr. Yang Yuanqing holds more than one-third of the issued share capital. Therefore, Mr. Yang is taken to have an interest in 686,000,000 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, 2013, 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 an 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 (the "New Option Scheme") and termination of the share option scheme that was adopted on January 18, 1994.

Pursuant to the terms of New Option Scheme, the New Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the New Option Scheme had been expired on April 26, 2012, and no further options could thereafter be granted under the New Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the New Option Scheme prior its expiration.

1. 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*

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the New Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 10% of ordinary shares in issue on the date of approval of the New Option Scheme. The maximum number of ordinary shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Option Scheme and any share option scheme(s) of the Company must not exceed 30% of ordinary shares in issue from time to time.

As at March 31, 2013, share options were outstanding under the New Option Scheme entitling the holders to subscribe for 63,939,051 ordinary shares of the Company, which represented approximately 0.61% 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)*

1. *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 Company's ordinary shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options; (ii)) the average of the closing prices of the Company's ordinary shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of the 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.

2. *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 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, 2013 are set out under the section headed "Long-Term Incentive Schemes" in the Compensation Committee Report.

Save as disclosed in the sections headed "Directors' Interests", "Share Option Scheme and "Long-Term Incentive Program" of this report, and "Long-Term Incentive Program" of the Compensation Committee Report, at no time during the year ended March 31, 2013 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, 2013, 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	705,159,317 *(Note 2)*	3,372,796,041	32.32%
	Short position	–	117,740,000 *(Note 2)*	117,740,000	1.13%
Right Lane Limited	Long position	705,159,317	–	705,159,317	6.76%
	Short position	117,740,000	–	117,740,000	1.13%
Sureinvest Holdings Limited	Long position	686,000,000 *(Note 3)*	–	686,000,000	6.57%

* *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 686,000,000 shares of the Company's issued share capital held by SHL under the SFO. This interest is also included as corporate interests of Mr. Yang Yuanqing in the above section headed "Directors' Interests".

Save as disclosed above, as at March 31, 2013, 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 Chinese Mainland. 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.

Retirement Scheme Arrangements *(continued)*

Defined Benefit Pensions Plans *(continued)*

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

The Company provides US 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, 2013, an amount of US$2,701,893 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, 2013 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:	3.50%
– Expected return on plan assets:	3.50%
– Future salary increases:	3.00%

- The qualified plan was 59% funded at the actuarial valuation date.
- There was a net liability of US$33,403,842 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, 2013, an amount of Yen 442,705,658 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, 2013 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:	1.75%
– Expected return on plan assets:	1.75%
– Future salary increases:	Age-group based

- The plan was 88% funded at the actuarial valuation date.
- There was a net liability of Yen 1,283,259,931 under this plan at the actuarial valuation date.

Retirement Scheme Arrangements *(continued)*

Defined Benefit Pensions Plans *(continued)*

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.

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, 2013, an amount of EUROS 1,316,531 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, 2013 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:	2.75%
– Future salary increases:	Age-group based
– Future pension increases:	1.75%

- The plan was 64% funded at the actuarial valuation date.
- There was a net liability of EUROS 12,159,631 under this plan at the actuarial valuation date.

Defined Contribution Plans

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

US 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% of the employee's contribution up to the first 6% 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% 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 three-year vesting. Forfeitures of Company contributions arising from employees who leave before they are fully vested are used to reduce future Lenovo contributions. For the period April 1, 2012 to March 31, 2013, the amount of forfeitures accumulated was US$266,500 while an amount of US$327,932 had been used to reduce Company contributions, leaving US$23,555 at March 31, 2013 to be used to reduce Company 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, 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.

Retirement Scheme Arrangements *(continued)*

Defined Contribution Plans *(continued)*

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.

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% 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% to 7.5% and 10% respectively after completion of five and ten years of service by the relevant employees.

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

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 rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

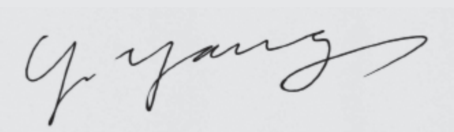
Auditor

The financial statements for the year 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% of the Company's issued shares as required under the Listing Rules.

On behalf of the Board



Yang Yuanqing

Chairman and Chief Executive Officer

May 23, 2013

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 112 to 183, which comprise the consolidated and company balance sheets as at March 31, 2013, 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, 2013, 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, 2013

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2013

	Note	2013 US$'000	2012 US$'000
Revenue	5	**33,873,401**	29,574,438
Cost of sales		**(29,799,511)**	(26,128,216)
Gross profit		**4,073,890**	3,446,222
Other income – net	6	**19,907**	1,199
Selling and distribution expenses		**(1,888,101)**	(1,690,778)
Administrative expenses		**(846,688)**	(730,294)
Research and development expenses		**(623,987)**	(453,334)
Other operating income – net		**64,984**	11,070
Operating profit	7	**800,005**	584,085
Finance income	8(a)	**44,881**	42,693
Finance costs	8(b)	**(42,869)**	(43,484)
Share of losses of associates and jointly controlled entities		**(718)**	(851)
Profit before taxation		**801,299**	582,443
Taxation	9	**(169,707)**	(107,027)
Profit for the year		**631,592**	475,416
Profit/(loss) attributable to:			
Equity holders of the Company		**635,148**	472,992
Non-controlling interests		**(3,556)**	2,424
		631,592	475,416
Earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US6.16 cents**	US4.67 cents
Diluted	12(b)	**US6.07 cents**	US4.57 cents
Dividends	13	**247,674**	183,214

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2013

	Note	2013 US$'000	2012 US$'000
Profit for the year		**631,592**	475,416
Other comprehensive income/(loss):			
Fair value change on available-for-sale financial assets, net of taxes	22, 9	**(4,057)**	(36,337)
Fair value change on cash flow hedges, net of taxes	9		
– Interest rate swap contracts			
Fair value loss, net of taxes		**–**	(763)
Reclassified to consolidated income statement		**–**	1,778
– Forward foreign exchange contracts			
Fair value gain, net of taxes		**40,725**	23,233
Reclassified to consolidated income statement		**(20,953)**	9,610
Actuarial loss from defined benefit pension plans, net of taxes	36, 9	**(18,806)**	(34,703)
Currency translation differences		**(118,602)**	(51,055)
		(121,693)	(88,237)
Total comprehensive income for the year		**509,899**	387,179
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**513,455**	389,366
Non-controlling interests		**(3,556)**	(2,187)
		509,899	387,179

CONSOLIDATED BALANCE SHEET

At March 31, 2013

	Note	2013 US$'000	2012 US$'000
Non-current assets			
Property, plant and equipment	14	**479,777**	392,474
Prepaid lease payments	15	**36,522**	13,552
Construction-in-progress	16	**184,051**	103,986
Intangible assets	17	**3,326,418**	3,091,205
Interests in associates and jointly controlled entities	19	**2,763**	3,410
Deferred income tax assets	21	**349,389**	332,493
Available-for-sale financial assets	22	**69,962**	71,946
Other non-current assets		**43,378**	31,282
		4,492,260	4,040,348
Current assets			
Inventories	23	**1,964,791**	1,218,494
Trade receivables	24(a)	**2,885,039**	2,354,909
Notes receivable	24(b)	**572,992**	639,331
Derivative financial assets		**99,491**	62,883
Deposits, prepayments and other receivables	24(c)	**3,235,465**	3,303,053
Income tax recoverable		**58,822**	70,406
Bank deposits	25	**119,055**	413,672
Cash and cash equivalents	25	**3,454,082**	3,757,652
		12,389,737	11,820,400
Total assets		**16,881,997**	15,860,748

	Note	2013 US$'000	2012 US$'000
Share capital	30	**33,465**	33,131
Reserves		**2,633,178**	2,328,104
Equity attributable to owners of the Company		**2,666,643**	2,361,235
Non-controlling interests	38	**226,438**	86,734
Put option written on non-controlling interest	29(iii)	**(212,900)**	–
Total equity		**2,680,181**	2,447,969
Non-current liabilities			
Bank borrowings	28	**303,133**	–
Warranty provision	27(b)	**279,255**	291,111
Deferred revenue		**403,540**	381,593
Retirement benefit obligations	36	**163,883**	204,818
Deferred income tax liabilities	21	**113,992**	83,594
Other non-current liabilities	29	**846,539**	641,986
		2,110,342	1,603,102
Current liabilities			
Trade payables	26(a)	**3,624,500**	4,050,272
Notes payable	26(b)	**99,503**	127,315
Derivative financial liabilities		**69,053**	49,253
Other payables and accruals	27(a)	**6,852,344**	6,349,134
Provisions	27(b)	**776,640**	725,062
Deferred revenue		**393,417**	310,159
Income tax payable		**100,179**	135,530
Bank borrowings	28	**175,838**	62,952
		12,091,474	11,809,677
Total liabilities		**14,201,816**	13,412,779
Total equity and liabilities		**16,881,997**	15,860,748
Net current assets		**298,263**	10,723
Total assets less current liabilities		**4,790,523**	4,051,071

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

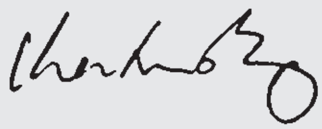
BALANCE SHEET

At March 31, 2013

	Note	2013 US$'000	2012 US$'000
Non-current assets			
Property, plant and equipment	14	**2,218**	1,224
Construction-in-progress	16	**3,967**	4,607
Intangible assets	17	**52,133**	45,802
Investments in subsidiaries	18(a)	**2,807,103**	2,472,880
		2,865,421	2,524,513
Current assets			
Derivative financial assets		**–**	953
Deposits, prepayments and other receivables	24(c)	**1,722**	5,928
Amounts due from subsidiaries	18(b)	**412,660**	777,818
Cash and cash equivalents	25	**6,511**	37,124
		420,893	821,823
Total assets		**3,286,314**	3,346,336
Share capital	30	**33,465**	33,131
Reserves	31	**1,956,823**	1,919,483
Total equity		**1,990,288**	1,952,614
Non-current liabilities			
Bank borrowings	28	**300,000**	–
Other non-current liabilities	29	**301,710**	256,818
		601,710	256,818
Current liabilities			
Derivative financial liabilities		**238**	796
Other payables and accruals	27(a)	**17,415**	31,637
Amounts due to subsidiaries	18(b)	**676,663**	1,104,471
		694,316	1,136,904
Total liabilities		**1,296,026**	1,393,722
Total equity and liabilities		**3,286,314**	3,346,336
Net current liabilities		**273,423**	315,081
Total assets less current liabilities		**2,591,998**	2,209,432

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer



Ma Xuezheng
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2013

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Net cash generated from operations	35	**245,383**	2,126,765
Interest paid		**(33,452)**	(38,477)
Tax paid		**(192,401)**	(148,332)
Net cash generated from operating activities		**19,530**	1,939,956
Cash flows from investing activities			
Purchase of property, plant and equipment		**(106,331)**	(101,238)
Sale of property, plant and equipment		**2,266**	6,311
Acquisition of subsidiaries, net of cash acquired	37(c)	**(137,052)**	(172,316)
Interests acquired in jointly controlled entities		**–**	(3,237)
Payment for construction-in-progress		**(277,003)**	(205,601)
Payment for intangible assets		**(57,978)**	(22,354)
Payment for prepaid lease payments		**(5,026)**	–
Purchase of available-for-sale financial assets		**(4,104)**	(10,055)
Proceeds from disposal of an associate		**–**	145
Decrease/(increase) in bank deposits		**294,617**	(371,514)
Dividend received		**362**	95
Interest received		**44,881**	42,693
Net cash used in investing activities		**(245,368)**	(837,071)
Cash flows from financing activities			
Exercise of share options		**6,403**	10,889
Repurchase of shares		**(44,122)**	–
Contributions to employee share trusts		**(91,280)**	–
Capital contribution from non-controlling interest		**147,700**	–
De-recognition of contingent consideration	29(i)	**(119,991)**	–
Dividends paid		**(194,676)**	(114,687)
Increase in ownership interest in a subsidiary		**(1,493)**	–
Proceeds from bank borrowings		**360,230**	41,498
Repayments of bank borrowings		**(130,974)**	(253,224)
Net cash used in financing activities		**(68,203)**	(315,524)
(Decrease)/increase in cash and cash equivalents		**(294,041)**	787,361
Effect of foreign exchange rate changes		**(9,529)**	15,793
Cash and cash equivalents at the beginning of the year		**3,757,652**	2,954,498
Cash and cash equivalents at the end of the year	25	**3,454,082**	3,757,652

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2013

	Attributable to equity holders of the Company												
	Share capital US$'000	Share premium US$'000	Investment revaluation reserve US$'000	Share redemption reserve US$'000	Employee share trusts US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Non-controlling interests US$'000	Put option written on non-controlling interest US$'000	Total US$'000
At April 1, 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 of a subsidiary	–	–	–	–	–	–	–	–	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
At April 1, 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
Profit for the year	–	–	–	–	–	–	–	–	–	635,148	(3,556)	–	631,592
Other comprehensive (loss)/income	–	–	(4,057)	–	–	–	19,772	(118,602)	–	(18,806)	–	–	(121,693)
Total comprehensive (loss)/income for the year	–	–	(4,057)	–	–	–	19,772	(118,602)	–	616,342	(3,556)	–	509,899
Contribution from non-controlling interest (Note 38)	–	–	–	–	–	–	–	–	–	–	147,700	–	147,700
Put option written on non-controlling interest (Note 29(iii))	–	–	–	–	–	–	–	–	–	–	–	(212,900)	(212,900)
Transfer to statutory reserve	–	–	–	–	–	–	–	–	164	(164)	–	–	–
Issue of ordinary shares (Note 30)	452	108,070	–	–	–	–	–	–	(36,555)	–	–	–	71,967
Exercise of share options	67	6,336	–	–	–	–	–	–	–	–	–	–	6,403
Repurchase of shares	(185)	(44,122)	–	185	–	–	–	–	–	–	–	–	(44,122)
Vesting of shares under long-term incentive program	–	–	–	–	96,941	(133,951)	–	–	–	–	–	–	(37,010)
Share-based compensation	–	–	–	–	–	77,724	–	–	–	–	–	–	77,724
Contribution to employee share trusts	–	–	–	–	(91,280)	–	–	–	–	–	–	–	(91,280)
Dividends paid	–	–	–	–	–	–	–	–	–	(191,729)	(2,947)	–	(194,676)
Increase in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,493)	–	(1,493)
At March 31, 2013	33,465	1,654,806	16,080	1,188	(22,197)	(3,149)	35,079	(166,850)	64,457	1,053,764	226,438	(212,900)	2,680,181

NOTES TO THE FINANCIAL STATEMENTS

1 General information and basis of preparation

Lenovo Group Limited (the "Company") and its subsidiaries (together, the "Group") develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial personal computers and Idea-branded consumer personal computers, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company has its listing on The Stock Exchange of Hong Kong Limited.

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 newly effective amendment to existing standards that is mandatory for the year ended March 31, 2013 and considered appropriate and relevant to its operations. The adoption of this newly effective amendment 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, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ended March 31, 2013 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 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 10, HKFRS 11 and HKFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1, 2013
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011), Investment entities	January 1, 2014

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

Changes in presentation

The Group announced a new organizational structure that became effective in April 2012 with the creation of new reporting business units based upon geographic efficiencies, cost savings and customer value, namely China, Asia-Pacific/Latin America ("APLA"), Europe-Middle East-Africa ("EMEA") and North America. The Group's original market structure had achieved rapid business growth through the alignment of its strategic direction and business acquisition. The new geographical structure is created in recognition that the Group's continued success depends on staying as close to its customers as possible, and will help ensuring the Group remains in the strongest position to execute its worldwide strategy going forward.

1 General information and basis of preparation *(continued)*

Changes in presentation *(continued)*

In addition to the adoption of the new structure, the Group reviewed the shared segment expenses and identified those costs that are more geographic oriented, and with effect from the current fiscal year, the cost allocation was changed from a flat rate basis with reference to revenue contribution to a combination of actual usage and revenue contribution basis. The new basis provides a better reflection of the segment operating results for management's assessment of the business. The comparative segment information has been reclassified to conform to the presentation of current organizational structure and allocation basis.

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 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 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, balances, income and expenses on transactions 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.

For subsidiaries which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2012 and 2013 have been used for the preparation of the Group's consolidated financial statements.

(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; any gains or losses arising from such re-measurement are recognized in 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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and, in a business combination achieved in stages the acquisition-date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed (Note 2(g)(i)). If it is less than the fair value of the net assets of the subsidiary acquired, 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 equity.

Written put option liability is subsequently re-measured at fair value as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to 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.

If the ownership interest in an associate or a jointly controlled entity 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 where necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

For associates and jointly controlled entities which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2012 and 2013 have been used for the preparation of the Group's consolidated financial statements.

(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 Lenovo Executive Committee (the "LEC") 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, which is the Company's functional and the Group's 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 monetary assets and liabilities denominated in foreign currency 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. Exchange differences arising therefrom are recognized as other comprehensive income and included in the exchange reserve in equity.

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, loss of joint control of a jointly controlled entity, 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 re-attributed to non-controlling interests and are not recognized in the consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in an associate or a jointly controlled entity that do not result in the Group losing influence or joint control), 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 buildings, 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 carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

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 acquiree's identifiable assets acquired and liabilities assumed 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 trade names 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 8 years.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships 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 or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell 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 not more than 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 not more than 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(n) and 2(o)).

(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 maturity of the 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 as 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 as 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) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantees are given. Provision of financial guarantees to third parties on behalf of the subsidiaries for no compensation is accounted for as contributions to the subsidiaries and the fair values are recognized as part of the cost of investment in the financial statements of the Company. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgment. Any increase in the liability relating to guarantees is reported in the Company's income statement.

2 Significant accounting policies *(continued)*

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

2 Significant accounting policies *(continued)*

(s) 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.

(t) 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, jointly controlled entities 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, jointly controlled entities 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.

(u) 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.

2 Significant accounting policies *(continued)*

(v) 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.

(w) 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.

(x) 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 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 obligation. 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 in which 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.

2 Significant accounting policies *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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. 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.

(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 (for example, an entity's share price); 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 share-based compensation reserve under equity.

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.

2 Significant accounting policies *(continued)*

(y) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as 'other operating income – net' in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(z) 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.

(aa) 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.

(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).

(ab) 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, Renminbi and Euro. 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.

	Group					
	2013			2012		
	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	**233,980**	**396**	**80,431**	326,440	960	53,210
Bank deposits and cash and cash equivalents	**24,609**	**38,273**	**33,421**	82,712	34,754	22,692
Trade and other payables	**(600,487)**	**(4,176)**	**(3,552)**	(627,547)	(6,487)	(32,763)
Intercompany balances before elimination	**(2,173,214)**	**(309,721)**	**(193,468)**	(1,971,439)	6,969	(80,501)
Gross exposure	**(2,515,112)**	**(275,228)**	**(83,168)**	(2,189,834)	36,196	(37,362)
Notional amounts of forward exchange contracts used as economic hedges	**2,020,972**	**–**	**94,572**	2,032,745	–	13,203
Net exposure	**(494,140)**	**(275,228)**	**11,404**	(157,089)	36,196	(24,159)

	Company			
	2013		2012	
	Renminbi US$'000	**Euro US$'000**	Renminbi US$'000	Euro US$'000
Other receivables	**–**	**1**	2	1
Bank deposits and cash and cash equivalents	**–**	**40**	–	43
Other payables	**(16)**	**–**	–	(63)
Amounts due from subsidiaries	**222**	**–**	190	–
Amounts due to subsidiaries	**(139)**	**(164)**	(137)	(171)
Net exposure	**67**	**(123)**	55	(190)

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from long-term borrowings denominated in United States dollar. 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 various customer financing programs. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

(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 significant 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$846,272,000 (2012: US$1,076,456,000) (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, 2013					
Bank loans	**22,192**	**153,646**	**303,133**	**–**	**478,971**
Trade, notes and other payables and accruals	**7,636,708**	**1,115,520**	**–**	**–**	**8,752,228**
Contingent considerations	**–**	**–**	**42,000**	**276,251**	**318,251**
Deferred consideration	**–**	**–**	**–**	**2,172**	**2,172**
Guaranteed dividend to non-controlling shareholders of a subsidiary	**–**	**6,347**	**12,695**	**11,637**	**30,679**
Written put option liability	**–**	**–**	**–**	**224,790**	**224,790**
Others	**–**	**–**	**139,733**	**163,570**	**303,303**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**4,213,699**	**22,098**	**–**	**–**	**4,235,797**
– inflow	**(4,241,612)**	**(221,081)**	**–**	**–**	**(4,462,693)**
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 to non-controlling shareholders of a subsidiary	–	–	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)

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, 2013					
Bank loans	**–**	**–**	**300,000**	**–**	**300,000**
Other payables and accruals	**–**	**17,415**	**–**	**–**	**17,415**
Amounts due to subsidiaries	**676,663**	**–**	**–**	**–**	**676,663**
Contingent considerations	**–**	**–**	**42,000**	**275,000**	**317,000**
Forward foreign exchange contracts	**238**	**–**	**–**	**–**	**238**
At March 31, 2012					
Other payables and accruals	–	31,637	–	–	31,637
Amounts due to subsidiaries	1,104,471	–	–	–	1,104,471
Contingent considerations	–	–	1,500	275,000	276,500

(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, 2013, 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$2.30 million higher/lower (2012: US$1.69 million higher/lower), 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

At March 31, 2013, if interest rate on bank borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$0.5 million (2012: Nil) lower/higher.

At March 31, 2013, if interest rates on customer financing programs 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 (2012: US$1.6 million) lower/higher. This analysis is based on the assumption that the interest rates of all the currencies covered by the customer financing programs 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, 2013 and 2012 are as follows:

	2013 US$ million	2012 US$ million
Bank deposits and cash and cash equivalents	**3,573**	4,171
Less: total borrowings	**(479)**	(63)
Net cash position	**3,094**	4,108
Total equity	**2,680**	2,448
Gearing ratio	**0.18**	0.03

(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, 2013 and 2012.

	Group							
	2013				2012			
	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	53,800	–	–	53,800	59,625	–	–	59,625
Unlisted equity investments	–	–	16,162	16,162	–	–	12,321	12,321
Derivative financial assets	–	99,491	–	99,491	–	62,883	–	62,883
	53,800	99,491	16,162	169,453	59,625	62,883	12,321	134,829
Liabilities								
Derivative financial liabilities	–	69,053	–	69,053	–	49,253	–	49,253
Contingent considerations	–	–	302,367	302,367	–	–	428,915	428,915
Written put option liability	–	–	215,018	215,018	–	–	–	–
	–	69,053	517,385	586,438	–	49,253	428,915	478,168

	Company							
	2013				2012			
	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	–	238	–	238	–	796	–	796
Contingent considerations	–	–	301,113	301,113	–	–	256,093	256,093
	–	238	301,113	301,351	–	796	256,093	256,889

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2013 and 2012.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2013 and 2012 are as follows:

Available-for-sale financial assets

	Group	
	2013 US$'000	2012 US$'000
At the beginning of the year	12,321	2,216
Exchange adjustment	140	50
Additions	4,104	10,055
Disposal	(403)	–
At the end of the year	16,162	12,321

3 Financial risk management *(continued)*

(d) Fair value estimation *(continued)*

Other non-current liabilities

	Group		Company	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
At the beginning of the year	**428,915**	–	**256,093**	–
Additions	**255,680**	426,666	**41,550**	252,708
De-recognition	**(170,645)**	–	**(1,500)**	–
Exchange adjustment	**(4,426)**	(2,662)	**349**	–
Recognized in consolidated income statement	**7,861**	4,911	**4,621**	3,385
At the end of the year	**517,385**	428,915	**301,113**	256,093

No sensitivity analysis for unlisted equity investments is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact. Sensitivity analysis in respect of contingent considerations and written put option liability is disclosed in Note 29.

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, 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 monitors the channel inventory level with reference to historical data. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience, market and economic conditions and channel inventory level 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.

(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 LEC, the chief operating decision-maker, that are used to make strategic decisions.

The LEC considers business from a geographical perspective. The Group has four geographical segments, namely China, APLA, EMEA and North America, 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 segment assets and liabilities presented below is primarily based on the geographical location of the entities or operations which carry the assets and liabilities, except for entities performing centralized functions for the Group the assets and liabilities of which are not allocated to any segment.

5 Segment information *(continued)*

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

	2013		2012	
	Revenue from external customers US$'000	**Adjusted pre-tax income US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**14,538,534**	**677,938**	12,395,324	568,565
APLA	**6,860,380**	**23,591**	6,337,521	(455)
EMEA	**7,535,483**	**146,674**	6,295,860	82,729
North America	**4,939,004**	**167,558**	4,545,733	160,705
Segment total	**33,873,401**	**1,015,761**	29,574,438	811,544
Unallocated:				
Headquarters and corporate expenses		**(242,954)**		(246,028)
Restructuring costs		**87**		3,212
Finance income		**36,775**		31,625
Finance costs		**(27,559)**		(18,258)
De-recognition of contingent consideration		**19,861**		–
Net (loss)/gain on disposal of available-for-sale financial assets and investments		**(316)**		1,104
Dividend income from available-for-sale financial assets		**362**		95
Share of losses of associates and jointly controlled entities		**(718)**		(851)
Consolidated profit before taxation		**801,299**		582,443

(b) Segment assets for reportable segments

	2013 US$'000	2012 US$'000
China	**4,919,934**	4,580,746
APLA	**3,298,909**	3,036,960
EMEA	**1,928,011**	2,096,253
North America	**1,073,719**	786,670
Segment assets for reportable segments	**11,220,573**	10,500,629
Unallocated:		
Deferred income tax assets	**349,389**	332,493
Derivative financial assets	**99,491**	62,883
Available-for-sale financial assets	**69,962**	71,946
Interests in associates and jointly controlled entities	**2,763**	3,410
Unallocated bank deposits and cash and cash equivalents	**2,093,983**	2,291,250
Unallocated inventories	**597,239**	356,677
Unallocated deposits, prepayments and other receivables	**2,253,370**	2,130,468
Income tax recoverable	**58,822**	70,406
Other unallocated assets	**136,405**	40,586
Total assets per consolidated balance sheet	**16,881,997**	15,860,748

5 Segment information *(continued)*

(c) Segment liabilities for reportable segments

	2013 US$'000	2012 US$'000
China	**4,324,261**	4,063,257
APLA	**2,043,017**	2,092,914
EMEA	**1,115,554**	1,284,035
North America	**1,001,110**	888,180
Segment liabilities for reportable segments	**8,483,942**	8,328,386
Unallocated:		
Income tax payable	**100,179**	135,530
Deferred income tax liabilities	**113,992**	83,594
Derivative financial liabilities	**69,053**	49,253
Unallocated bank borrowings	**300,000**	–
Unallocated trade payables	**1,979,026**	2,588,493
Unallocated other payables and accruals	**2,750,353**	2,154,218
Unallocated provisions	**35,045**	30,441
Unallocated other non-current liabilities	**284,982**	1,032
Other unallocated liabilities	**85,244**	41,832
Total liabilities per consolidated balance sheet	**14,201,816**	13,412,779

(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:

	2013 US$'000	2012 US$'000
Sale of personal technology products and services		
– desktop computer	**10,524,707**	9,883,538
– notebook computer	**17,935,693**	16,696,527
– mobile internet and digital home	**3,039,443**	1,484,395
– others	**1,288,666**	611,466
Sale of other goods and services	**1,084,892**	898,512
	33,873,401	29,574,438

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
China	**93,999**	73,575	**2,738**	2,988	**344**	–	**63,131**	86,071
APLA	**48,141**	41,508	**4,623**	4,415	**4,944**	6,250	**39,579**	25,652
EMEA	**36,278**	32,164	**709**	3,496	**6,476**	15,235	**9,181**	6,451
North America	**31,186**	28,158	**36**	169	**3,546**	3,741	**15,107**	6,962
Total	**209,604**	175,405	**8,106**	11,068	**15,310**	25,226	**126,998**	125,136

Note: Other than financial instruments and deferred income tax assets; and excluding 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$2,067,456,000 (2012: US$1,801,595,000) and US$1,988,441,000 (2012: US$1,834,314,000) respectively.

6 Other income – net

	2013 US$'000	2012 US$'000
De-recognition of contingent consideration (Note 29(i))	19,861	–
Net (loss)/gain on disposal of available-for-sale financial assets and investments	(316)	1,104
Dividend income from available-for-sale financial assets	362	95
	19,907	1,199

7 Operating profit

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

	2013 US$'000	2012 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	92,097	77,721
Amortization of intangible assets	117,507	97,684
Employee benefit costs (Note 10)	2,359,593	1,938,256
Cost of inventories sold	27,825,429	24,229,947
Inventory write-down	13,012	30,588
Auditor's remuneration	5,567	5,483
Rental expenses under operating leases	77,530	63,252
Gain on disposal of subsidiaries and an associate	–	(50)
Government grant (Note 29(iv))	(115,366)	(30,493)
Net foreign exchange loss/(gain)	37,634	(4,653)
Net (gain)/loss on foreign exchange forward contracts for cash flow hedge reclassified from equity	(20,953)	11,338
Ineffectiveness on cash flow hedges	3,581	4,495

8 Finance income and costs

(a) Finance income

	2013 US$'000	2012 US$'000
Interest on bank deposits	34,981	34,731
Interest on money market funds	3,004	2,952
Others	6,896	5,010
	44,881	42,693

(b) Finance costs

	2013 US$'000	2012 US$'000
Interest on bank loans and overdrafts	12,592	7,794
Factoring cost	14,358	21,955
Commitment fee	5,907	6,130
Interest on contingent considerations and put option liability	9,103	4,911
Others	909	2,694
	42,869	43,484

9 Taxation

The amount of taxation in the consolidated income statement represents:

	2013 US$'000	2012 US$'000
Current tax		
– Hong Kong profits tax	1,328	236
– Taxation outside Hong Kong	181,267	174,548
Deferred tax (Note 21)	(12,888)	(67,757)
	169,707	107,027

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 tax concessions.

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:

	2013 US$'000	2012 US$'000
Profit before taxation	801,299	582,443
Tax calculated at domestic rates applicable in countries concerned	137,345	180,375
Income not subject to taxation	(137,918)	(123,533)
Expenses not deductible for taxation purposes	133,750	108,375
Utilization of previously unrecognized tax losses	(69,347)	(87,565)
Effect on opening deferred income tax assets due to change in tax rates	(844)	(7,660)
Deferred income tax assets not recognized	76,772	32,812
Under-provision in prior years	29,949	4,223
	169,707	107,027

The weighted average applicable tax rate for the year was 17.1% (2012: 31%). The decrease is caused by changes in tax concessions and profitability of the group's subsidiaries in respective countries they are operating.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2013			2012		
	Before tax US$'000	Tax charge US$'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	(4,057)	–	(4,057)	(36,337)	–	(36,337)
Fair value change on cash flow hedges	19,798	(26)	19,772	33,797	61	33,858
Actuarial loss from defined benefit pension plans	(17,174)	(1,632)	(18,806)	(37,537)	2,834	(34,703)
Currency translation differences	(118,602)	–	(118,602)	(51,055)	–	(51,055)
Other comprehensive income	(120,035)	(1,658)	(121,693)	(91,132)	2,895	(88,237)
Current tax		–			–	
Deferred tax (Note 21)		(1,658)			2,895	
		(1,658)			2,895	

10 Employee benefit costs

	2013 US$'000	2012 US$'000
Wages and salaries	**1,665,223**	1,380,076
Social security costs	**148,311**	135,657
Long-term incentive awards granted (Notes 30(a))	**77,724**	66,418
Pension costs		
– Defined contribution plans	**131,847**	81,067
– Defined benefit plans (Note 36)	**22,601**	18,350
Others	**313,887**	256,688
	2,359,593	1,938,256

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 and the chief executive who is also a director, for the years ended March 31, 2013 and 2012 is set out below:

	2013						
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 (CEO)	–	1,188	4,227	8,941	119	131	14,606
Non-executive directors							
Mr. Zhu Linan	83	–	–	181	–	–	264
Ms. Ma Xuezheng	83	–	–	73	–	–	156
Dr. Wu Yibing	83	–	–	181	–	–	264
Mr. Zhao John Huan	83	–	–	110	–	–	193
Independent non-executive directors							
Professor Woo Chia-Wei	21	–	–	336	–	–	357
Mr. William O. Grabe	93	–	–	181	–	–	274
Mr. Ting Lee Sen	83	–	–	183	–	–	266
Dr. Tian Suning	83	–	–	181	–	–	264
Mr. Nicholas C Allen	110	–	–	179	–	–	289
Mr. Nobuyuki Idei	83	–	–	117	–	–	200
Mr William Tudor Brown	14	–	–	2	–	–	16
	819	1,188	4,227	10,665	119	131	17,149

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

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

	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 (CEO)	–	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

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2013 and 2012 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2012 and 2011 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, 2013 and 2012.

(iii) Mr. William O. Grabe has elected to defer his 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, 2013 and 2012.

(iv) During the year, the Company approved a pension payment of US$1.5 million payable annually to Mr Liu Chuanzhi, a retired director.

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 one (2012: two) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2012: three) individuals during the year are as follows:

	2013 US$'000	2012 US$'000
Basic salaries, allowances, and benefits-in-kind	**2,222**	1,556
Discretionary bonuses	**8,760**	3,933
Employer's contribution to pension schemes	**469**	435
Long-term incentive awards	**4,083**	3,077
Others	**1,074**	926
	16,608	9,927

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
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$3,800,028 – US$3,864,435	**1**	–
US$4,122,065 – US$4,186,471	**1**	–
US$4,186,471 – US$4,250,878	**1**	–
US$4,315,287 – US$4,379,693	**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 after adjusting shares held by the employee share trusts and consideration shares in respect of business combination activities.

	2013	2012
Weighted average number of ordinary shares in issue	**10,386,943,985**	10,211,315,987
Adjustment for shares held by employee share trust	**(76,705,750)**	(135,699,015)
Adjustment for consideration shares in respect of business combination activities	**–**	57,560,317
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,310,238,235**	10,133,177,289

	US$'000	US$'000
Profit attributable to equity holders of the Company	**635,148**	472,992

Adjustments to the weighted average number of ordinary shares in issue are as follows:

- The shares of the Company held by the employee share trusts are for the purposes of awarding shares to eligible employees under the long-term incentive program.
- 57,560,317 shares of the Company, representing the consideration shares in respect of the acquisition of Medion AG ("Medion") which serve as security for any potential damages were issued to the seller on February 15, 2013.

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.

	2013	2012
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,310,238,235**	10,133,177,289
Adjustments for share options and long-term incentive awards	**152,898,247**	208,243,718
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,463,136,482**	10,341,421,007

	US$'000	US$'000
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**635,148**	472,992

Adjustments for the dilutive potential ordinary shares are as follows:

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

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

13 Dividends

	2013 **US$'000**	2012 US$'000
Interim dividend of HK4.5 cents (2012: HK3.8 cents) per ordinary share, paid on December 3, 2012	**59,930**	50,473
Proposed final dividend – HK14.0 cents (2012: HK10.0 cents) per ordinary share	**187,744**	132,741
	247,674	183,214

14 Property, plant and equipment

(a) Group

	Freehold land and buildings US$'000	Leasehold improve-ments US$'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, 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
Year ended March 31, 2013							
Opening net book amount	207,122	52,111	33,311	10,706	86,655	2,569	392,474
Exchange adjustment	(8,232)	(1,599)	(1,028)	(248)	11	(56)	(11,152)
Reclassification	(888)	(444)	(15)	68	1,265	14	–
Additions	12,147	13,847	33,936	3,301	41,116	1,984	106,331
Transfer from construction-in-progress	55,271	13,157	5,708	4,278	1,014	–	79,428
Disposals	(776)	(3)	(585)	(152)	(1,665)	(438)	(3,619)
Depreciation	(8,548)	(20,501)	(15,511)	(4,182)	(41,482)	(1,106)	(91,330)
Acquisition of subsidiaries	–	860	5,631	251	893	10	7,645
Closing net book amount	256,096	57,428	61,447	14,022	87,807	2,977	479,777
At March 31, 2013							
Cost	308,006	136,080	283,548	41,243	286,520	5,760	1,061,157
Accumulated depreciation and impairment losses	51,910	78,652	222,101	27,221	198,713	2,783	581,380
Net book amount	256,096	57,428	61,447	14,022	87,807	2,977	479,777

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, 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
Year ended March 31, 2013					
Opening net book amount	**630**	**59**	**264**	**271**	**1,224**
Exchange adjustment	**–**	**(1)**	**–**	**(1)**	**(2)**
Reclassification	**–**	**26**	**(26)**	**–**	**–**
Additions	**1,206**	**224**	**178**	**214**	**1,822**
Disposals	**–**	**–**	**(1)**	**(194)**	**(195)**
Depreciation	**(407)**	**(53)**	**(109)**	**(62)**	**(631)**
Closing net book amount	**1,429**	**255**	**306**	**228**	**2,218**
At March 31, 2013					
Cost	**2,589**	**510**	**1,040**	**300**	**4,439**
Accumulated depreciation	**1,160**	**255**	**734**	**72**	**2,221**
Net book amount	**1,429**	**255**	**306**	**228**	**2,218**

15 Prepaid lease payments

	Group 2013 US$'000	Group 2012 US$'000
At the beginning of the year	**13,552**	9,682
Exchange adjustment	**185**	386
Additions	**5,026**	–
Transfer from construction-in-progress	**18,526**	3,763
Amortization	**(767)**	(279)
At the end of the year	**36,522**	13,552

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	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000
At the beginning of the year	**78,052**	738	**22,415**	24,001	**3,519**	7,353	**103,986**	32,092	**4,607**	3,602
Exchange adjustment	**805**	1,725	**372**	387	**(169)**	(483)	**1,008**	1,629	**2**	10
Reclassification	**(241)**	7,164	**7,105**	(6)	**(6,864)**	(7,158)	**–**	–	**–**	–
Additions	**150,372**	106,681	**90,165**	86,426	**36,466**	12,494	**277,003**	205,601	**17,834**	28,543
Transfer to property, plant and equipment	**(54,988)**	(36,101)	**–**	–	**(24,440)**	(9,422)	**(79,428)**	(45,523)	**–**	–
Transfer to intangible assets	**–**	–	**(99,260)**	(88,393)	**–**	–	**(99,260)**	(88,393)	**(18,476)**	(27,548)
Transfer to prepaid lease payments	**(18,526)**	(3,763)	**–**	–	**–**	–	**(18,526)**	(3,763)	**–**	–
Disposals	**–**	(6)	**(620)**	–	**(112)**	–	**(732)**	(6)	**–**	–
Acquisition of subsidiaries	**–**	1,614	**–**	–	**–**	735	**–**	2,349	**–**	–
At the end of the year	**155,474**	78,052	**20,177**	22,415	**8,400**	3,519	**184,051**	103,986	**3,967**	4,607

No interest expenses were capitalized in construction-in-progress as at March 31, 2013 and 2012.

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$'000	Total US$'000
At April 1, 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
Year ended March 31, 2013						
Opening net book amount	**2,281,069**	**455,444**	**241,834**	**95,768**	**17,090**	**3,091,205**
Exchange adjustment	**(78,358)**	**(7,742)**	**479**	**(15,013)**	**(1,196)**	**(101,830)**
Additions	**–**	**–**	**56,078**	**–**	**1,900**	**57,978**
Transfer from construction-in-progress	**–**	**–**	**99,260**	**–**	**–**	**99,260**
Disposals	**–**	**–**	**(3,124)**	**–**	**–**	**(3,124)**
Amortization	**–**	**(590)**	**(100,570)**	**(9,261)**	**(7,086)**	**(117,507)**
Acquisition of subsidiaries	**201,269**	**13,745**	**876**	**66,046**	**18,500**	**300,436**
Closing net book amount	**2,403,980**	**460,857**	**294,833**	**137,540**	**29,208**	**3,326,418**
At March 31, 2013						
Cost	**2,403,980**	**591,447**	**724,817**	**173,268**	**137,906**	**4,031,418**
Accumulated amortization and impairment losses	**–**	**130,590**	**429,984**	**35,728**	**108,698**	**705,000**
Net book amount	**2,403,980**	**460,857**	**294,833**	**137,540**	**29,208**	**3,326,418**

Amortization of US$25,206,000 (2012: US$26,445,000), US$9,673,000 (2012: US$9,038,000), US$75,948,000 (2012: US$58,789,000) and US$6,680,000 (2012: US$3,412,000) 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, 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
Year ended March 31, 2013	
Opening net book amount	**45,802**
Exchange adjustment	**12**
Transfer from construction-in-progress	**18,476**
Additions	**2,119**
Disposals	**(53)**
Amortization	**(14,223)**
Closing net book amount	**52,133**
At March 31, 2013	
Cost	**95,446**
Accumulated amortization	**43,313**
Net book amount	**52,133**

17 Intangible assets *(continued)*

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

As explained in Note 1, the Group underwent an organizational structure change under which 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:

	China US$ million	APLA US$ million	EMEA US$ million	North America US$ million	Total US$ million
At March 31, 2013					
Goodwill	1,123	789	261	231	2,404
Trademarks and trade names	209	79	113	60	461

	China US$ million	REM * US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
At March 31, 2012						
Goodwill	1,101	167	160	242	611	2,281
Trademarks and trade names	209	64	58	110	14	455

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

(i) On December 26, 2012, the Group completed the acquisition of the entire issued share capital of Stoneware, Inc. (“Stoneware”) (Note 37). The corresponding goodwill is calculated at US$36 million. The goodwill is attributable to the significant synergies expected to arise in connection with the Group’s strategic objectives to extend the global reach of the existing cloud-computing offerings and to develop this technology beyond the current government-focused and education-focused offerings into more consumer-focused offerings over time. The goodwill has been allocated to the North America and EMEA market segments.

(ii) On December 29, 2012, the Group completed the formation of a strategic partnership with EMC Corporation (“EMC”) (Note 37). The strategic partnership consists of three business components, namely server alliance, storage OEM/reseller relationship and formation of a joint venture company (“EMC JV”) with EMC to develop network-attached storage products. The goodwill arising from this acquisition is calculated at US$52 million. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group’s commitment to provide a complete range of products for the commercial customers. The goodwill has been allocated to the North America and China market segments.

(iii) On January 2, 2013, the Group completed the acquisitions of the entire interests in Digibrás Indústria do Brasil S.A., Digiboard Eletrônica da Amazônia Ltda., and Dual Mix Comércio de Eletrônicos Ltda., (collectively “CCE”), companies incorporated in Brazil (Note 37). The goodwill arising from these acquisitions is calculated at US$114 million. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group’s commitment to its core personal computer business and CCE’s strong market position in Brazil. The entire amount of goodwill has been allocated to the APLA 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.

17 Intangible assets *(continued)*

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

Future cash flows are discounted at the rate of 11% (2012: 11%) across all CGUs. The estimated growth rates used for value-in-use calculations are as follows:

	2013	2012
China	**9%**	11.5%
APLA	**-1%**	N/A
EMEA	**-2%**	N/A
North America	**-1%**	1.0%
REM	**N/A**	7.3%
West Europe	**N/A**	(1.9%)
Japan, Australia, New Zealand	**N/A**	0.2%

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, 2013 arising from the review (2012: Nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. Except for APLA in 2013 and JANZ in 2012, 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 2013, the recoverable amount for APLA calculated based on value in use exceeded carrying value by US$409 million. Had APLA's forecasted operating margin been 0.8 percentage point lower than management's estimates, the APLA's remaining headroom would be removed.

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.

18 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2013 **US$'000**	2012 US$'000
Unlisted investments, at cost	**2,807,103**	2,472,880

A summary of the principal subsidiaries of the Company is set out in Note 39.

(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 2013 US$'000	Group 2012 US$'000
Share of net assets		
– Associates	**1,149**	677
– Jointly controlled entities	**1,614**	2,733
	2,763	3,410

The following is a list of the principal associate and jointly controlled entities as at March 31, 2013:

Company name	Place of establishment	Interest held indirectly 2013	Interest held indirectly 2012	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%**	49%	Property development
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited)	Chinese Mainland	**49%**	49%	Distribution and development of IT technology and software

As at March 31, 2013, pursuant to the joint venture agreement, the Group had a capital commitment of US$3,787,000 (2012: 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, 2013					
Available-for-sale financial assets	**–**	**–**	**–**	**69,962**	**69,962**
Derivative financial assets	**–**	**60,864**	**38,627**	**–**	**99,491**
Trade receivables	**2,885,039**	**–**	**–**	**–**	**2,885,039**
Notes receivable	**572,992**	**–**	**–**	**–**	**572,992**
Deposits and other receivables	**2,130,594**	**–**	**–**	**–**	**2,130,594**
Bank deposits	**119,055**	**–**	**–**	**–**	**119,055**
Cash and cash equivalents	**3,454,082**	**–**	**–**	**–**	**3,454,082**
	9,161,762	**60,864**	**38,627**	**69,962**	**9,331,215**
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

	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, 2013				
Trade payables	**–**	**–**	**3,624,500**	**3,624,500**
Notes payable	**–**	**–**	**99,503**	**99,503**
Derivative financial liabilities	**65,372**	**3,681**	**–**	**69,053**
Other payables and accruals	**–**	**–**	**5,034,562**	**5,034,562**
Bank borrowings	**–**	**–**	**478,971**	**478,971**
Contingent considerations, deferred consideration, guaranteed dividend and written put option liability under other non-current liabilities	**517,385**	**–**	**25,850**	**543,235**
	582,757	**3,681**	**9,263,386**	**9,849,824**
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
Other payables and payables	–	–	4,595,224	4,595,224
Bank borrowings	–	–	62,952	62,952
Contingent considerations under other non-current liabilities	428,915	–	31,015	459,930
	464,252	13,916	8,866,778	9,344,946

20 Financial instruments by category *(continued)*

Company

	Loans and receivables	
	2013	2012
	US$'000	US$'000
Assets		
Deposits	**448**	499
Amounts due from subsidiaries	**412,660**	777,818
Cash and cash equivalents	**6,511**	37,124
	419,619	815,441

	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, 2013				
Derivative financial liabilities	**238**	**–**	**–**	**238**
Other payables and accruals	**–**	**–**	**17,415**	**17,415**
Amounts due to subsidiaries	**–**	**–**	**676,663**	**676,663**
Contingent consideration under other non-current liabilities	**301,113**	**–**	**–**	**301,113**
Bank borrowings	**–**	**–**	**300,000**	**300,000**
	301,351	**–**	**994,078**	**1,295,429**
At March 31, 2012				
Derivative financial liabilities	796	–	–	796
Other payables and accruals	–	–	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
	256,889	–	1,136,108	1,392,997

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	
	2013	2012
	US$'000	US$'000
Deferred income tax assets:		
Recovered within 12 months	**290,414**	252,946
Recovered after 12 months	**58,975**	79,547
	349,389	332,493
Deferred income tax liabilities:		
Recovered after 12 months	**(113,992)**	(83,594)
Net deferred income tax assets	**235,397**	248,899

The movements in the net deferred income tax assets are as follows:

	Group	
	2013	2012
	US$'000	US$'000
At the beginning of the year	**248,899**	234,005
Reclassification and exchange adjustments	**(2,713)**	(4,753)
Credited to consolidated income statement (Note 9)	**12,888**	67,757
(Charged)/credited to other comprehensive income (Note 9)	**(1,658)**	2,895
Acquisition of subsidiaries	**(22,019)**	(51,005)
At the end of the year	**235,397**	248,899

21 Deferred income tax assets and liabilities *(continued)*

(a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, 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, 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 and April 1, 2013	**224,379**	**26,099**	**6,561**	**71,074**	**4,653**	**332,766**
Reclassification and exchange adjustment	**8,090**	**(8,732)**	**1,895**	**(5,551)**	**(458)**	**(4,756)**
Credited/(charged) to consolidated income statement	**13,423**	**13,319**	**(2,370)**	**(2,107)**	**(584)**	**21,681**
Charged to other comprehensive income	**–**	**–**	**–**	**–**	**(1,757)**	**(1,757)**
Acquisition of subsidiaries	**–**	**–**	**–**	**2,158**	**3,734**	**5,892**
At March 31, 2013	**245,892**	**30,686**	**6,086**	**65,574**	**5,588**	**353,826**

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, 2013, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$2,406,161,000 (2012: US$2,166,242,000) and tax losses of approximately US$791,723,000 (2012: US$584,631,000) that can be carried forward against future taxable income, of which, tax losses of US$428,827,000 (2012: US$503,244,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	Group	
	2013 US$'000	2012 US$'000
Expiring in		
– 2012	**–**	754
– 2014	**13,051**	14,525
– 2015	**6,423**	6,795
– 2016	**2,177**	2,168
– 2017	**35,631**	44,067
– 2018	**115,722**	8,213
– 2019	**4,489**	4,865
– 2021	**11,275**	–
– 2022	**174,128**	–
	362,896	81,387

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 components, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$000	Total US$'000
At 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 and April 1, 2013	**51,971**	**27,268**	**4,401**	**227**	**–**	**83,867**
Reclassification and exchange adjustment	**(5,254)**	**(442)**	**(525)**	**(650)**	**4,828**	**(2,043)**
(Credited)/charged to consolidated income statement	**(2,535)**	**9,760**	**397**	**1,171**	**–**	**8,793**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**(99)**	**(99)**
Acquisition of subsidiaries	**27,911**	**–**	**–**	**–**	**–**	**27,911**
At March 31, 2013	**72,093**	**36,586**	**4,273**	**748**	**4,729**	**118,429**

22 Available-for-sale financial assets

	Group 2013 US$'000	Group 2012 US$'000
At the beginning of the year	**71,946**	78,689
Exchange adjustment	**(1,072)**	(120)
Fair value change recognized in other comprehensive income	**(4,057)**	(36,337)
Additions	**4,104**	10,055
Disposals	**(959)**	–
Acquisition of subsidiaries	**–**	19,659
At the end of the year	**69,962**	71,946
Equity securities, at fair value		
Listed in Hong Kong	**498**	512
Listed outside Hong Kong	**53,302**	59,113
Unlisted	**16,162**	12,321
	69,962	71,946

23 Inventories

	Group 2013 US$'000	Group 2012 US$'000
Raw materials and work-in-progress	**884,591**	484,314
Finished goods	**910,666**	613,962
Service parts	**169,534**	120,218
	1,964,791	1,218,494

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	
	2013 **US$'000**	2012 US$'000
0 – 30 days	**1,967,312**	1,504,488
31 – 60 days	**560,180**	642,754
61 – 90 days	**136,543**	112,871
Over 90 days	**257,924**	124,193
	2,921,959	2,384,306
Less: provision for impairment	**(36,920)**	(29,397)
Trade receivables – net	**2,885,039**	2,354,909

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2013, trade receivables, net of impairment, of US$331,457,000 (2012: US$282,766,000) were past due. The ageing of these receivables, based on due date, is as follows:

	Group	
	2013 **US$'000**	2012 US$'000
Within 30 days	**221,310**	232,556
31 – 60 days	**42,559**	23,741
61 – 90 days	**37,395**	7,634
Over 90 days	**30,193**	18,835
	331,457	282,766

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2013 **US$'000**	2012 US$'000
At beginning of the year	**29,397**	21,081
Exchange adjustment	**(649)**	(165)
Provisions made	**23,527**	24,163
Uncollectible receivables written off	**(9,261)**	(12,076)
Unused amounts reversed	**(13,653)**	(3,606)
Acquisition of subsidiaries	**7,559**	–
At the end of the year	**36,920**	29,397

(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	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Deposits	**2,923**	884	**448**	499
Other receivables (i)	**2,127,671**	2,442,656	**555**	513
Prepayments (ii)	**1,104,871**	859,513	**719**	4,916
	3,235,465	3,303,053	**1,722**	5,928

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$180 million as at March 31, 2013 (2012: US$392 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	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Bank deposits				
– matured between three to twelve months	**116,696**	413,672	**–**	–
– restricted bank balances	**2,359**	–	**–**	–
	119,055	413,672	**–**	–
Cash and cash equivalents				
– cash at bank and in hand	**2,607,810**	2,681,196	**6,511**	37,124
– money market funds	**846,272**	1,076,456	**–**	–
	3,454,082	3,757,652	**6,511**	37,124
	3,573,137	4,171,324	**6,511**	37,124
Maximum exposure to credit risk	**3,573,137**	4,171,324	**6,511**	37,124
Effective annual interest rates	**0%-12.42%**	0%-10.78%	**0%-0.6%**	0%-0.25%

26 Payables

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

	Group	
	2013 US$'000	2012 US$'000
0 – 30 days	**2,526,465**	2,543,626
31 – 60 days	**566,747**	1,025,131
61 – 90 days	**332,223**	307,223
Over 90 days	**199,065**	174,292
	3,624,500	4,050,272

(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, other payables and accruals

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

	Group		Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Accruals	**1,327,327**	1,146,665	**16,015**	19,628
Allowance for billing adjustments (i)	**1,817,782**	1,753,910	**–**	–
Other payables (ii)	**3,707,235**	3,448,559	**1,400**	12,009
	6,852,344	6,349,134	**17,415**	31,637

Notes:

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

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

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

(b) 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, 2013				
At the beginning of the year	**1,013,864**	**233**	**85,952**	**1,100,049**
Exchange adjustment	**(16,851)**	**(11)**	**(6,992)**	**(23,854)**
Provisions made	**858,165**	**31**	**12,294**	**870,490**
Amounts utilized	**(814,748)**	**(91)**	**(3,493)**	**(818,332)**
Unused amounts reversed	**(7,390)**	**(162)**	**(31,719)**	**(39,271)**
Acquisition of subsidiaries	**21,141**	**–**	**–**	**21,141**
	1,054,181	**–**	**56,042**	**1,110,223**
Long-term portion classified as non-current liabilities	**(279,255)**	**–**	**(54,328)**	**(333,583)**
At the end of the year	**774,926**	**–**	**1,714**	**776,640**
Year ended March 31, 2012				
At the beginning of the year	694,723	8,419	14,994	718,136
Exchange adjustment	8,835	(564)	(1,699)	6,572
Provisions made	771,391	–	10,573	781,964
Amounts utilized	(615,684)	(4,761)	(5,085)	(625,530)
Unused amounts reversed	(1,286)	(2,861)	(870)	(5,017)
Acquisition of subsidiaries	155,885	–	68,039	223,924
	1,013,864	233	85,952	1,100,049
Long-term portion classified as non-current liabilities	(291,111)	–	(83,876)	(374,987)
At the end of the year	722,753	233	2,076	725,062

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

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

28 Bank borrowings

	Group		Company	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Term loans (i)	**303,133**	–	**300,000**	–
Short-term loans (ii)	**175,838**	62,952	**–**	–
	478,971	62,952	**300,000**	–

Notes:

(i) Term loans comprise a US$300 million (2012: Nil) 5-year term loan facility entered into in July 2009. It has been drawn down in July 2012.

(ii) The majority of the short-term loans are denominated in Brazilian Real.

The exposure of all the bank borrowings of the Group and of the Company to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	Group		Company	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Within 1 year	**175,838**	62,952	**–**	–
1 to 3 years	**303,133**	–	**300,000**	–
	478,971	62,952	**300,000**	–

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	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Revolving loans	**500,000**	800,000	**–**	–
Term loans	**389,000**	–	**303,133**	–
Short-term loans	**668,000**	521,000	**175,838**	62,952
Foreign exchange contracts	**5,934,000**	5,759,000	**4,945,000**	4,720,000
Other trade finance facilities	**391,000**	362,000	**242,000**	220,000
	7,882,000	7,442,000	**5,665,971**	5,002,952

All the bank borrowings are unsecured and the effective annual interest rates at March 31, 2013 are as follows:

	United States dollar		Other currencies	
	2013	2012	**2013**	2012
Term loans	**2.3%-2.45%**	N/A	**5.54%-12.92%**	N/A
Short-term loans	**N/A**	3.5%-5.45%	**3.5%-12.92%**	5%

29 Other non-current liabilities

	Group		Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Contingent considerations (i)	**302,367**	428,915	**301,113**	256,093
Deferred consideration (i)	**2,151**	–	**–**	–
Guaranteed dividend to non-controlling shareholders of a subsidiary (ii)	**23,699**	31,015	**–**	–
Environmental restoration (Note 27(b))	**54,328**	83,876	**–**	–
Written put option liability (iii)	**215,018**	–	**–**	–
Government grants received in advance (iv)	**122,841**	51,301	**–**	–
Others	**126,135**	46,879	**597**	725
	846,539	641,986	**301,710**	256,818

Notes:

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

On October 11, 2012, the Group entered into an agreement with the former major shareholder of Medion, to complete the transfer of ownership interest under the business combination agreement between the Group and Medion. Accordingly, the contingent consideration of approximately US$169 million (including financial liabilities arisen from put option and guaranteed dividend) was derecognized at a gain of approximately US$20 million credited to 'other income' in the consolidated income statement.

As at March 31, 2013, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective shareholders under the arrangements are as follows:

Joint venture with NEC Corporation	Nil – US$325 million
EMC JV	US$39 – US$59 million
Stoneware	Nil – US$48 million
CCE	Nil – BRL400 million

With reference to the performance indicators, if their actual performances had been 10% higher/lower than their respective expected performances, contingent considerations would have been increased/decreased by approximately US$6 million and US$29 million respectively with the corresponding loss/gain recognized in consolidated income statement.

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

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

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

The put option liability shall be re-measured at its fair value resulting from the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. If the actual performance of JV Co had been 10% higher/lower than its expected performances, the written put option liability would have been increased/decreased by approximately US$4 million with the corresponding loss/gain recognized in consolidated income statement.

In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

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

30 Share capital

	2013		2012	
	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

	Number of shares	**US$'000**	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**10,335,612,596**	**33,131**	9,965,161,897	31,941
Issue of ordinary shares	**140,299,463**	**452**	338,689,699	1,088
Exercise of share options	**20,486,000**	**67**	31,761,000	102
Repurchase of shares	**(57,246,000)**	**(185)**	–	–
At the end of the year	**10,439,152,059**	**33,465**	10,335,612,596	33,131

Ordinary shares issued during the year comprise (i) 57,560,317 consideration shares in respect of the acquisition of Medion with an aggregate fair value of approximately US$36,555,000 which serve as security for any potential damages; (ii) 46,875,000 consideration shares in respect of the acquisition of CCE and (iii) 35,864,146 consideration shares in respect of de-recognition of contingent consideration upon completion of the transfer of ownership interest under the business agreement between the Group and Medion.

(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 equals 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, 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
Outstanding at April 1, 2012	**172,094,158**	**176,064,076**
Granted during the year	**82,786,156**	**80,087,089**
Vested during the year	**(82,021,317)**	**(81,848,623)**
Lapsed/cancelled during the year	**(8,446,562)**	**(3,896,006)**
Outstanding at March 31, 2013	**164,412,435**	**170,406,536**
Average fair value per unit (HK$)		
– At March 31, 2012	3.49	4.89
– At March 31, 2013	**2.37**	**6.50**

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, 2013, 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 39.47 percent (2012: 55.23 percent), expected dividends during the vesting periods of 2.25 percent (2012: 1.84 percent), contractual life of 4.75 years (2012: 4.75 years), and a risk-free interest rate of 0.24 percent (2012: 0.57 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2013 ranged from 0.08 to 3.92 years (2012: 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.

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.

The New Option Scheme was expired on April 26, 2012, and no further options could thereafter be granted under the New Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the New Option Scheme prior to its expiration.

30 Share capital *(continued)*

(b) Share options *(continued)*

	2013 Number of outstanding share options	2012 Number of outstanding share options
At the beginning of the year	92,661,051	139,638,051
Exercised during the year (ii)	(20,486,000)	(31,761,000)
Lapsed during the year (iii)	(8,236,000)	(15,216,000)
At the end of the year (iv)	63,939,051	92,661,051

(i) No share options were granted or cancelled by the Company during the years ended March 31, 2012 and 2013.

(ii) Details of share options exercised during the year ended March 31, 2013 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$
04.05.2012 to 04.20.2012	2.245	7.31-7.60	364,000	817,180
05.02.2012 to 05.29.2012	2.245	6.67-7.66	374,000	839,630
06.11.2012 to 06.28.2012	2.245	6.35-7.47	338,000	758,810
08.03.2012 to 08.21.2012	2.245	5.87-6.94	236,000	529,820
09.04.2012 to 09.26.2012	2.245	6.24-6.62	36,000	80,820
10.15.2012 to 10.30.2012	2.245	6.15-6.25	66,000	148,170
11.01.2012 to 11.30.2012	2.245	6.38-7.30	1,440,000	3,232,800
12.03.2012 to 12.27.2012	2.245	7.13-7.52	230,000	516,350
01.04.2013 to 01.31.2013	2.245	7.42-8.53	850,000	1,908,250
02.01.2013 to 02.28.2013	2.245	8.05-8.87	407,000	913,715
03.01.2013 to 03.28.2013	2.245	7.52-9.00	2,027,000	4,550,615
04.05.2012 to 04.23.2012	2.435	7.29-7.60	446,000	1,086,010
05.28.2012 to 05.29.2012	2.435	6.40-6.67	48,000	116,880
06.07.2012 to 06.28.2012	2.435	6.35-7.47	560,000	1,363,600
07.03.2012 to 07.31.2012	2.435	5.37-6.36	154,000	374,990
08.03.2012 to 08.29.2012	2.435	5.87-6.94	120,000	292,200
09.03.2012 to 09.28.2012	2.435	6.14-6.62	2,810,000	6,842,350
10.08.2012 to 10.09.2012	2.435	6.22-6.36	1,052,000	2,561,620
04.05.2012 to 04.25.2012	2.545	7.29-7.60	534,000	1,359,030
05.02.2012 to 05.29.2012	2.545	6.67-7.66	230,000	585,350
06.06.2012 to 06.28.2012	2.545	6.49-7.47	492,000	1,252,140
07.13.2012 to 07.13.2012	2.545	5.87-5.87	8,000	20,360
08.17.2012 to 08.31.2012	2.545	6.30-6.94	56,000	142,520
09.03.2012 to 09.24.2012	2.545	6.24-6.62	166,000	422,470
10.22.2012 to 10.30.2012	2.545	6.20-6.22	60,000	152,700
11.05.2012 to 11.30.2012	2.545	6.38-7.30	1,492,000	3,797,140
12.03.2012 to 12.31.2012	2.545	7.02-7.52	256,000	651,520
01.04.2013 to 01.31.2013	2.545	7.42-8.53	1,316,000	3,349,220
02.01.2013 to 02.28.2013	2.545	8.05-8.87	1,408,000	3,583,360
03.01.2013 to 03.26.2013	2.545	7.73-9.00	2,910,000	7,405,950
			20,486,000	49,655,570
				US$6,403,000

30 Share capital *(continued)*

(b) Share options *(continued)*

(ii) *(continued)*

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
08.08.2011 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
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

30 Share capital *(continued)*

(b) Share options *(continued)*

(iii) Details of share options lapsed during the years ended March 31, 2013 and 2012 are as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2013 Number of share options lapsed**	2012 Number of share options lapsed
Old Option Scheme			
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
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	**8,236,000**	–
		8,236,000	15,216,000

(iv) Details of share options at the balance sheet date are as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2013 Number of outstanding share options**	2012 Number of outstanding share options
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	**–**	13,426,000
04.26.2003 to 04.25.2013	2.245	**15,488,000**	21,856,000
04.27.2004 to 04.26.2014	2.545	**48,451,051**	57,379,051
		63,939,051	92,661,051

31 Share premium and reserves – Company

The changes in the share premium and reserves of the Company during the years ended March 31, 2013 and 2012 are as follows:

	Share premium US$'000	**Share redemption reserve** US$'000	**Share-based compensation reserve** US$'000	**Hedging reserve** US$'000	**Exchange reserve** US$'000	**Other reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000
At April 1, 2012	**1,584,522**	**1,003**	**53,078**	**–**	**8,956**	**40,125**	**231,799**	**1,919,483**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**251,582**	**251,582**
Currency translation differences	**–**	**–**	**–**	**–**	**1,248**	**–**	**–**	**1,248**
Issue of ordinary shares	**108,070**	**–**	**–**	**–**	**–**	**(36,555)**	**–**	**71,515**
Exercise of share options	**6,336**	**–**	**–**	**–**	**–**	**–**	**–**	**6,336**
Repurchase of shares	**(44,122)**	**185**	**–**	**–**	**–**	**–**	**–**	**(43,937)**
Vesting of shares under long-term incentive program	**–**	**–**	**(133,951)**	**–**	**–**	**–**	**–**	**(133,951)**
Share-based compensation	**–**	**–**	**77,724**	**–**	**–**	**–**	**–**	**77,724**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(193,177)**	**(193,177)**
At March 31, 2013	**1,654,806**	**1,188**	**(3,149)**	**–**	**10,204**	**3,570**	**290,204**	**1,956,823**
At April 1, 2011	1,377,529	1,003	63,280	(1,033)	4,259	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 of a subsidiary	–	–	–	–	–	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	1,003	53,078	–	8,956	40,125	231,799	1,919,483

32 Significant related party transactions

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2013 US$'000	2012 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate)		
– Purchase of goods	9,183	6,197
北京聯想利泰軟件有限公司 (Beijing Legendsoft International Technology Company Limited) (an associate)		
– Purchase of goods	3,476	81
– Service income	351	856

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) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2013, the Group had the following other capital commitments:

	2013 US$'000	2012 US$'000
Contracted but not provided for:		
– Property, plant and equipment	102,341	9,381
– Prepaid lease payments	52,770	40,579
– IT consulting services	1,953	2,992
	157,064	52,952
Authorized but not contracted for:		
– Property, plant and equipment	914,126	711,325
– Prepaid lease payments	5,474	47,213
	919,600	758,538

At March 31, 2013, the Company did not have any capital commitments (2012: Nil) other than as disclosed in Note 33(a) above.

(b) 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:

	2013 US$'000	2012 US$'000
Not later than one year	65,980	51,473
Later than one year but not later than five years	184,605	95,452
Later than five years	96,025	38,056
	346,610	184,981

At March 31, 2013, the Company did not have any operating lease commitments (2012: 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 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, 2013, such facilities granted and utilized amounted to approximately US$2,680,817,000 and US$229,308,000 (2012: US$2,985,823,000 and US$1,414,442,000) respectively. The utilized amount is either repayable on demand or within 1 year.

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

	2013 US$'000	2012 US$'000
Profit before taxation	**801,299**	582,443
Share of losses of associates and jointly controlled entities	**718**	851
Finance income	**(44,881)**	(42,693)
Finance costs	**42,869**	43,484
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**92,097**	77,721
Amortization of intangible assets and share-based compensation	**195,231**	164,102
Loss on disposal of property, plant and equipment	**1,353**	1,505
Loss on disposal of available-for-sale assets	**959**	–
Loss on disposal of construction-in-progress	**732**	6
Loss on disposal of intangible assets	**3,124**	1,113
Gain on disposal of subsidiaries and an associate	**–**	(50)
Dividend income	**(362)**	(95)
De-recognition of contingent consideration	**(19,861)**	–
Gain on disposal of financial instruments	**725**	(7,274)
Increase in inventories	**(653,642)**	(13,587)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(187,202)**	(1,322,485)
Increase in trade payables, notes payable, provisions, accruals and other payables	**17,842**	2,724,863
Effect of foreign exchange rate changes	**(5,618)**	(83,139)
Net cash generated from operations	**245,383**	2,126,765

36 Retirement benefit obligations

	Group	
	2013	2012
	US$'000	US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**149,219**	191,413
Post-employment medical benefits	**14,664**	13,405
	163,883	204,818
Expensed in income statement		
Pension benefits (Note 10)	**22,601**	18,350
Post-employment medical benefits	**1,055**	1,333
	23,656	19,683
Net actuarial loss recognized as a component of other comprehensive income for the year	**17,174**	37,537
Cumulative actuarial losses recognized as a component of other comprehensive income	**65,716**	48,542

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.

On the business combinations of NEC personal computer division and Medion, 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. 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:

	2013 US$'000	2012 US$'000
Present value of funded obligations	405,537	329,335
Fair value of plan assets	(275,422)	(224,497)
Deficit of funded plans	130,115	104,838
Present value of unfunded obligations	19,104	86,575
Liability in the balance sheet	149,219	191,413
Representing:		
Pension benefits obligation	149,340	192,461
Pension plan assets	(121)	(1,048)
	149,219	191,413

The principal actuarial assumptions used are as follows:

	2013	2012
Discount rate	1.75%-3.5%	2%-3.25%
Expected return on plan assets	2%-5%	2%-3.25%
Future salary increases	2%-5%	2%-5%
Future pension increases	0%-1.8%	0%-1.75%
Cash balance crediting rate	2%-2.2%	2.4%-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:

	2013 US$'000	2012 US$'000
Present value of funded obligations	18,676	18,111
Fair value of plan assets	(5,878)	(6,445)
	12,798	11,666
Present value of unfunded obligations	1,866	1,739
Liability in the balance sheet	14,664	13,405

36 Retirement benefit obligations *(continued)*

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	Pension		Medical	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Equities	**8,276**	3,256	**–**	–
Bonds	**148,873**	83,503	**–**	–
Others	**118,273**	137,738	**5,878**	6,445
Total	**275,422**	224,497	**5,878**	6,445

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Opening fair value	**224,497**	174,241	**6,445**	6,562
Exchange adjustment	**(17,494)**	(2,846)	**10**	169
Expected return on plan assets	**5,904**	6,548	**174**	202
Actuarial gains/(losses)	**8,105**	(1,622)	**(265)**	(164)
Contributions by the employer	**59,953**	28,093	**(90)**	44
Contributions by plan participants	**167**	191	**–**	–
Benefits paid	**(5,710)**	(5,226)	**(396)**	(368)
Acquisition of subsidiaries	**–**	25,118	**–**	–
Closing fair value	**275,422**	224,497	**5,878**	6,445
Actual return on plan assets	**14,009**	4,926	**(91)**	38

Contributions of US$18,075,809 are estimated to be made for the year ending March 31, 2014.

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Opening defined benefit obligation	**415,910**	237,361	**19,850**	18,312
Exchange adjustment	**(36,259)**	(3,236)	**(79)**	57
Current service cost	**16,233**	14,296	**522**	577
Past service cost	**2,031**	(9)	**–**	–
Interest cost	**10,407**	10,611	**707**	958
Actuarial losses/(gains)	**25,063**	35,385	**(49)**	366
Contributions by plan participants	**167**	191	**–**	–
Benefits paid	**(8,709)**	(5,665)	**(409)**	(420)
Curtailments	**(202)**	–	**–**	–
Acquisition of subsidiaries	**–**	126,976	**–**	–
Closing defined benefit obligation	**424,641**	415,910	**20,542**	19,850

During the year, benefits of US$2,999,000 were paid directly by the Group (2012: US$439,000).

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:

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
Present value of defined benefit obligations	**445,183**	435,760	255,673	239,566	210,613
Fair value of plan assets	**281,300**	230,942	180,803	158,699	142,613
Deficit	**163,883**	204,818	74,870	80,867	68,000
Actuarial (gains)/losses arising on plan assets	**(7,840)**	1,786	3,642	(386)	6,023
Actuarial losses/(gains) arising on plan liabilities	**25,014**	35,751	3,548	11,226	(13,048)
	17,174	37,537	7,190	10,840	(7,025)

The amounts recognized in the consolidated income statement are as follows:

	Pension		**Medical**	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
Current service cost	**16,233**	14,296	**522**	577
Past service cost	**2,031**	(9)	**–**	–
Interest cost	**10,407**	10,611	**707**	958
Expected return on plan assets	**(5,904)**	(6,548)	**(174)**	(202)
Curtailment losses	**(166)**	–	**–**	–
Total expense recognized in the consolidated income statement	**22,601**	18,350	**1,055**	1,333

(d) The Company does not have any pension plan or post-employment medical benefits plan.

37 Business combinations

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

On December 26, 2012, the Group acquired 100% of the issued share capital of Stoneware, a company incorporated in the United States. Stoneware is a company in the business of development and sale of cloud computing related software.

On December 29, 2012, the Group completed the formation of a strategic partnership with EMC which consists of three business components, namely server alliance, storage OEM/reseller relationship and formation of joint venture company with EMC to develop network-attached storage products. Immediately following completion, the Group and EMC respectively owns 51% and 49% of the issued share capital of EMC JV.

On January 2, 2013, the Group acquired the entire equity interests in CCE, companies incorporated in Brazil. CCE is principally engaged in the manufacturing and marketing of personal computers and consumer electronics.

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 which 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 joint venture agreement with EMC involves an arrangement on the transfer of ownership interest with EMC under call and put options granted to the Company and EMC respectively, and has been accounted for in accordance with HKAS 27.

The estimated total consideration for the business combination activities completed during the year is approximately US$219 million, including cash and the Company's shares as consideration shares.

37 Business combinations *(continued)*

(a) Set forth below is the calculation of goodwill*:

	Stoneware US$'000	EMC JV US$'000	CCE US$'000	Total US$'000
Purchase consideration				
– Cash paid (i)	43,756	58,813	102,493	205,062
– Fair value of consideration shares (ii)	–	–	43,331	43,331
– Less: cash and consideration shares to be recovered	–	–	(74,318)	(74,318)
– Present value of contingent considerations (iii)	1,238	41,550	–	42,788
– Present value of deferred consideration (iii)	2,148	–	–	2,148
Total purchase consideration	47,142	100,363	71,506	219,011
Less: Fair value of net assets/(liabilities) acquired	11,589	48,716	(42,563)	17,742
Goodwill (iv), (Note 17(c))	35,553	51,647	114,069	201,269

* The calculations of goodwill for Stoneware and CCE are preliminary.

(i) Included in the cash paid is a settlement of notes payable on behalf of the former Stoneware shareholders on the closing date, which amounted to US$13,886,000. Cash paid for acquisition of CCE is net of an amount of US$30,987,000 to be recovered in 2013 according to the relevant sales and purchase agreement (the "SPA").

(ii) The fair value of 46,875,000 ordinary shares of the Company issued as part of the purchase consideration for the business combinations of CCE were based on the published share price on January 2, 2013. Shares consideration paid is expected to be fully recovered by the Company according to the SPA and the relevant closing document.

(iii) The contingent consideration arrangement requires the Group to pay in cash to the then respective shareholders with reference to certain performance indicators. The present value of deferred and contingent considerations is included in other non-current liabilities in the balance sheet (Note 29).

Deferred consideration will be paid to certain former Stoneware shareholders in 2016.

(iv) The amounts of goodwill from the business combinations in respect of Stoneware and CCE that are expected to be deductible for tax purpose are US$25 million and US$97 million respectively.

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

	Stoneware US$'000	EMC JV US$'000	CCE US$'000	Total US$'000
Cash and cash equivalents	2,896	10,000	24,127	37,023
Property, plant and equipment	42	425	7,178	7,645
Deferred tax assets less liabilities	592	(6,022)	(16,589)	(22,019)
Intangible assets	13,000	36,500	49,667	99,167
Net working capital except cash and cash equivalents	(2,926)	7,813	(91,473)	(86,586)
Non-current liabilities	(2,015)	–	(15,473)	(17,488)
Fair value of net assets/(liabilities) acquired	11,589	48,716	(42,563)	17,742

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

At March 31, 2013, the Group has not finalized the fair value assessment for net assets acquired (including intangible assets) from the business combination activities in respect of Stoneware and CCE. The relevant fair values of net assets stated above are on a provisional basis.

Acquisition-related costs incurred in connection with these business combination activities of approximately US$5.7 million have been recognized as administrative expenses in the consolidated income statement.

37 Business combinations *(continued)*

(c) Net cash outflow from acquisitions of subsidiaries

	US$'000
Purchase consideration settled in cash	174,075
Less: Cash and cash equivalents in subsidiaries acquired	37,023
Acquisition of subsidiaries, net of cash acquired	137,052

(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, 2013 were US$100 million. The newly acquired businesses also contributed an aggregated loss before taxation of US$18 million over the same period.

Had the newly acquired businesses been consolidated from April 1, 2012, the beginning of the financial year, the consolidated income statement would show revenue of US$34,463 million and profit before taxation of US$736 million.

38 Non-controlling interests

Included in non-controlling interests are US$147,000,000 in respect of the capital contributions injected into the JV Co by Compal pursuant to the joint venture agreement as disclosed in Note 29(iii).

39 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 2013	Percentage of issued capital held 2012	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:					
Digiboard Eletrônica da Amazônia Ltda.	Brazil	BRL26,875,744	**100%**	–	Manufacturing and distribution of IT products
Digibrás Indústria do Brasil S.A.	Brazil	BRL245,182,275.45	**100%**	–	Manufacturing and distribution of IT products
Dual Mix Comércio de Eletrônicos Ltda.	Brazil	BRL106,719	**100%**	–	Manufacturing and distribution of IT products
聯寶（合肥）電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.) (wholly foreign-owned enterprise)	Chinese Mainland	US$100,000,000	**51%**	–	Manufacturing and distribution of IT products
Lenovo (Asia Pacific) Limited	Hong Kong	HK$1,225,130,735	**100%**	100%	Investment holding and distribution of IT products

39 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2013	2012	Principal activities
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
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	JPY100,000,000	**51%**	51%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products

39 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2013	2012	Principal activities
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN226,308,454	100%	100%	Distribution of IT products
Lenovo Mobile Communication Technology (HK) Limited	Hong Kong	US$1,000,000	100%	100%	Trading of mobile phone and 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
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	BRL1,031,273,193	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
LenovoEMC, Limited	Hong Kong	HK$1,000 ordinary	51%	–	Distribution of IT products

39 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2013	2012	Principal activities
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 and marketing of IT products
Medion AG	Germany	EUR48,418,400	79.82%	61.48%	Retail and service business for consumer electronic products
NEC Personal Computers, Ltd.	Japan	JPY5,000,000,000	51%	51%	Manufacturing and distribution of IT products
Stoneware, Inc.	United States	US$861,341.25	100%	–	Development 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 and CCE 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 Chinese Mainland subsidiaries for the years ended March 31, 2012 and 2013 and of CCE from January 2, 2013, the date of business combination, to March 31, 2013 have been used.

(iii) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

(iv) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange.

40 Approval of financial statements

The financial statements were approved by the board of directors on May 23, 2013.

FIVE-YEAR FINANCIAL SUMMARY

Consolidated income statement

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
Revenue	**33,873,401**	29,574,438	21,594,371	16,604,815	14,900,931
Profit/(loss) before taxation	**801,299**	582,443	357,751	176,303	(187,945)
Taxation	**(169,707)**	(107,027)	(84,515)	(46,935)	(38,444)
Profit/(loss) for the year	**631,592**	475,416	273,236	129,368	(226,389)
Profit/(loss) attributable to:					
Equity holders of the Company	**635,148**	472,992	273,234	129,368	(226,392)
Non-controlling interests	**(3,556)**	2,424	2	–	3
	631,592	475,416	273,236	129,368	(226,389)
Earnings/(loss) per share					
Basic (US cents)	**6.16**	4.67	2.84	1.42	(2.56)
Diluted (US cents)	**6.07**	4.57	2.73	1.33	(2.56)

Consolidated balance sheet

	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000
Non-current assets	**4,492,260**	4,040,348	2,769,476	2,720,315	2,520,946
Current assets	**12,389,737**	11,820,400	7,936,463	6,235,613	4,100,717
Total assets	**16,881,997**	15,860,748	10,705,939	8,955,928	6,621,663
Non-current liabilities	**2,110,342**	1,603,102	838,386	930,557	844,221
Current liabilities	**12,091,474**	11,809,677	8,032,653	6,419,353	4,466,527
Total liabilities	**14,201,816**	13,412,779	8,871,039	7,349,910	5,310,748
Net assets	**2,680,181**	2,447,969	1,834,900	1,606,018	1,310,915

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
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe
Mr. William Tudor Brown

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu

REGISTERED OFFICE
23rd Floor, Lincoln House, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong

PRINCIPAL BANKERS
Bank of China
BNP Paribas
China Merchants Bank
Citibank, N.A.
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building,
Central, Hong Kong

SHARE REGISTRAR
Tricor Abacus Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Hong Kong

AMERICAN DEPOSITARY RECEIPTS
(Depositary and Registrar)
Citibank, N.A.
14th Floor, 388 Greenwich Street,
New York, NY 10013, USA

STOCK CODES

Hong Kong Stock Exchange:	992
American Depositary Receipts:	LNVGY

WEBSITE
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