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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2010/11 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company) announces the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2011 together with comparative figures of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	2011 US$'000	2010 US$'000
Sales	2	**21,594,371**	16,604,815
Cost of sales		**(19,230,417)**	(14,815,221)
Gross profit		**2,363,954**	1,789,594
Other income - net	3	**419**	83,126
Selling and distribution expenses		**(1,038,455)**	(839,388)
Administrative expenses		**(719,708)**	(566,245)
Research and development expenses		**(303,413)**	(214,343)
Other operating income/(expense) - net		**79,427**	(34,058)
Operating profit	4	**382,224**	218,686
Finance income	5(a)	**24,927**	20,377
Finance costs	5(b)	**(49,175)**	(62,881)
Share of (losses)/profits of associates		**(225)**	121
Profit before taxation		**357,751**	176,303
Taxation	6	**(84,515)**	(46,935)
Profit for the year		**273,236**	129,368
Profit attributable to:			
Equity holders of the Company		**273,234**	129,368
Non-controlling interests		**2**	-
		273,236	129,368
Basic earnings per share attributable to equity holders of the Company	7(a)	**US 2.84 cents**	US 1.42 cents
Diluted earnings per share attributable to equity holders of the Company	7(b)	**US 2.73 cents**	US 1.33 cents
Dividends	8	**96,601**	68,728

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	US$'000	*US$'000*
Profit for the year	**273,236**	129,368
Other comprehensive (loss)/income		
Fair value change on available-for-sale financial assets	**(15,892)**	67,674
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**-**	(70,809)
Fair value change on cash flow hedge		
- interest rate swap contracts	**2,371**	4,127
- forward foreign exchange contracts	**(27,023)**	18,518
Actuarial loss from defined benefit pension plans	**(7,190)**	(10,840)
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary	**(12,996)**	-
Currency translation differences	**47,442**	(61,660)
	(13,288)	(52,990)
	259,948	76,378
Total comprehensive income attributable to:		
Equity holders of the Company	**259,946**	76,378
Non-controlling interests	**2**	-
	259,948	76,378

CONSOLIDATED BALANCE SHEET

	Note	2011 US$'000	2010 US$'000
Non-current assets			
Property, plant and equipment		**209,417**	248,261
Prepaid lease payments		**9,682**	3,748
Construction-in-progress		**32,092**	24,711
Intangible assets		**2,134,452**	2,066,337
Interests in associates		**914**	1,061
Deferred income tax assets		**251,098**	254,978
Available-for-sale financial assets		**78,689**	112,520
Other non-current assets		**53,132**	8,699
		2,769,476	2,720,315
Current assets			
Inventories		**803,702**	878,887
Trade receivables	*9(a)*	**1,368,924**	1,021,062
Notes receivable		**391,649**	386,746
Derivative financial assets		**13,295**	13,283
Deposits, prepayments and other receivables		**2,305,325**	1,463,422
Income tax recoverable		**56,912**	33,562
Bank deposits		**42,158**	200,456
Cash and cash equivalents		**2,954,498**	2,238,195
		7,936,463	6,235,613
Total assets		**10,705,939**	8,955,928

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	2011 US$'000	2010 US$'000
Share capital	11	**31,941**	31,388
Reserves		**1,802,780**	1,574,453
Equity attributable to owners of the Company		**1,834,721**	1,605,841
Non-controlling interests		**179**	177
Total equity		**1,834,900**	1,606,018
Non-current liabilities			
Bank borrowings		**-**	200,000
Convertible preferred shares		**-**	94,980
Warranty provision	10	**395,242**	301,234
Deferred revenue		**277,205**	218,034
Retirement benefit obligations		**74,870**	80,867
Derivative financial liabilities		**-**	248
Deferred income tax liabilities		**17,093**	10,331
Other non-current liabilities		**73,976**	24,863
		838,386	930,557
Current liabilities			
Trade payables	9(b)	**2,179,839**	3,141,426
Notes payable		**98,964**	94,427
Derivative financial liabilities		**39,223**	11,259
Provisions, accruals and other payables	10	**5,096,649**	2,585,850
Income tax payable		**96,711**	84,329
Bank borrowings		**71,561**	64,706
Current portion of non-current liabilities		**449,706**	437,356
		8,032,653	6,419,353
Total liabilities		**8,871,039**	7,349,910
Total equity and liabilities		**10,705,939**	8,955,928
Net current liabilities		**(96,190)**	(183,740)
Total assets less current liabilities		**2,673,286**	2,536,575

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2011**	2010
		US$'000	*US$'000*
Cash flows from operating activities			
Net cash generated from operations	*12*	**1,089,097**	976,873
Interest paid		**(48,089)**	(59,891)
Tax paid		**(75,754)**	(82,231)
Net cash generated from operating activities		**965,254**	834,751
Cash flows from investing activities			
Purchase of property, plant and equipment		**(48,834)**	(36,144)
Sale of property, plant and equipment		**8,440**	8,762
Sale of intangible assets		**25**	-
Acquisition of subsidiaries, net of cash acquired		**-**	(106,704)
Net proceeds from disposal of subsidiaries and an associate		**-**	11,982
Payment for construction-in-progress		**(78,531)**	(39,979)
Payment for intangible assets		**(20,297)**	(32,320)
Net proceeds from disposal of financial instruments		**21,398**	89,538
Decrease/(increase) in bank deposits		**158,298**	(172,126)
Dividend received		**93**	1,558
Interest received		**24,927**	20,377
Net cash generated from/(used in) investing activities		**65,519**	(255,056)
Cash flows from financing activities			
Exercise of share options		**25,116**	13,640
Repurchase of shares		**(86,610)**	-
Dividends paid		**(87,870)**	(11,896)
Net decrease in bank borrowings		**(223,145)**	(218,884)
Net cash used in financing activities		**(372,509)**	(217,140)
Increase in cash and cash equivalents		**658,264**	362,555
Effect of foreign exchange rate changes		**58,039**	12,261
Cash and cash equivalents at the beginning of the year		**2,238,195**	1,863,379
Cash and cash equivalents at the end of the year		**2,954,498**	2,238,195

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital *US$'000*	Share premium *US$'000*	Convertible rights in respect of convertible preferred shares and warrants *US$'000*	Investment revaluation reserve *US$'000*	Share redemption reserve *US$'000*	Employee share trusts *US$'000*	Share-based compensation reserve *US$'000*	Hedging reserve *US$'000*	Exchange reserve *US$'000*	Other reserve *US$'000*	Retained earnings *US$'000*	Non-controlling interests *US$'000*	Total *US$'000*
At April 1, 2010	31,388	1,341,118	2,836	72,366	497	(111,054)	76,054	6,069	(35,969)	34,430	188,106	177	1,606,018
Profit for the year	-	-	-	-	-	-	-	-	-	-	273,234	2	273,236
Other comprehensive (loss)/income	-	-	-	(15,892)	-	-	-	(24,652)	34,446	-	(7,190)	-	(13,288)
Total comprehensive (loss)/income for the year	-	-	-	(15,892)	-	-	-	(24,652)	34,446	-	266,044	2	259,948
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	23,806	(23,806)	-	-
Conversion of Series A cumulative convertible preferred shares	891	98,073	(2,836)	-	-	-	-	-	-	-	-	-	96,128
Exercise of share options	168	24,948	-	-	-	-	-	-	-	-	-	-	25,116
Repurchase of shares	(506)	(86,610)	-	-	506	-	-	-	-	-	-	-	(86,610)
Vesting of shares under long-term incentive program	-	-	-	-	-	34,944	(54,149)	-	-	-	-	-	(19,205)
Share-based compensation	-	-	-	-	-	-	41,375	-	-	-	-	-	41,375
Dividends paid	-	-	-	-	-	-	-	-	-	-	(87,870)	-	(87,870)
At March 31, 2011	31,941	1,377,529	-	56,474	1,003	(76,110)	63,280	(18,583)	(1,523)	58,236	342,474	179	1,834,900
At April 1, 2009	29,530	1,106,379	42,159	75,501	497	(157,461)	92,684	(16,576)	25,691	30,738	81,596	177	1,310,915
Profit for the year	-	-	-	-	-	-	-	-	-	-	129,368	-	129,368
Other comprehensive (loss)/income	-	-	-	(3,135)	-	-	-	22,645	(61,660)	-	(10,840)	-	(52,990)
Total comprehensive (loss)/income for the year	-	-	-	(3,135)	-	-	-	22,645	(61,660)	-	118,528	-	76,378
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	122	(122)	-	-
Issue of ordinary shares	359	63,141	-	-	-	-	-	-	-	-	-	-	63,500
Conversion of Series A cumulative convertible preferred shares	1,190	126,484	(3,970)	-	-	-	-	-	-	-	-	-	123,704
Exercise of share options	104	13,536	-	-	-	-	-	-	-	-	-	-	13,640
Exercise and repurchase of warrants	205	31,578	(35,353)	-	-	-	-	-	-	3,570	-	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	46,407	(68,043)	-	-	-	-	-	(21,636)
Share-based compensation	-	-	-	-	-	-	51,413	-	-	-	-	-	51,413
Dividends paid	-	-	-	-	-	-	-	-	-	-	(11,896)	-	(11,896)
At March 31, 2010	31,388	1,341,118	2,836	72,366	497	(111,054)	76,054	6,069	(35,969)	34,430	188,106	177	1,606,018

Notes

1 Basis of preparation

The Board is responsible for the preparation of the Group's financial statements. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("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.

The Group has adopted those revised standards, new interpretations, and amendments to existing standards and interpretations (including certain amendments from improvements to HKFRS published in October 2008 and May 2009) that are mandatory for the year ended March 31, 2011 and where considered appropriate and relevant to its operations.

HKFRS 3 (revised), "Business combinations" (effective for annual periods beginning on or after July 1, 2009) continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group applies HKFRS 3 (revised) prospectively. The adoption of HKFRS 3 (revised) does not result in a material impact on the Group's financial statements as there was no business combination completed during the year ended March 31, 2011.

HKAS 27 (revised), "Consolidated and separate financial statements" (effective for annual periods beginning on or after July 1, 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting requirements when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The amendment does not have a material impact on the Group's financial statements.

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

The following new and revised standards, new interpretation, and amendments to existing standards and interpretations have been issued but are not effective for the year ended March 31, 2011 and have not been early adopted:

	Effective for annual periods beginning on or after
New and revised standards, new interpretation and amendments to existing standards and interpretation	
HKFRS 9, Financial instruments	January 1, 2013
HKAS 24 (Revised), Related party disclosures	January 1, 2011
HK(IFRIC)-Int 19, Extinguishing financial liabilities with equity instruments	July 1, 2010
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers to financial assets	July 1, 2011
Amendments to HKAS 12, Deferred tax: Recovery of underlying assets	January 1, 2012
Amendments to HK(IFRIC)-Int 14, Prepayments of a minimum funding requirement	January 1, 2011
Improvements to HKFRS 2010	
Amendments to:	
HKFRS 3 (Revised), Business combinations	July 1, 2010
HKFRS 7, Financial instruments: Disclosures	January 1, 2011
HKAS 1 (Revised), Presentation of financial statements	January 1, 2011
HKAS 21, The effect of changes in foreign exchange rates	July 1, 2010
HKAS 28, Investments in associates	July 1, 2010
HKAS 31, Interests in joint ventures	July 1, 2010
HKAS 32, Financial instruments: Presentation	July 1, 2010
HKAS 34, Interim financial reporting	January 1, 2011
HKAS 39, Financial instruments: Recognition and measurement	July 1, 2010
HK(IFRIC)-Int 13, Customer loyalty programmes	January 1, 2011

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

For cash flow statement presentation, effect of foreign exchange rate changes on cash flow from operations has been presented as part of net cash generated from operations. As a result, comparative information has been reclassified to conform to the current year's presentation.

2 Segment information

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

The LEC considers business from a market perspective. The Group has three market segments, China, emerging markets (excluding China) and mature markets, which are also the Group's reportable operating segments.

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

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the year ended March 31, 2011 and its comparatives are as follows:

	China *US$'000*	**Emerging Markets (excluding China)** *US$'000*	**Mature Markets** *US$'000*	**Total** *US$'000*
Year ended March 31, 2011				
Sales to external customers	**10,015,371**	**3,859,739**	**7,719,261**	**21,594,371**
Adjusted pre-tax income/(loss)	**507,497**	**(64,669)**	**77,734**	**520,562**
Depreciation and amortization	**71,380**	**22,017**	**82,743**	**176,140**
Restructuring costs	**-**	**(51)**	**398**	**347**
Additions to non-current assets*	**46,256**	**6,305**	**15,510**	**68,071**
At March 31, 2011				
Total Assets	**4,029,553**	**2,768,369**	**1,387,477**	**8,185,399**
Total liabilities	**3,036,757**	**2,789,863**	**1,564,411**	**7,391,031**

	China *US$'000*	Emerging Markets (excluding China) *US$'000*	Mature Markets *US$'000*	Total *US$'000*
Year ended March 31, 2010				
Sales to external customers	7,892,275	2,639,812	6,072,728	16,604,815
Adjusted pre-tax income/(loss)	444,164	(96,625)	(65,119)	282,420
Depreciation and amortization	77,833	19,297	73,039	170,169
Restructuring costs	2,112	5,708	(6,087)	1,733
Additions to non-current assets*	49,017	3,540	20,085	72,642
At March 31, 2010				
Total Assets	3,094,515	1,586,158	1,199,948	5,880,621
Total liabilities	2,190,074	1,929,730	1,258,603	5,378,407

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

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

	2011	2010
	US$'000	*US$'000*
Adjusted pre-tax income	**520,562**	282,420
Unallocated:		
Headquarters and corporate expenses	**(134,879)**	(141,737)
Restructuring costs	**(3,878)**	(5,123)
Finance income	**24,927**	20,377
Finance costs	**(49,175)**	(62,881)
Net gain on disposal of available-for-sale financial assets and investments	**326**	82,090
Dividend income from available-for-sale financial assets	**93**	1,558
Impairment of investments	**-**	(522)
Share of (losses)/profits of associates	**(225)**	121
Consolidated profit before taxation	**357,751**	176,303

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

	2011	2010
	US$'000	*US$'000*
Segment assets for reportable segments	**8,185,399**	5,880,621
Unallocated:		
Deferred income tax assets	**251,098**	254,978
Derivative financial assets	**13,295**	13,283
Available-for-sale financial assets	**78,689**	112,520
Interests in associates	**914**	1,061
Unallocated bank deposits and cash and cash equivalents	**1,727,569**	1,813,368
Unallocated inventories	**180,516**	311,455
Other unallocated assets	**268,459**	568,642
Total assets per consolidated balance sheet	**10,705,939**	8,955,928

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

	2011	2010
	US$'000	*US$'000*
Segment liabilities for reportable segments	**7,391,031**	5,378,407
Unallocated:		
Income tax payable	**96,711**	84,329
Deferred income tax liabilities	**17,093**	10,331
Derivative financial liabilities	**39,223**	11,507
Unallocated bank borrowings	**200,000**	430,000
Convertible preferred shares	**-**	94,980
Other unallocated liabilities	**1,126,981**	1,340,356
Total liabilities per consolidated balance sheet	**8,871,039**	7,349,910

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$1,926 million (2010: US$1,854 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2011

	China US$ million	REM * US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,065	143	24	161	84	69	1,546
Trademarks and trade names	209	55	9	58	35	14	380

* Previously known as HARIE, includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan and Turkey

At March 31, 2010

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

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

Management has completed the allocation of the goodwill attributable to the acquisition of Lenovo Mobile Communication Limited. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives and the development of customer-focused products to capitalize on the mobile internet device business growth in China. The entire amount of goodwill of US$177 million as at March 31, 2010 has been allocated to the China market segment during the year.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2011 (2010: Nil).

3 Other income - net

	2011 ***US$'000***	2010 *US$'000*
Net gain on disposal of available-for-sale financial assets and investments	**326**	82,090
Dividend income from available-for-sale financial assets	**93**	1,558
Impairment of investments	**-**	(522)
	419	83,126

4 Operating profit

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

	2011	2010
	US$'000	*US$'000*
Depreciation and impairment of property, plant and equipment and amortization of prepaid lease payments	**81,856**	106,591
Amortization and impairment of intangible assets	**94,284**	70,202
Employee benefit costs, including	**1,431,218**	1,182,019
- long-term incentive awards	***41,375***	*51,413*
- severance and related costs	***1,095***	*25,448*
Gain on disposal of subsidiaries	**(13,015)**	(1,491)
Rental expenses under operating leases	**52,670**	44,729

5 Finance income and costs

(a) Finance income

	2011	2010
	US$'000	*US$'000*
Interest on bank deposits	**23,229**	18,947
Interest on money market funds	**1,118**	950
Others	**580**	480
	24,927	20,377

(b) Finance costs

	2011	2010
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**16,330**	30,413
Dividend and relevant finance costs on convertible preferred shares	**3,810**	10,915
Factoring cost	**17,022**	10,600
Others	**12,013**	10,953
	49,175	62,881

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2011	2010
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**234**	58
Taxation outside Hong Kong	**67,334**	87,716
Deferred taxation	**16,947**	(40,839)
	84,515	46,935

Hong Kong profits tax has been provided for at the rate of 16.5% (2009/10: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Earnings per share

(a) Basic

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

	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,634,806,069**	9,113,645,262
	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**273,234**	129,368

(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 three categories of dilutive potential ordinary shares: convertible preferred shares, share options and long-term incentive awards.

	2011	2010
Weighted average number of ordinary shares in issue	**9,634,806,069**	9,113,645,262
Adjustments for convertible preferred shares	**176,317,792**	-
Adjustments for share options and long-term incentive awards	**337,099,963**	621,234,062
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,148,223,824**	9,734,879,324
Profit attributable to equity holders of the Company	**273,234**	129,368
Interest expense on convertible preferred shares	**3,810**	-
	277,044	129,368

Adjustments for the dilutive potential ordinary shares are as follows:

– The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs. For the year ended March 31, 2010, convertible preferred shares were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

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

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

8 Dividends

	2011	2010
	US$'000	*US$'000*
Interim dividend, for the six months ended September 30, 2010, of HK2.6 cents (2009/10: HK1.0 cent) per ordinary share, paid on December 9, 2010	**32,581**	12,264
Proposed final dividend – HK5.0 cents (2010: HK4.5 cents)	**64,020**	56,464
	96,601	68,728

9 Ageing analysis

(a) Customers are generally granted credit term ranging from 15 to 60 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	2011	2010
	US$'000	*US$'000*
0 – 30 days	**941,811**	665,535
31 – 60 days	**251,698**	242,946
61 – 90 days	**92,817**	68,526
Over 90 days	**103,679**	61,374
	1,390,005	1,038,381
Less: provision for impairment	**(21,081)**	(17,319)
Trade receivables – net	**1,368,924**	1,021,062

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

	2011	2010
	US$'000	*US$'000*
0 – 30 days	**1,381,832**	2,425,237
31 – 60 days	**503,648**	609,720
61 – 90 days	**230,791**	74,499
Over 90 days	**63,568**	31,970
	2,179,839	3,141,426

10 Provisions, accruals and other payables

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

	Warranty *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2010			
At the beginning of the year	533,399	97,603	631,002
Exchange adjustment	(2,739)	2,673	(66)
Provisions made	480,402	6,631	487,033
Acquisition of subsidiaries	4,701	-	4,701
Amounts utilized	(451,065)	(81,943)	(533,008)
Unused amounts reversed	(14,009)	(13,623)	(27,632)
	550,689	11,341	562,030
Long-term portion classified as non-current liabilities	(301,234)	-	(301,234)
At the end of the year	249,455	11,341	260,796
Year ended March 31, 2011			
At the beginning of the year	**550,689**	**11,341**	**562,030**
Exchange adjustment	**11,310**	**84**	**11,394**
Provisions made	**644,778**	**3,126**	**647,904**
Amounts utilized	**(510,054)**	**(3,585)**	**(513,639)**
Unused amounts reversed	**(2,000)**	**(2,547)**	**(4,547)**
	694,723	**8,419**	**703,142**
Long-term portion classified as non-current liabilities	**(395,242)**	**-**	**(395,242)**
At the end of the year	**299,481**	**8,419**	**307,900**

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

11 Share capital

	2011 Number of shares	2011 HK$'000	2010 Number of shares	2010 HK$'000
Authorized:				
At the beginning and the end of the year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	2011 Number of shares	2011 US$'000	2010 Number of shares	2010 US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**9,788,044,282**	**31,388**	9,211,389,406	29,530
Issue of ordinary shares	**-**	**-**	111,668,936	359
Conversion from series A cumulative convertible preferred shares	**282,263,115**	**891**	369,112,652	1,190
Exercise of share options	**52,614,500**	**168**	32,370,500	104
Exercise of warrants	**-**	**-**	63,502,788	205
Repurchase of shares	**(157,760,000)**	**(506)**	-	-
At the end of the year	**9,965,161,897**	**31,941**	9,788,044,282	31,388
Series A cumulative convertible preferred shares:				
At the beginning of the year	**769,167**	**891**	1,774,999	2,081
Conversion to voting ordinary shares	**(769,167)**	**(891)**	(1,005,832)	(1,190)
At the end of the year	**-**	**-**	769,167	891

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

	2011	2010
	US$'000	*US$'000*
Profit before taxation	**357,751**	176,303
Share of losses/(profits) of associates	**225**	(121)
Finance income	**(24,927)**	(20,377)
Finance costs	**49,176**	62,881
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**81,856**	100,826
Amortization of intangible assets and share-based compensation	**135,659**	120,756
(Gain)/loss on disposal of property, plant and equipment and prepaid lease payments	**(191)**	3,369
Loss on disposal of construction-in-progress	**1,415**	748
Gain on disposal of intangible assets	**(14)**	-
Gain on disposal of subsidiaries and an associate	**(13,015)**	(2,600)
Impairment of assets	**-**	6,624
Dividend income	**(93)**	(1,558)
Gain on disposal of financial instruments	**(326)**	(82,090)
Decrease/(increase) in inventories	**75,185**	(401,082)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,238,985)**	(1,086,354)
Increase in trade payables, notes payable, provisions, accruals and other payables	**1,761,769**	2,183,039
Effect of foreign exchange rate changes	**(96,388)**	(83,491)
Net cash generated from operations	**1,089,097**	976,873

PROPOSED DIVIDEND

The Board recommended the payment of a final dividend of HK5.0 cents per ordinary share (2009/10: HK4.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Tuesday, August 2, 2011 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Friday, July 22, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Wednesday, July 20, 2011 to Friday, July 22, 2011, both days inclusive, during which period no transfer of ordinary shares will be effected. In order to qualify for the proposed final dividend and for attending and voting at the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, July 19, 2011.

FINANCIAL REVIEW

Results
For the year ended March 31, 2011, the Group achieved total sales of approximately US$21,594 million. Profit attributable to equity holders for the year was approximately US$273 million, representing an increase of US$144 million as compared with last year. Gross profit margin for the year was 0.1 percent point up from 10.8 percent reported in the last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US$558 million as compared to March 31, 2010. Basic earnings per share and diluted earnings per share were US2.84 cents and US2.73 cents, representing an increase of US1.42 cents and US1.40 cents respectively as compared with last year.

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

For the year ended March 31, 2011, overall operating expenses across the board increased when compared to last year as the current year includes full year results of Lenovo Mobile following the acquisition completed in January 2010. Employee benefit costs increased by 21.1 percent as compared to last year due to increased performance-driven incentive payments.

Further analyses of income and expense by function for the year ended March 31, 2011 are set out below:

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

Selling and distribution expenses
Selling and distribution expenses for the year increased by 23.7 percent as compared to last year. This is principally attributable to a US$156 million increase in promotional activities and a US$45 million increase in employee benefit costs.

Administrative expenses
The Group experienced an increase of 27.1 percent in administrative expenses for the year as compared to last year. This is mainly attributable to a US$143 million increase in employee benefit costs, a US$18 million increase in depreciation and amortization expenses, and a US$6 million increase in operating lease payments. The increase is partially offset by a decrease in contracted service expense of US$65 million.

Research and development expenses
Research and development spending for the year increased by 41.6 percent as compared to last year. The major part of the increase is attributable to an increase in employee benefit costs of US$40 million, R&D related office expenses of US$12 million, depreciation and amortization expenses of US$4 million and costs in relation to the relocation of R&D laboratory of US$7 million.

Other operating income - net
Net other operating income for the year increased by US$113 million as compared to a net other operating expense of US$34 million in last year. The increase is attributable to one off expense items such as warranty costs not reimbursable by suppliers of US$30 million and an IP license fee of US$12 million noted in last year and the gain on disposal of a subsidiary of US$13 million recognized in current year. A net exchange gain of US$21 million is reported this year as compared to a net exchange loss of US$1 million in last year.

Capital Expenditure

The Group incurred capital expenditures of US$148 million (2010: US$108 million) during the year ended March 31, 2011, 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, 2011, total assets of the Group amounted to US$10,706 million (2010: US$8,956 million), which were financed by equity attributable to owners of the Company of US$1,835 million (2010: US$1,606 million), non-controlling interests of US$179,000 (2010: US$177,000), and total liabilities of US$8,871 million (2010: US$7,350 million). At March 31, 2011, the current ratio of the Group was 0.99 (2010: 0.97).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At March 31, 2011, bank deposits, cash and cash equivalents totaled US$2,997 million (2010: US$2,439 million), of which 53.9 (2010: 42.9) percent was denominated in US dollars, 37.1 (2010: 46.6) percent in Renminbi, 0.7 (2010: 1.6) percent in Euros, 0.4 (2010: 0.2) percent in Japanese Yen, and 7.9 (2010: 8.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2011, 75.6 (2010: 78.2) percent of cash are bank deposits, and 24.4 (2010: 21.8) 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 had a US$300 million 3-year loan facility with a bank in China. At March 31, 2010 and 2011, it was utilized to the extent of US$200 million and expires in March 2012.

In addition, the Group has entered into another 5-Year loan facility agreement with a bank of US$300 million on July 17, 2009. The facility has not been utilized as at March 31, 2011 (2010: Nil).

On February 2, 2011, the Group entered into a 5-Year loan facility agreement for US$500 million. The facility has not been utilized as at March 31, 2011.

The Group has also arranged other short-term credit facilities. At March 31, 2011, the Group's total available credit facilities amounted to US$5,570 million (2010: US$4,936 million), of which US$331 million (2010: US$276 million) was in trade lines, US$475 million (2010: US$485 million) in short-term and revolving money market facilities and US$4,764 million (2010: US$4,175 million) in forward foreign exchange contracts. At March 31, 2011, the amounts drawn down were US$201 million (2010: US$191 million) in trade lines, US$3,190 million (2010: US$2,641 million) being used for the forward foreign exchange contracts; and US$72 million (2010: US$65 million) in short-term bank loans.

At March 31, 2011, the Group's outstanding bank loans represented the term loans of US$200 million (2010: US$430 million) and short-term bank loans of US$72 million (2010: US$65 million). At March 31, 2010, short-term bank loans of US$28 million were secured by the same amount of bank deposits. The security was released following repayment of the loan during the year. When compared with total equity of US$1,835 million (2010: US$1,606 million), the Group's gearing ratio was 0.15 (2010: 0.31). The net cash position of the Group at March 31, 2011 is US$2,725 million (2010: US$1,944 million) of which US$20 million is restricted bank deposit (2010: Nil).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2011, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$3,190 million (2010: US$2,641 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 the identified assets and liabilities.

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 ordinary shares in the Company for an aggregate cash consideration of approximately US$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share.

All warrants were either exercised or repurchased by the Company.

On November 15, 2010, the remaining 769,167 convertible preferred shares were converted into 282,263,115 voting ordinary shares.

Under the general mandate authorized by the shareholders in the annual general meeting, the Company repurchases ordinary shares in order to increase shareholder value. For the year ended March 31, 2011, the Company repurchased 157,760,000 ordinary shares at par value of HK$0.025 each in the capital of the Company at an aggregate consideration of approximately US$87 million (2010: Nil).

Contingent Liabilities

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

Human Resources

At March 31, 2011, the Group had a total of 27,039 employees.

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

BUSINESS REVIEW AND FUTURE PROSPECTS

During the fiscal year 2010/11, the worldwide PC market continued to show relatively strong growth at the beginning of the year, with the rate moderating towards the end. This trend was due primarily to a tightening macro-economic environment, as many countries sought to curb inflation especially in emerging markets, as well as softening consumer PC demand and the comparison to relatively high year-on-year growth rates in certain markets.

The worldwide PC market showed diverse performance between the commercial and consumer PC segments. Momentum in commercial PC demand has gradually picked up, benefiting from the corporate refreshment cycle, while consumer PC demand weakened due to a worsening macro-economic environment and increasing competition from tablet products. Worldwide commercial PC unit shipments grew by 8.8 percent year-on-year for the fiscal year, reversing the declining trend since the financial crisis in fiscal year 2008/09. Worldwide consumer PC unit shipments grew only 6.2 percent year-on-year, and this segment actually declined in fiscal quarter four. As a result, the overall worldwide PC unit shipments grew 7.4 percent year-on-year.

Lenovo has continued to outperform the worldwide PC market for the past eight consecutive quarters, through its solid execution of the successful “Protect and Attack” strategy. Balanced growth across geographies, products and customer segments, has enabled the Group to become the fastest growing PC company among key players for six consecutive quarters. Lenovo achieved double-digit market share in the first three fiscal quarters and a 9.9 percent share in the fiscal quarter four, according to industry estimates. The Group’s PC business recorded 28.2 percent year-on-year unit shipments growth for the fiscal year, which helped to bring Lenovo’s worldwide PC market share to a historic high of 10.2 percent, a 1.7 percentage-point increase from a year ago. Lenovo was the largest PC company in emerging markets including China; the largest in education and government notebook PC segment; and the second largest in the worldwide commercial notebook PC segment.

The Group’s mobile business also performed well during the fiscal year. The feature phone business showed strong unit shipments growth of 40.3 percent year-on-year. The Group also launched the LePhone smartphone in China in May 2010. Overall, the Group’s mobile business unit shipments grew 47.4 percent year-on-year compared to its own performance in the previous fiscal year. Its market share in China increased by 0.7 percentage-point year-on-year to 4.7 percent. Lenovo retained its position as the number one domestic mobile handset brand in the country, according to industry estimates. Late in the fiscal year, the Group formed a new organization – Mobile Internet and Digital Home Group (MIDH) – to coordinate its initiatives in the mobile internet markets and better prepare itself to tap growth opportunities. As a key first step, Lenovo launched its first tablet PC, LePad, in China in March 2011.

In January 2011, Lenovo announced an agreement to establish a strategic joint venture with NEC Corporation (NEC). This joint venture would create the largest PC group in Japan, giving both Lenovo and NEC a unique opportunity to grow their commercial and consumer PC businesses in the world’s third largest PC market through a stronger market position, enhanced product portfolios, and expanded distribution channels. The anticipated completion of the transaction is on or about June 30, 2011.

For the fiscal year ended March 31, 2011, the Group’s sales increased by 30.0 percent year-on-year to US$21,594 million. Sales of the Group’s PC business were US$20,790 million, representing a year-on-year increase of 25.9 percent, as its growth in PC unit shipments was partially offset by lower average selling price of the products. The mobile business recorded its first full fiscal year contribution following acquisition with sales of US$804 million. The Group’s gross profit increased by 32.1 percent year-on-year to US$2,364 million and gross margin increased from 10.8 percent in the previous fiscal year to 10.9 percent. The Group’s effective margin management, increased mix of the Think branded products and improved overall competitiveness contributed to the gross margin expansion.

The Group also continued its stringent expense control during the fiscal year, while still making significant strategic investments in product innovation, corporate branding, and promotions of LePhone and LePad. These investments are intended to drive long-term, sustainable growth and better profitability in the future. The Group's operating expenses excluding restructuring charges and one-off items increased by 24.7 percent year-on-year to US$1,978 million. As a result, Lenovo's expense-to-revenue ratio was down from 9.6 percent in the previous fiscal year to 9.2 percent, a historic low level since the IBM PCD acquisition in 2005. The Group reported profit before taxation of US$358 million and profit attributable to equity holders of US$273 million, increases of 102.9 and 111.2 percent, respectively, from the previous fiscal year.

Performance of Geographies

During the year ended March 31, 2011, Lenovo achieved strong performance in all geographies where it has operations, gaining PC market share across the board in China, Emerging Markets (excluding China) and Mature Markets, benefiting from its focus on strategic priorities and solid execution. The Group's China business continued to perform well and recorded another historic high in PC market share. Emerging Markets (excluding China) continued expanding faster than the overall market under the Group's attack strategy to grow share in this geography while operating loss incurred narrowed significantly. Capitalizing on the recovery of corporate PC demand, Mature Markets returned to profit, and its margin improved in each quarter during the fiscal year.

China

Overall, China accounted for 46.4 percent of the Group's total sales. The PC and mobile businesses in this country accounted for 42.7 percent and 3.7 percent of the Group's total sales, respectively.

During the fiscal year, China PC market continued to maintain a growth premium against worldwide PC market, but the expansion in unit shipments slowed to 12.4 percent year-on-year. The softening of PC demand in China was due to several factors, including the high year-on-year comparison base, slower consumer spending due to volatility in the domestic stock and real estate markets, and continued government measures to tighten market liquidity and curb inflation.

Lenovo continued to grow faster than the market and further extended its leadership in China by protecting its market positions in key cities, and simultaneously attacking opportunities arising from increasing PC penetration in emerging smaller cities and rural areas. Lenovo extended its channel structure in China to increase the chain-store retailer mix in key cities, expand store front coverage in emerging cities and grow its network of channel partners focusing on the small-to-medium sized business (SMB) segment. Lenovo's unit shipments growth in China was 22.2 percent year-on-year for the fiscal year and market share increased by 2.4 percentage-point year-on-year to an all-time high of 29.5 percent, according to industry estimates.

Lenovo's mobile business also continued to post strong shipments growth of 47.4 percent year-on-year in its first full fiscal year of reporting following integration into the Group, compared to its own performance in the previous fiscal year. It further strengthened Lenovo's position as the number one domestic mobile handset brand in China.

Operating profit in China grew to US$507 million during the fiscal year, but operating margin was 5.1 percent, down from 5.6 percent in the previous fiscal year. Operating margin was under pressure due to additional marketing expenses incurred in promoting the newly launched LePhone and LePad products. Operating margin for China PC business was stable at 5.7 percent, unchanged from a year ago.

Emerging Markets (excluding China)

Emerging Markets (excluding China) accounted for 17.9 percent of the Group's total sales.

The Group's strong growth momentum continued in the Emerging Markets (excluding China) during the fiscal year. Lenovo successfully expanded its business scale in the geography through continued improvement in distribution channels, a strengthened product portfolio, and new investments in branding and marketing. The Group's unit shipments grew 50.1 percent year-on-year for the fiscal year, which was about three times the overall market growth of 17.8 percent. Lenovo's market share increased by 1.3 percentage-point year-on-year to 6.1 percent, according to industry estimates. Strong unit shipments growth and share gains were recorded across all key regions such as RUCIS (+141.5 percent), India (+64.9 percent), ASEAN (+41.1 percent) and Latin America (+41.1 percent). In some key markets, such as India, registered double-digit market share in some quarters for the first time in the fiscal year.

Operating loss in Emerging Markets (excluding China) narrowed to US$65 million during fiscal year, against an operating loss of US$97 million recorded in the previous fiscal year, mainly due to improved scale.

Mature Markets

Mature Markets accounted for 35.7 percent of the Group's total sales.

Capitalizing on the recovering in corporate PC demand, Lenovo's Mature Markets successfully returned to profit, and its margin improved in each quarter during the fiscal year, while consistently expanding faster than the overall market. Therefore, the Group's overall share in Mature Markets rose by 1.2 percentage-point year-on-year to 5.5 percent, and it posted gains in most key regions. Most notably, Lenovo recorded historic high market share in North America in fiscal quarter four and Australia and New Zealand (ANZ) recorded the highest share within Mature Markets.

The Group's unit shipments in Mature Markets grew 27.4 percent year-on-year during the fiscal year against a 0.2 percent decline in the overall market. Unit shipments in North America, Western Europe, Japan and ANZ increased by 31.8, 22.8, 40.2 and 6.3 percent year-on-year, respectively.

Lenovo saw excellent recovery in Mature Markets' relationship business, particularly in the second half of the fiscal year with both the Global Accounts and Enterprise and Public Sector business units delivering significant revenue growth and profit. There were several key global account wins and significant contract extensions within the fiscal year, which fueled profitable growth in this segment. These results allowed Lenovo to invest in growth opportunities such as the retail segment. The Group's SMB business across the Mature Markets was profitable even as it faced challenges in the retail channel due to significant slowdown in consumer demand. The channel strategy execution has shown good progress, particularly in new partner recruitment and increases in share of wallet with existing key partners.

Operating profit in Mature Markets was US$78 million during the fiscal year, against an operating loss of US$65 million recorded in the previous fiscal year. The Group's operating profit continued to show improvement in every quarter during the fiscal year. Mature Markets' operating margin was 1.0 percent for the fiscal year and reached 1.9 percent in fiscal quarter four.

Performance of Product Groups

During the fiscal year 2010/11, Lenovo achieved strong and balanced unit shipments growth in both commercial and consumer PC products. The performance of the Think Product Group, which mainly targets commercial customers, benefited from a recovery of corporate PC demand, while the Idea Product Group, which primarily focuses on the consumer and entry SMB products, was propelled by continued strong growth of the consumer PC segment in China and other emerging markets. According to industry estimates, Lenovo's market share in the worldwide commercial PC market increased by 2.1 percentage-point to 14.3 percent during the fiscal year, while its worldwide consumer PC market share increased by 1.2 percentage-point to 6.8 percent in the same period.

Lenovo also achieved balanced unit shipments growth and market share gains for both notebook and desktop PCs during the fiscal year. Despite slowing demand in the entry level consumer notebook PC market, the Group's notebook PC unit shipments growth remained solid at 30.2 percent year-on-year – about three times the worldwide growth rate in this product segment. As a result, Lenovo's worldwide market share in notebook PC increased by 1.5 percentage-point year-on-year, to 10.1 percent, according to industry estimates. This performance helped move Lenovo from fifth to fourth place among worldwide notebook PC companies.

In the desktop PC segment, Lenovo benefited from the recovery in commercial PC demand, as well as outstanding sales performance of its stylish All-in-One consumer desktop PC. The Group's desktop PC unit shipments grew 25.5 percent year-on-year, about seven times the overall worldwide desktop PC market. As a result, Lenovo's worldwide market share in desktop PC increased by 1.8 percentage-point year-on-year, to 10.4 percent, and the Group remained the world's third largest desktop PC company, according to industry estimates.

At the International Consumer Electronics Show (CES) in Las Vegas in January 2011, Lenovo announced several awards winning Think and Idea branded products that attracted positive industry recognition. In March 2011, Lenovo announced the next generation of its best-selling ultraportable notebook, ThinkPad X220 notebook. It provides mobile business professionals with the full performance and usability found in larger notebooks, but in a light, ultraportable design. During the fiscal year, the Group also introduced the world's first 12.5-inch ultraportable consumer notebook, IdeaPad U260, featuring a magnesium-aluminum alloy metal cover, leather-patterned palm rest and glass touchpad.

Sales of mobile products accounted for 3.7 percent of the Group's total sales and as stated, Lenovo's mobile business unit shipments grew 47.4 percent year-on-year compared to its own performance in the previous fiscal year. Lenovo's mobile products were mainly sold in China and its market share in China's mobile handset market increased by 0.7 percentage-point year-on-year, to 4.7 percent.

FUTURE PROSPECTS

Worldwide PC market growth moderated further in the second half of fiscal year 2010/11 and even posted a negative growth in fiscal quarter four. Challenges to the worldwide PC market demand – such as uncertainties about the pace of the global economic recovery, the ongoing debt crisis in Western Europe, further macro-economic tightening measures in China, and tablet cannibalization at entry level of the consumer PC market – likely will continue.

The corporate refreshment cycle will continue to help sustain growth in commercial PC demand, while consumer PC demand likely will face continued "head winds" amidst a weakening macro-economic environment and cannibalization by tablet products. Nevertheless, Lenovo remains optimistic about the global PC market outlook and confident that the Group will continue outperforming its major industry peers in the new fiscal year through balanced growth and solid execution of its well-defined strategy.

The Group will continue its "Protect and Attack" strategy intended to drive continued growth in unit shipments, while expanding margins and delivering more values to its customers and shareholders.

The China PC market is expected to show gradual improvement in the new fiscal year benefiting from the momentum of China's healthy, growing economy. The relatively low PC penetration rates in emerging cities and suburban areas, and relatively low year-on-year comparison bases in coming quarters, likely will result in improved rates of PC market growth, especially in the second half of the new fiscal year.

The Group is confident that the China PC market will continue to outperform the worldwide PC market over time, and that its leadership position in the country will provide a unique competitive advantage in capturing this growth opportunity. Lenovo will endeavor to protect its core PC business in China by extending its PC market share lead and increasing profitability, and also by expanding its commercial business with servers and workstations. The Group will further attack market share in China's emerging cities, aggressively develop the MIDH business and align the end-to-end route-to-market organization to improve efficiency and profitability.

Meanwhile, Lenovo will continue to benefit from the continued strong growth momentum in Emerging Markets (excluding China) under its attack strategy to outperform its major peers and capture market share. The Group already captured double-digit market share in India for the fiscal quarters three and four, and will continue attacking this geography, seeking to achieve double-digit market shares in key countries and improve profitability. Lenovo will accelerate consumer business momentum by focusing on retail development, achieving a breakthrough in SMB business, and driving the relationship business model.

Looking forward, the corporate PC refresh cycle will continue to drive PC industry growth in Mature Markets, and Lenovo believes that the corporate PC replacement trend will remain on track. Lenovo is well positioned to leverage this market environment given its unique position in the commercial PC segment. The Group will continue to protect its relationship business with the aims of delivering steady profits in all regions and driving across-the-board market share gains. The Group will address the growth opportunity in both consumer and SMB PC segments with innovative products, while continuing to expand its channel partner network and deploying tools to simplify its business models in Mature Markets. Furthermore, the Group will increase its investments in marketing activity in key countries to improve brand consideration. Finally, the Group will leverage the joint venture with NEC in Japan to grow market share in the world's third largest PC market, becoming number one in the market upon anticipated completion of the transaction on or about June 30, 2011.

Lenovo has delivered consistent strong performance in the past two years under its successful "Protect and Attack" strategy despite challenges in the market environment, and established a solid foundation for the next phase of corporate development. Lenovo will remain firmly committed to this successful strategy, confident that the Group will continue to outperform the worldwide PC market through balanced growth. Lenovo also will attack MIDH markets to develop global presence for this business and drive the convergence of its products.

Lenovo has benefited from its strong brand reputation in China, and it is the Group's strategy to build its brand reputation globally to drive future price stability and margin enhancement over time. The Group will be launching an aggressive corporate marketing campaign "Lenovo: For Those Who Do" in the new fiscal year with an objective to further strengthen its brand globally.

Although the Group's strategy mandates investments in product innovation, brand building in global markets, and mobile internet products to drive future growth, Lenovo will continue its stringent control on expense and end-to-end operating efficiency. With increasing volume in PC and mobile products, the Group likely will continue to enjoy the increased benefits of larger scale. Therefore, Lenovo is confident that its expense-to-revenue ratio will remain at low levels in the new fiscal year even as the company invests to drive future growth.

Given its strong balance sheet, the Group will continue to actively look for inorganic growth opportunities within the PC industry, which would supplement its organic growth strategy to accelerate future expansion.

With the global market environment showing signs of continued growth in areas where Lenovo is well positioned, management is confident that the Group will consistently deliver solid performance and create more values for the shareholders through the successful execution of strategic priorities and balanced growth.

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

During the year, the Company purchased 157,760,000 ordinary shares of HK$0.025 each in the capital of the Company at prices ranging from HK$3.94 to HK$4.60 per share on The Stock Exchange of Hong Kong Limited.

Month/Year	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregate Consideration paid (excluding expenses)**
		HK$	***HK$***	***HK$***
6 / 2010	34,456,000	4.50	4.17	149,427,360
7 / 2010	43,026,000	4.49	4.11	185,729,660
8 / 2010	6,000,000	4.53	4.41	26,738,540
9 / 2010	5,852,000	4.60	4.42	26,391,160
3 / 2011	68,426,000	4.38	3.94	284,393,100

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

On November 15, 2010, group companies / funds of TPG Capital, Newbridge Capital and General Atlantic, the holders of the Company's convertible preferred shares, converted 769,167 convertible preferred shares into 282,263,115 fully paid ordinary shares of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the year ended March 31, 2011.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with the Terms of Reference which clearly deal with its membership, authority, duties and frequency of meetings. Currently, the Audit Committee is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. Allen, the other two independent non-executive directors, Professor Woo Chia-Wei and Mr. Ting Lee Sen, and a non-executive director, Ms. Ma Xuezheng.

The Audit Committee of the Company has reviewed the annual results for the year ended March 31, 2011. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended March 31, 2011, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, and where appropriate, met the recommended best practices in the CG Code, save for the deviations which are explained below.

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

Code E.1.2
The Chairman of the Board was unable to attend the annual general meeting of the Company held on July 30, 2010 as he had an engagement that was important to the business of the Company.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2010/11 Annual Report. Particularly, the Company published quarterly financial results and business review in addition to interim and annual results. Quarterly financial results enhanced the shareholders to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual accounts.

By order of the Board
Liu Chuanzhi
Chairman

Hong Kong, May 26, 2011

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