Lenovo Group Limited 2013/14 Annual Report

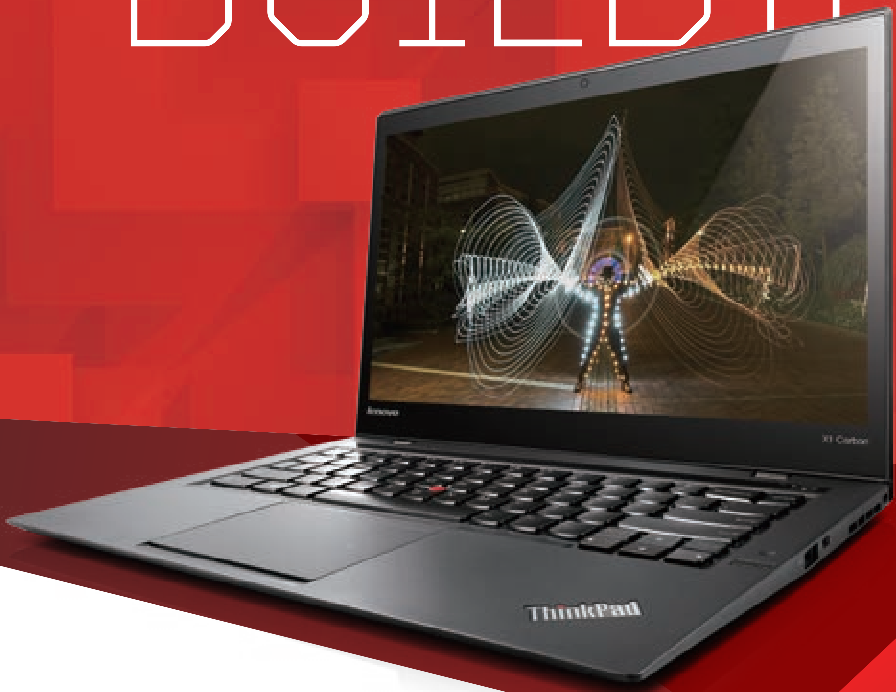
Stock Code 992

FOR THOSE WHO DO.™

THE LENOVO EXPERIENCE

BUILDING A BETTER WAY

BUILDING A



ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$39 billion personal technology company, the largest PC company in the world, serving customers in more than 160 countries. Dedicated to building exceptionally engineered PCs and mobile internet devices, Lenovo's business is built on product innovation, a highly-efficient global supply chain and strong strategic execution. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial PCs and Idea-branded consumer PCs, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones. As a global Fortune 500 company, Lenovo has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; Sao Paulo, Brazil, and Raleigh, North Carolina.

BETTER WAY

CONTENTS

A740 Desktop

Lenovo is the world's #1 PC company, having outgrown the market every quarter for more than 4 years. This growth is driven by innovative products that meet customers' needs, empowering them to do more.

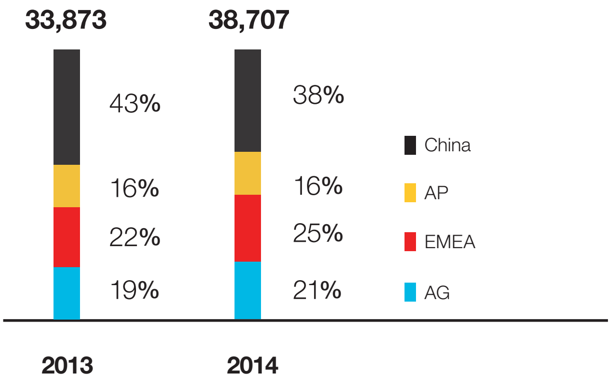
WORLD NO. 1 PCS

FINANCIAL HIGHLIGHTS

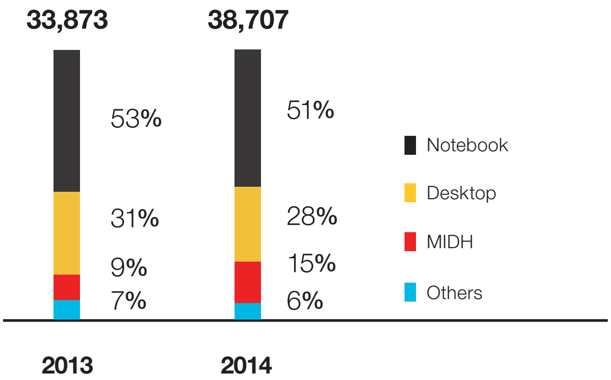
For the year ended March 31	2014 US$ million	2013 US$ million	Year-on-year Change
Group Results			
Revenue	**38,707**	33,873	14%
Gross profit	**5,064**	4,427	14%
Gross profit margin (%)	**13.1**	13.1	Nil
Operating expenses	**(4,012)**	(3,627)	11%
Expense-to-revenue ratio (%)	**10.4**	10.7	-0.3pt
EBITDA[1]	**1,365**	1,067	28%
Pre-tax income	**1,014**	801	27%
Pre-tax income margin (%)	**2.6**	2.4	0.2pt
Profit attributable to equity holders of the Company	**817**	635	29%
EPS – basic (US cents)	**7.88**	6.16	1.72
EPS – diluted (US cents)	**7.78**	6.07	1.71
Interim dividend per share (HK cents)	**6.0**	4.5	1.5
Final dividend per share (HK cents)[2]	**18.0**	14.0	4.0
Total dividend per share (HK cents)	**24.0**	18.5	5.5
Cash and Working Capital			
Bank deposits and cash and cash equivalents	**3,953**	3,573	11%
Total bank borrowings	**(455)**	(479)	-5%
Net cash reserves	**3,498**	3,094	13%
Cash conversion cycle (days)	**(2)**	(8)	6

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

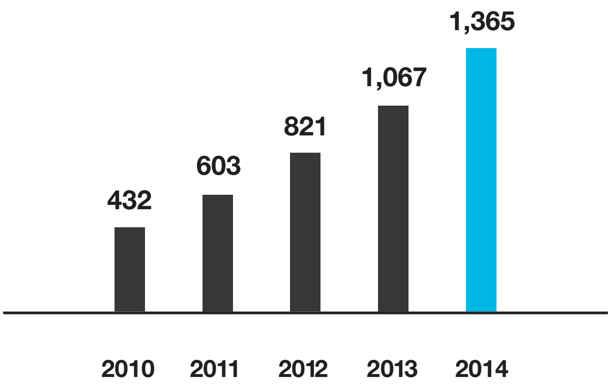
Revenue Analysis by Geography
for the year ended March 31 (US$ million)



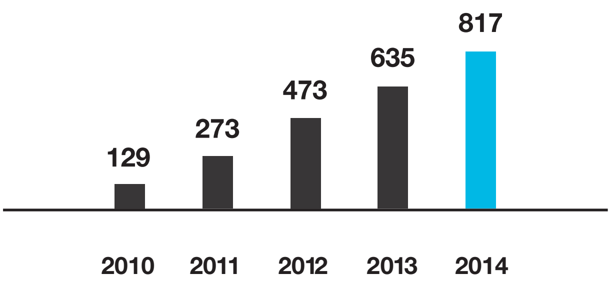
Revenue Analysis by Product
for the year ended March 31 (US$ million)



EBITDA[1]
for the year ended March 31 (US$ million)



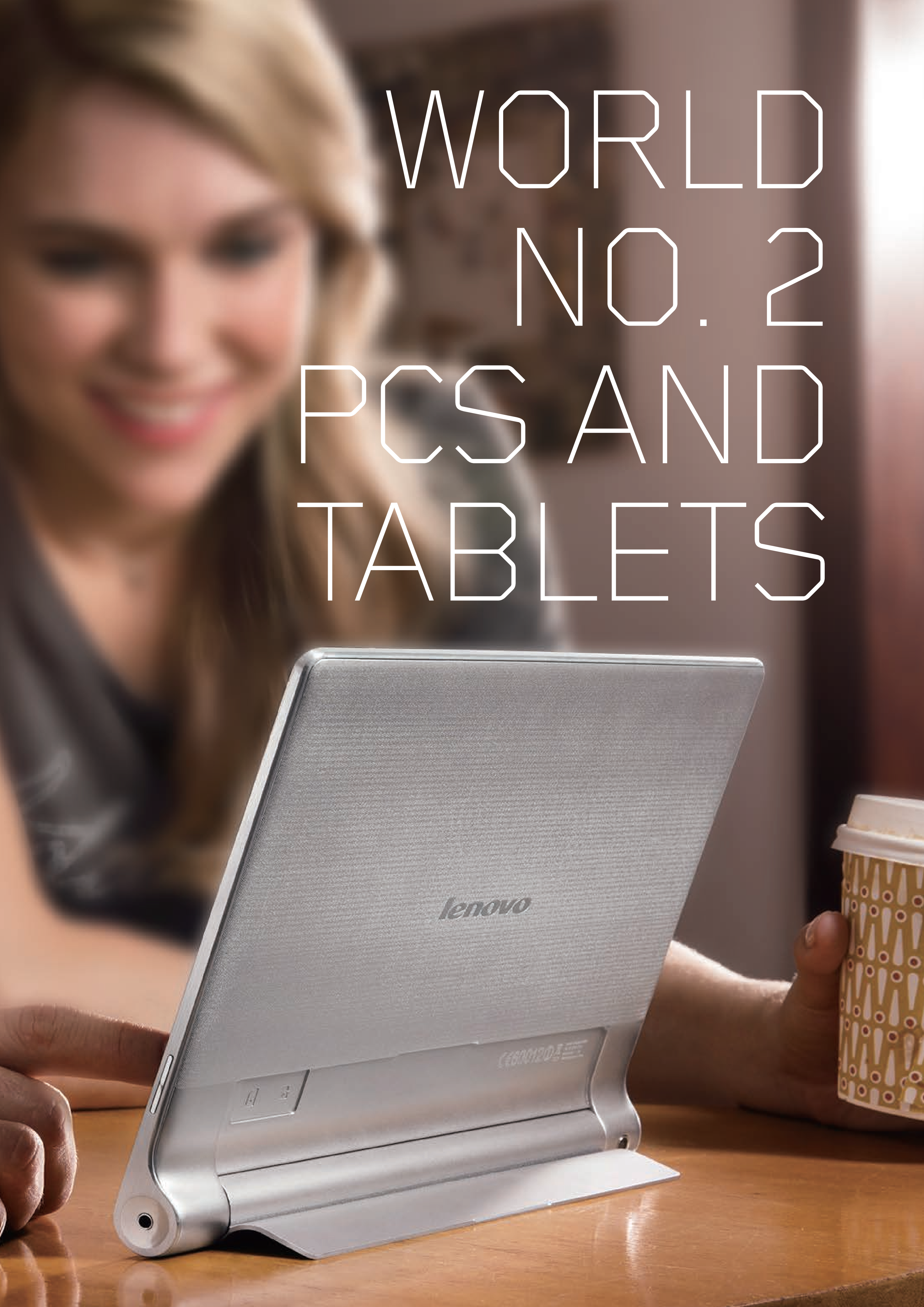
Profit Attributable to Equity Holders of the Company
for the year ended March 31 (US$ million)



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

ThinkPad Yoga

Lenovo's rapid growth in tablets is driven by the same innovation excellence that makes us the PC leader. The Yoga Tablet changed the tablet game. But it's just the beginning of what Lenovo will bring to tablets.


WORLD
NO. 2
PCS AND
TABLETS
lenovo

CHAIRMAN AND CEO STATEMENT

WE ARE NOT ONLY A PROVEN TECHNOLOGY LEADER TODAY WITH A STRONG CORE BUSINESS, BUT WE ARE ALSO A COMPANY FOR TOMORROW – POISED FOR CONTINUED INNOVATION, PROFITABLE GROWTH AND SUSTAINED SUCCESS.

During the past fiscal year, the global IT industry experienced unprecedented changes. While strong growth continued in new sectors such as smartphones and tablets, traditional products such as desktop and notebook continued to decline, though it began stabilizing as the year came to a close. Yet even with such challenging and fast changing conditions, Lenovo delivered record performance across all product lines. In addition, we took bold actions to further strengthen our company and build new pillars for growth, positioning Lenovo to become an even stronger and more diversified global technology leader in the decade ahead.

RECORD PERFORMANCE

During the past fiscal year, we delivered record performance across all our lines of business. Our list of achievements includes:

- Lenovo's worldwide PC market share reached an all-time high for the fifth straight year as we became the world's #1 PC company! Our clear strategy guided our consistent growth, and we achieved a dream that many thought would be impossible. If we look deeper, we see the strength of our core PC business in every geography and market segment.
  - Our strong, balanced performance included record setting share levels in all four geographies. Highlights included strengthening our #1 position in China, the world's largest PC market, while also reaching #1 in Brazil and double-digit share in the United States for the first time ever.
  - Also for the first time, we became #1 in both commercial and consumer PCs during the year. We only began our consumer PC business in 2009 outside of China, after the economic downturn. This fast growth is proof of our execution capability, operational excellence and the strength of our business model.
- We again set all-time records for unit shipments and sales, with revenue of almost $39 billion, and sales of almost four Lenovo devices every second of every day – all while continuing to deliver on our commitments to improve profitability.
- We also delivered record performance in tablets and smartphones.
  - In tablets, we dramatically increased worldwide sales, selling nearly 10 million units. Again, we showed we can lead the way through innovation, with our new Yoga Tablet breaking new ground as the world's first multimode tablet. In PCs and tablets combined, we are already #2 in the world.
  - In smartphones, we continue to have a strong #2 position in China, the world's largest market. We also had strong growth worldwide, expanding to 26 new markets, and achieving double-digit share in multiple markets. Overall, we grew almost 60% worldwide, hit our stretch target of 50 million units, and are now #4 worldwide.
- We built a strong foundation in servers, growing volume by 33% year-over-year. More importantly, we positioned ourselves for even stronger future growth by increasing investments in our infrastructure, people, and our product portfolio.

ThinkServer RD440

- We continued to strengthen our leading end-to-end business model with even greater vertical integration, opening new manufacturing facilities in Wuhan, China, and in Itu, Brazil. These additions to our worldwide network not only make us more efficient, but also make us more responsive to market changes and customer needs.
- Even as we strengthen our leadership in the market, we also proved our innovation leadership, earning a record 61 awards at the Consumer Electronics Show, the world's largest and most prestigious technology event. In addition, we earned multiple awards at the Mobile World Congress, including our first for an app – our SHAREit mobile app – demonstrating we are extending our innovation to our ecosystem.
- We built the foundation for our Ecosystem business, creating one of the world's largest app stores with around 6 billion total downloads and almost 25 million daily downloads. Our ecosystem is helping to create a new and unique experience for Lenovo users. And we have created several star applications. Already, the award winning SHAREit app has more than 100 million users, and we have several more apps with over 50 million users to date.

Our strong performance across our entire business, and setting so many records in a challenging market environment, puts Lenovo in an incredibly strong position. Yet even after a record year, we must never be complacent and must always focus on the future.

BOLD ACTIONS TO DRIVE FUTURE GROWTH

In 2013/14, Lenovo announced plans to acquire the x86 server business from IBM, and then to acquire Motorola Mobility from Google. We have been decisive and determined in seizing these tremendous opportunities to create future pillars of growth.

The IBM x86 server deal matches the global scale, full product portfolio, and technology leadership of IBM with Lenovo's strong commercial business and channel relations, efficient in-house manufacturing, and operational excellence. This combination will enable us to outperform both traditional rivals as well as OEM/ODMs.

The Motorola deal brings a global brand recognized around the world, strong carrier and channel relationships worldwide, and a strong portfolio of Intellectual Property (IP) and rights. By combining these strengths with Lenovo's manufacturing efficiency and strong presence in China and emerging markets, this deal will not only create the world's third largest smartphone company, but also the combined capabilities to break through from the pack of Tier 2 players worldwide.

Most importantly, both of these deals will bring unmatched talent to Lenovo. Not only does each deal bring strong teams of experts with deep relationships in their businesses, but both bring some of the best and most experienced engineers in the world, further strengthening our innovation leadership.

We have also proven our ability to successfully manage M&A and integrate new businesses. From the original IBM PC deal, through our integrations with NEC PC, Medion, CCE, Compal, Stoneware, and EMC, we have always been able to bring companies, cultures and people together to win quickly.

We are working with regulatory authorities on both of these acquisitions. Subject to that approval, once complete, I am confident that our preparation, capabilities, operational excellence and clear strategy will again enable us to achieve sustainable growth, long-term success and outstanding results for our company, our customers and our shareholders.

ORGANIZED FOR THE FUTURE

Lenovo is well prepared to succeed with both of these deals. They are both perfect fits for our strategy, and our vision for the future. Moreover, we have already organized ourselves to effectively manage these new businesses. Even before we announced these deals, Lenovo had already determined to reorganize our company to ensure we could continue to drive consistent growth in our existing businesses and prepare ourselves to capture new opportunities.

Our new structure took effect April 1, 2014, and created four business groups (BGs): PC, Mobile, Enterprise and Ecosystem/Cloud. By organizing each as end-to-end businesses, these BGs will be able to drive greater efficiency and drive strong growth. Each has a strong leader, a clear strategy and a significant opportunity to create sustainable, profitable growth. With this structure, we are confident that we can maintain our strong momentum in our core businesses, grow new businesses and successfully integrate our acquisitions to begin realizing synergies and creating value from day one.

FOUNDATION OF OUR SUCCESS

With the help of our formula for success, our strong performance last year was driven by the same factors that will be the key to our future success:

- **A clear strategy that balances delivering strong short-term results with reaching long-term objectives**: We protect our core PC business, increasing profitability even as we continue to see strong opportunities for growth as the industry consolidates. And we will attack in Mobile, Enterprise and Ecosystem/Cloud to drive growth and gain share. Our clear strategy continues to drive strong execution worldwide.
- **Our commitment to and investment in innovation that differentiates our products**. Lenovo's investments in innovations continue to drive growth through differentiation. For example, the new Yoga Tablet drove Lenovo's substantial share gains in tablets. Lenovo continues to be the clear leader in defining the new "multimode" PC space, with products like Yoga and Helix. In the year ahead, you can expect a new generation of innovative products, more exciting applications around security, synchronization and Cloud, and more innovations in key components, such as biometric technology, gesture and voice control, display technology, and new materials. We will continue to make our products more exciting, and more useful, for our customers.
- **Our efficient, end-to-end business model**. Lenovo never stops improving its unique, dual-business model: serving global, large enterprise customers through our relationship model and small-to-medium businesses and consumers through our transaction model. In addition, our hybrid manufacturing model gives us a key competitive advantage by giving us additional flexibility to meet customers' needs. Operational excellence is a core Lenovo strength, making us one of the few companies in the world that can make the dual model work.

ThinkPad X1 Carbon

- **A strong, diverse global team** that attracts the top talents at both a worldwide level and in key markets. We have six nationalities in our top 10 leaders and about 20 in our top 100, giving us the diversity of perspectives required to make the best decisions. While incredibly diverse, our team is united by the Lenovo Way our commitment, ownership and pioneer culture. This shared set of values helps us operate with even greater speed, creating a clear competitive advantage.

STRATEGY ROADMAP

In 2010, I started talking about our PC Plus strategy, and since then we have grown our "Plus" businesses (smartphones, tablets, enterprise) to account for 16 percent of our total revenue. I expect that amount to grow even faster in the future. This evolution of our business requires us to have a more precise description of our strategy, which we call "Triple PLUS Strategic Roadmap."

The first new Plus combines PC, mobile and smart TV to become "Smart Connected Devices." Everything we do starts with our core PC business, but Lenovo is one of the few companies able to provide a full range of Internet connected devices. This Plus enables us to share innovation, operational excellence, channel strengths and brands across all devices.

The second combines Smart Connected Devices with Infrastructure Devices, forming our Total Device Portfolio. We have built strong relationships with our enterprise customers and channel partners, who are interested in adding servers and storage to the PCs, tablets and smartphones they get through Lenovo.

The third combines our Total Device Portfolio with Cloud Service to create The Lenovo Experience. We will expand our offerings in Cloud computing, Cloud services and Cloud storage to deliver a compelling experience and value across our entire device portfolio for our customers.

READY FOR THE FUTURE

In the past year, we did more than make history. We also built the foundation for our future. And we know opportunity favors those who are prepared, proactive and ready to be bold. Lenovo is this kind of company. We are not only a proven technology leader today with a strong core business, but we are also a company for tomorrow – poised for continued innovation, profitable growth and sustained success.

I am confident that even though we have had such great achievements already, our best and brightest years are still to come at Lenovo. Thank you.

Y. Yang

Yang Yuanqing
Chairman and Chief Executive Officer

LENOVO MANAGEMENT TEAM

YANG YUANQING
Chairman & Chief Executive Officer

GIANFRANCO LANCI
Executive Vice President, Chief Operating Officer and President of Lenovo EMEA, APMM & PC Business Group

HE ZHIQIANG
Senior Vice President and President of Ecosystem and Cloud Services Business Group

PETER D. HORTENSIUS
Senior Vice President and Chief Technology Officer

LIU JUN
Executive Vice President and
President of Mobile Business Group

GERRY P. SMITH
Executive Vice President and President of
Lenovo Americas & Enterprise Business Group

WONG WAI MING
Executive Vice President and
Chief Financial Officer

QIAO JIAN
Senior Vice President,
Human Resources

Yoga 2 *ThinkPad 8*

Lenovo continues to expand beyond its strong position in China, the world's largest smartphone market, adding dozens of new markets in Asia, Europe and the Americas. We're already the world's fourth largest smartphone company and we will be even stronger in the years ahead.

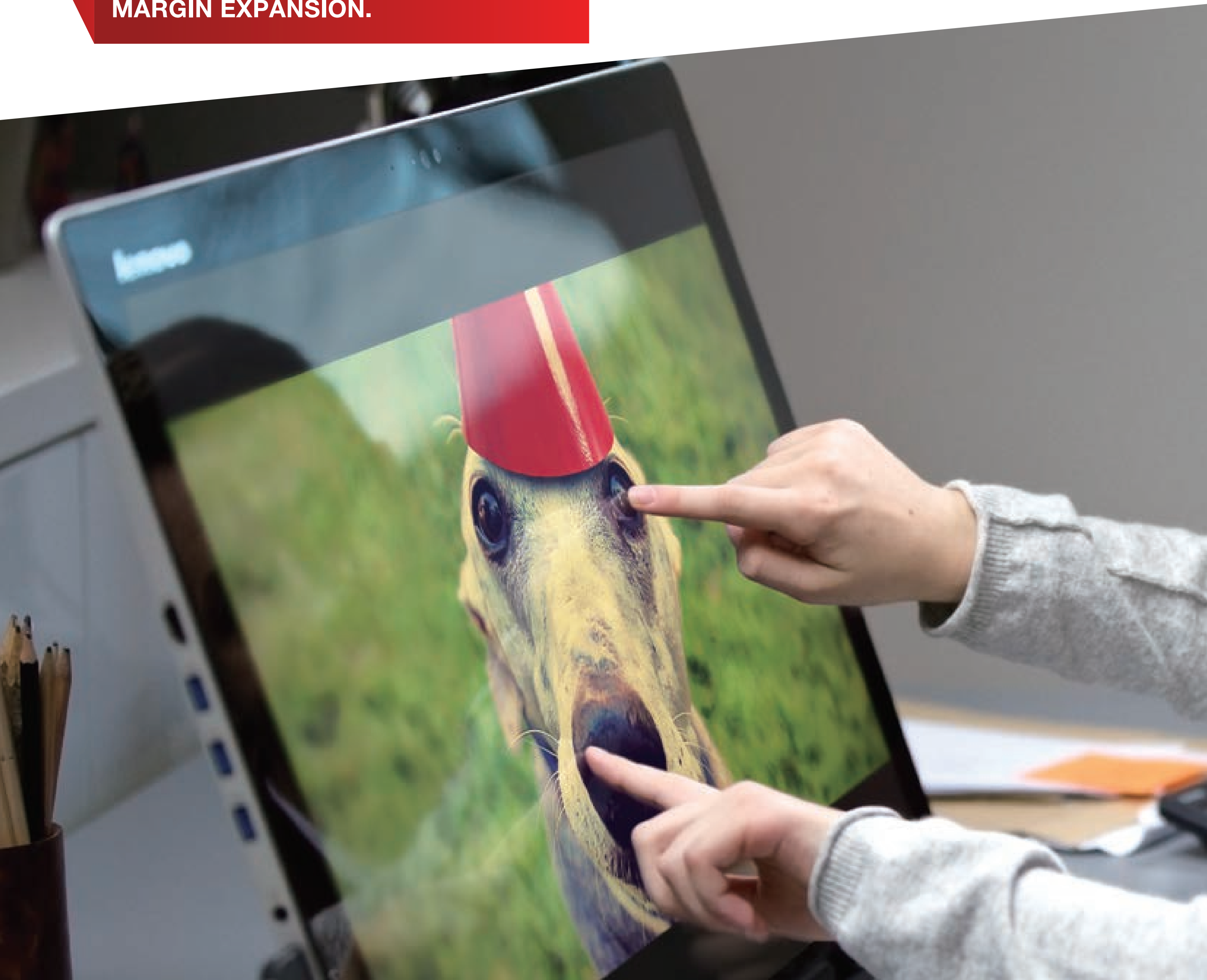
WORLD NO. 3 SMART CONNECTED DEVICES

BUSINESS REVIEW

FISCAL YEAR 2013/14 WAS ANOTHER RECORD YEAR FOR LENOVO. LENOVO'S CLEAR STRATEGY AND SOLID EXECUTION LED THE GROUP TO ACHIEVE STRONG RESULTS WITH RECORD PERFORMANCE ACROSS ALL LINES OF BUSINESS, FUELING THE CONTINUOUS STRONG GROWTH IN THE GROUP'S SALES AND OPERATING PROFITS WITH MARGIN EXPANSION.

Fiscal year 2013/14 was another record year for Lenovo. Lenovo's clear strategy and solid execution led the Group to achieve strong results with record performance across all lines of business. During the year under review, Lenovo continued to strengthen its leading position in the industries it is in – global number one PC player, global number two player in broader PC (PC plus tablet) market, and global number three position in the smart connected device category. Lenovo drove strong growth from its dual engines of PC and mobile device businesses, and continued to outperform the worldwide market across PC, smartphone and tablet, to deliver strong growth in Group's sales and operating profits with margin expansion.

During the fiscal year under review, the global traditional PC industry – including traditional products such as desktop and notebook – continued to decline due to macro economic issues and the evolution of new form



factors, but it began stabilizing towards the year's end. During the fiscal year, Lenovo continued to outperform the market by growing unit shipments 5 percent year-on-year to a record-high level of 55 million, the fastest among top five players. In contrast, the global traditional PC market declined 8 percent, so Lenovo outperformed the worldwide PC market by a 13-point premium. Lenovo further strengthened its number one position in the worldwide PC market and reached an historical high share of 17.7 percent for the fiscal year, according to preliminary industry estimates. The Group recorded share gains across all geographic, product and customer segments, and reached record-high market shares across all geographies.

Lenovo continued to outperform in the global broader PC market, combining PC and tablet, and delivered unit shipments growth of 17.7 percent compared to the overall market's growth of 4.4 percent. The Group's global tablet business quadrupled year-on-year to record-high shipments of over 9 million, in addition to the solid growth in its traditional PC business.

During the fiscal year under review, Lenovo successfully expanded its smartphone business in markets outside of China in addition to its leading position in the China market. Lenovo's smartphone unit shipments achieved a record-high level of over 50 million for the fiscal year, growing by 72 percent year-on-year, driven by the strong

growth in China and emerging markets outside of China. For the fiscal year, Lenovo maintained its position as the number four smartphone vendor in the world with market share increased by one point to 4.6 percent, according to preliminary industry estimates.

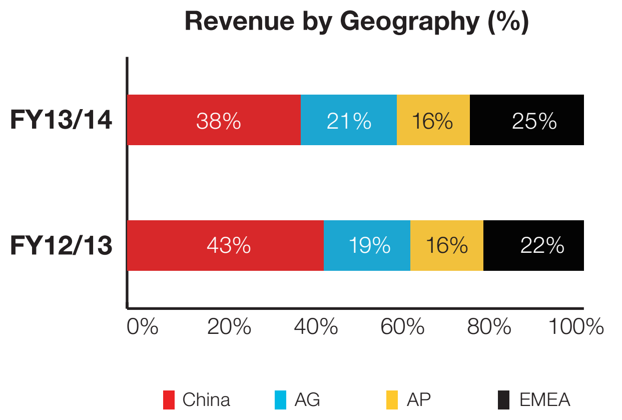
For the fiscal year ended March 31, 2014, the Group's consolidated revenue increased by 14 percent year-on-year to record-high US$38,707 million. Revenue of the Group's PC and related business were US$31,835 million, representing a year-on-year increase of 7 percent; whilst the revenue of mobile devices increased 86 percent year-on-year to US$5,657 million. Meanwhile, revenue of other goods and services was US$1,215 million.

The Group's gross profit increased by 14 percent year-on-year to US$5,064 million and gross margin remained flat year-on-year at 13.1 percent.

Operating expenses increased by 11 percent year-on-year to US$4,012 million, with an expenses-to-revenue ratio of 10.4 percent. The Group achieved record-high performance in profit before taxation ("PTI") and profit attributable to equity holders of the Company. Its PTI reached US$1,014 million, the first time Group's PTI exceeded US$1 billion level, and profit attributable to equity holders of the Company amounted to US$817 million, representing an increase of 27 percent and 29 percent respectively from the previous fiscal year.

PERFORMANCE OF GEOGRAPHIES

During the year ended March 31, 2014, Lenovo achieved record-high market shares in all geographies where it has operations – China, Asia Pacific ("**AP**"), Americas ("**AG**") and Europe-Middle East-Africa ("**EMEA**") – with solid and balanced performances across product and customer segments.



China

China accounted for 38 percent of the Group's total revenue. Despite the softness in the PC market due to macro economic issues, Lenovo continued to outperform in the China PC market through its solid execution and strong brand and distribution channel network. The Group maintained its strong number one position with market share gain of 0.6 point year-on-year to record-high 35.1 percent, and continued to improve its profitability by leveraging its leadership position.

The Group's efforts in driving both PC and mobile device businesses continued to work well during the period under review, and the Group's smartphone and tablet businesses in China continued to post strong unit shipments growth with share gains over the last year.

This strong growth from the smartphone and tablet businesses fueled the Group's China revenue growth of 1 percent year-on-year to US$14,725 million during the period under review. Operating profit increased by 22 percent to US$788 million and operating margin was 5.4 percent, increasing by 0.9 percentage points year-on-year due to margin improvement in both PC and mobile device businesses. Operating margin for the China PC business was 6.9 percent, up 1 percentage point year-on-year, benefiting from its strong product mix with improved average selling price and stringent expense control.

Americas (AG)

AG accounted for 21 percent of the Group's total revenue driven by growth across all products. Lenovo's PC unit shipments in AG grew by 27 percent year-on-year, a 32-point premium to the market driven by strong growth in both consumer and commercial businesses. The Group's market share increased by 2.7 percentage points from a year ago to a record-high 10.9 percent, helping the Group maintain its number three position in the AG PC market, according to preliminary industry estimates. Lenovo further increased its market share in North America by 1.7 percentage points to 10.5 percent, and in fiscal quarter four, the Group became number three in the U.S. PC market for the first time and achieved double-digit share at 10.8 percent, driven by its strong growth in both commercial and consumer businesses. Lenovo continued to build its foundation in Brazil, achieving record-high market share at 15.1 percent, up 10.8 percentage points from last year.

Operating profit in AG decreased to US$69 million and operating margin was 0.8 percent, a decrease of 0.5 percentage points year-on-year. The decrease was mainly attributable to continued investments in Brazil and Latin America during the fiscal year, and the impact from a temporary interruption in the supply of casing components for its premium commercial products in fiscal quarter three which has since seen recovery in fiscal quarter four.

Asia Pacific (AP)

AP accounted for 16 percent of the Group's total revenue. Lenovo's PC unit shipments in AP increased 3 percent year-on-year, a 6-point premium to the market driven by strong growth in Japan. During the fiscal year, Lenovo achieved robust performance in Japan driven by both strong commercial and consumer growth momentum. Lenovo continued to gain share by 0.6 percentage points to 25.8 percent during the fiscal year, further solidifying its number one position in Japan. The Group's market share in AP increased by 0.9 percentage points year-on-year to a record-high of 14.8 percent. Lenovo demonstrated strong growth across PC, smartphones and tablets during the fiscal year, providing additional strength to the Group's strong revenue growth of 12 percent year-on-year in AP region for the year under review.

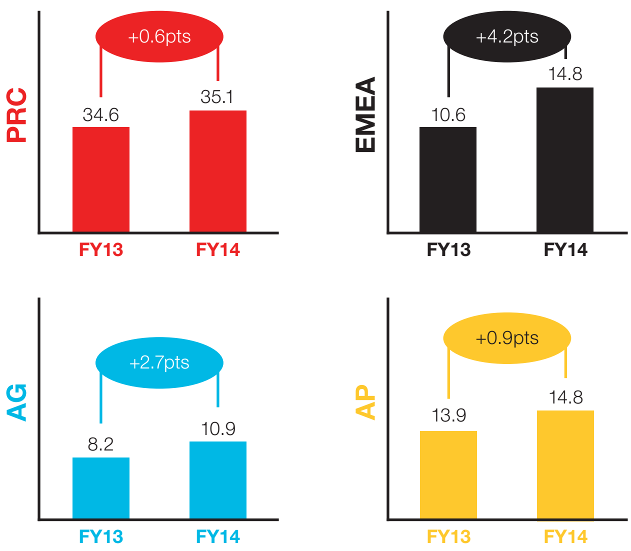
Operating profit in AP increased by 74 percent to record-high US$109 million during the fiscal year and operating margin was 1.8 percent, an increase of 0.7 percentage points year-on-year.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 25 percent of the Group's total revenue. Lenovo's PC unit shipments in EMEA grew by 24 percent year-on-year, which was a 35-point premium to the market. The Group's market share in EMEA increased by 4.2 percentage points year-on-year to a record-high 14.8 percent for the fiscal year, according to preliminary industry estimates. Lenovo achieved the number two position in EMEA PC market for the first time in the fiscal year under review, and the Group became number one in EMEA consumer PC market for the first time in the fiscal quarter four. Lenovo demonstrated strong performance across all EMEA regions and customer segments. In the fiscal quarter four, Lenovo achieved double-digit market share and top three positions across all EMEA regions, and reached number one position in 12 EMEA countries, including key markets, e.g. Germany, Eastern Europe and Russia.

Driven by the strong performance across all EMEA regions, operating profit in EMEA increased by 61 percent to US$188 million during the fiscal year under review with operating margin improved by 0.5 percentage points year-on-year to 2 percent.

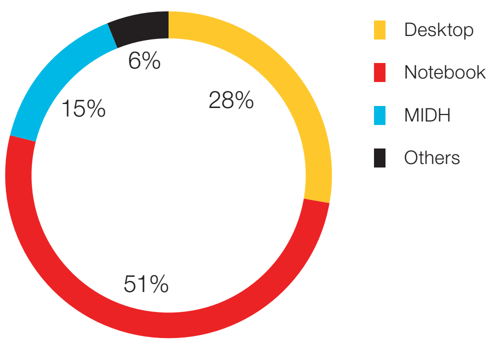
Lenovo PC Share in 4 GEOs (%)



PERFORMANCE OF PRODUCT GROUP

During the fiscal year 2013/14, Lenovo achieved strong and balanced unit shipments growth in both commercial and consumer PC products, as well as in mobile devices during the year under review.

Revenue by Product (%)



Lenovo's commercial PC unit shipments grew 4 percent year-on-year, which was a 5-point premium to the market. Lenovo's market share in the worldwide commercial PC market increased by 1 percentage points year-on-year to 19.7 percent during the fiscal year under review, according to preliminary industry estimates. During the fiscal year under review, the Think Business Group, which mainly targets premium PCs and tablets, and enterprise solutions, continued to launch innovative models in commercial devices. These include premium products like ThinkPad® Yoga, which provides customers with a flip-and-fold design to perform a 360 degree rotation with its unique dual-hinge. Customers can have a unique 4-in-1 user experience from one optimized, hybrid/convertible, leading business-class device. Commercial targeted products like ThinkPad® T440p, with performance, efficiency and durability that make it the corporate laptop workhorse that sets the industry benchmark. Its award winning keyboard, full HD display and ultra long battery life also provide customers with better user experience and functionality.

The Lenovo Business Group, which primarily focuses on the mainstream/entry PC, smartphones and tablet products, was propelled by continued strong growth of the consumer PC segment in EMEA and AG markets to gain share in consumer business. According to industry estimates, Lenovo for the first time became number one in the global consumer PC market for the fiscal year. Its consumer PC unit shipments grew 6 percent year-on-year, which was a 19-point premium to the market, and its market share increased by 2.9 percentage points year-on-year to 15.7 percent in the fiscal year under review. Lenovo launched a wide range of consumer-targeted convertible products, including the Horizon Table PC, an interpersonal computing device that brings people together in a totally new way. The Horizon allows up to four people to use it simultaneously, interacting with content and playing games with joysticks, strikers and dice. It also launched the detachable three-mode notebook Lenovo Miix 2 10", a Windows 8.1 tablet with PC-level processing that can be used in stand mode, for hands-free multimedia entertainment, tablet mode when customers are on the go, and laptop mode for a great combination of screen real estate with a full-size keyboard.

During the fiscal year under review, the Group's smartphone and tablet businesses continued to post strong unit shipments growth globally. The Group's worldwide smartphone shipments achieved a record-high level of over 50 million for the year, growing by 72 percent year-on-year, solidifying its global number four smartphone vendor position with market share growing by one percentage point year-on-year to 4.6 percent, according to preliminary industry estimates. The Group's strong smartphone results were driven by its leading smartphone position in China and solid expansion and strong growth in markets outside of China. The Group's smartphone shipments in China grew 55 percent year-on-year to about 44 million and further strengthened its number two position in the China market by increasing its share by 0.7 percentage points year-on-year to 11.8 percent, amidst keen competition. Its smartphone business outside of China grew robustly by 11 times year-on-year to close to 6 million units, driven by strong growth momentum in the ASEAN and Eastern Europe regions. The Group's worldwide tablet shipments, in the meantime, quadrupled year-on-year to record-high shipments of 9.2 million in the fiscal year and its worldwide tablet market share gained by 2.9 percentage points year-on-year to 4.2 percent.

Lenovo is committed to driving innovation for its products. During the fiscal year under review, Lenovo broadened its smartphone portfolio by unveiling premium smartphone products including the K900, Vibe X, and its first LTE smartphone, Vibe Z. During the fiscal year under review, Lenovo also debuted its first multimode Yoga Tablet at a livestream launch event with Ashton Kutcher, the company's newest product engineer. The game-changing Yoga Tablet not only has an amazingly long battery life of up to 18 hours, but it also features three unique modes – hold, tilt and stand – giving consumers a better way to

Lenovo's Yoga Tablet

use a tablet. These products have been receiving a good response from the market, supporting the growth of the Group's mobile device businesses.

Lenovo's Vibe Z smartphone

Apart from devices, Lenovo has also built the foundation for the Ecosystem business during the fiscal year under review. The Group has now one of the world's largest app stores with around 6 billion total downloads and almost 25 million daily downloads, helping to create a new and unique experience for Lenovo users. The Group has developed several star applications, among which the SHAREit app has recorded more than 100 million accumulated users, and this App has also won an award at Mobile World Congress.

Lenovo has built Ecosystem business foundation

BRAND BUILDING

FY2013/14 was a landmark year for Lenovo Group's brand. Large, crowd-pleasing partnerships with global celebrities like Ashton Kutcher who keyed the company's largest consumer product launch with Yoga Tablet and Kobe Bryant who helped fuel rapid smartphone growth through ASEAN and China, boosted brand awareness in key markets all over the world. Coupled with WOW! creative that turns heads and smart, engaging campaigns, the company is making definite, visible progress towards becoming one of the world's leading brand names.

In addition to Lenovo's bold "For Those Who Do" advertising, the company pushed itself to do even more when it came to media relations and major industry and business events. From our strategic partnership with the World Economic Forum to our high level engagements at major global business thought leadership events like the Wall Street Journal CEO Council and Fortune Global Summit, we continued to enhance our reputation as one of the world's most respected companies. At the same time, we delivered record-setting, ground breaking performance at the largest industry events. Lenovo again demonstrated its innovation leadership with a record 61 awards at the Consumer Electronics Show in Las Vegas, and the company won its first ever "best of show" award for a mobile application at Mobile World Congress in Spain.

More than ever before, Lenovo is committed to growing brand name and recognition. Entering next fiscal year, its efforts will focus on engagement marketing – growing more and then activating enthusiastic social followers – and targeting specific consumer segments. The Group's activities will be greatly enhanced by a strong line up of innovative products across its PC, Mobile, Enterprise, and Ecosystem/Cloud groups – which will ensure healthy, long-term growth in both Protect markets and newer Attack segments.

Lenovo's ThinkPad Tablet

TALENT AND CULTURE

A Winning Foundation for the Future

Lenovo's incredibly diverse, global talent base again fueled record performance across all lines of business in fiscal year 2013/14. Unified by a culture of commitment, ownership and pioneering, Lenovo leaders and employees at every level and geography drove success though a shared vision for winning, and an adherence to the core principles of The Lenovo Way.

> "While incredibly diverse, our team is unified by the Lenovo Way – our commitment, ownership and pioneer culture. This shared set of values helps us operate with even greater speed, creating a clear competitive advantage."
>
> **– Yuanqing Yang, Chairman and CEO**

Additionally, Lenovo's "global-local" model of business leadership and talent allowed the Group to take advantage of far-reaching industry trends, while at the same time leveraging the unique strengths of local leadership to drive success in key markets.

As the Group continues to grow organically and through M&A, we will work together to harness the power of the top strengths of Lenovo's talent and culture:

- An incredibly diverse global team
- The Lenovo Way
- Global-local model of business leadership

These core strengths in talent and culture have enabled Lenovo to flexibly serve global, large enterprise customers as well as small-to-medium businesses and individual consumers across product lines, and these are the same strengths that will enable us to expand and deepen our customer reach through the Group's clear strategy.

> ".... We have always been able to bring companies, cultures and people together to win quickly."
>
> **– Yuanqing Yang, Chairman and CEO**

FINANCIAL HIGHLIGHTS

For the year ended March 31	2014 US$'000	2013 US$'000
Revenue	**38,707,129**	33,873,401
EBITDA*	**1,365,061**	1,067,339
Profit attributable to equity holders of the Company	**817,228**	635,148
Earnings per share (US cents)		
– Basic	**7.88**	6.16
– Diluted	**7.78**	6.07
Dividend per ordinary share (HK cents)		
– Interim dividend	**6.0**	4.5
– Proposed final dividend	**18.0**	14.0

* Excluding restructuring charges and other income, net

Results

For the year ended March 31, 2014, the Group achieved total sales of approximately US$38,707 million. Profit attributable to equity holders for the year was approximately US$817 million, representing an increase of US$182 million as compared with last year. Gross profit margin for the year remained stable at 13.1 percent, when compared with last year. Basic earnings per share and diluted earnings per share were US7.88 cents and US7.78 cents, representing an increase of US1.72 cents and US1.71 cents respectively as compared with last year.

The Group adopts geographical segments as the reporting format. Geographical segments comprise China, AP, EMEA and AG. Analyses of revenue by segment are set out in Business Review and Outlook below.

	2014		2013	
For the year ended March 31	Revenue from external customers US$'000	Adjusted pre-tax income US$'000	Revenue from external customers US$'000	Adjusted pre-tax income US$'000
China	**14,725,659**	**788,130**	14,538,534	647,702
AP	**6,162,919**	**109,350**	5,516,776	62,865
EMEA	**9,580,700**	**187,482**	7,535,483	116,591
AG	**8,237,851**	**68,627**	6,282,608	78,609
	38,707,129	**1,153,589**	33,873,401	905,767

For the year ended March 31, 2014, overall operating expenses across the board increased when compared to last year in part as the current year includes the full year results of CCE, Stoneware and EMC JV. Employee benefit costs increased by 16 percent as compared to last year due to increased headcount and performance-driven incentive payments. In addition, US$79 million severance costs were incurred for the year as we rebalance our skills to redeploy resources to our high growth mobile business and increase productivity and efficiency of the global operations.

Further analyses of income and expense by function for the year ended March 31, 2014 are set out below:

Other income – net

Other income for the year mainly represents net gain on disposal of an available-for-sale financial asset.

Selling and distribution expenses

Selling and distribution expenses for the year increased slightly by less than 1 percent as compared to last year. This is principally attributable to a US$29 million increase in advertising and promotional expenses.

Administrative expenses

Administrative expenses for the year increased by 17 percent as compared to last year. This is mainly attributable to the increase in employee benefit costs and a US$15 million increase in depreciation and amortization expenses.

Research and development expenses

Research and development spending for the year increased by 17 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 depreciation and amortization expenses of US$24 million.

Other operating income- net

The net other operating income for the year comprises mainly US$79 million net exchange loss and other miscellaneous expenses; netted with incentives received in recognition of the Group's research and development related spending of US$87 million.

The net other operating income of last year represented mainly US$38 million net exchange loss and other miscellaneous expenses, netted with incentives received in recognition of the Group's research and development related spending of US$83 million.

For the year ended March 31	**2014** **US$'000**	2013 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**109,689**	92,097
Amortization of intangible assets	**145,444**	117,507
Employee benefit costs, including	**2,745,853**	2,359,593
– long-term incentive awards	***80,274***	*77,724*
Rental expenses under operating leases	**99,024**	77,530

FINANCIAL POSITION

The Group's major balance sheet items are set out below:

Non-current assets (US$'000)	**2014**	2013
Property, plant and equipment	**667,413**	479,777
Prepaid lease payments	**40,884**	36,522
Construction-in-progress	**351,934**	184,051
Intangible assets	**3,339,516**	3,326,418
Interests in associates and joint ventures	**20,753**	2,763
Deferred income tax assets	**389,330**	349,389
Available-for-sale financial assets	**35,157**	69,962
Other non-current assets	**111,558**	43,378
	4,956,545	4,492,260

Property, plant and equipment

Property, plant and equipment comprises mainly the Group's freehold land and buildings, plant and machinery and office equipment. Increase of 39 percent is mainly attributable to the completion of the manufacturing plants in Hefei, China, and Brazil and the Group's further investments in the manufacturing facilities.

Prepaid lease payments

Prepaid lease payments represent the land use right in respect of the manufacturing sites and headquarters in China. The increase of 12 percent is due to the land use right of a new office site in Hefei.

Construction-in-progress

Construction-in-progress comprises mainly the Group's investments in the headquarters in Beijing, China, the manufacturing facilities and staff quarters 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.

Interests in associates and joint ventures

Interests in associates and joint ventures increased by 651 percent over last year, mainly brought about by additional investments and share of profits during the year.

Deferred income tax assets

Deferred income tax assets as at March 31, 2014 amounted to US$389 million, representing an increase of 11 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.

Available-for-sale financial assets

Available-for-sale financial assets decreased 50% over last year, mainly attributable to the disposal of one of the financial assets during the year.

Other non-current assets

Other non-current assets amounted to US$112 million as at March 31, 2014, representing prepayment for construction of staff quarters and new office building in China and long term deposits.

Current assets (US$'000)	2014	2013
Inventories	2,701,015	1,964,791
Trade receivables	3,171,354	2,885,039
Notes receivable	447,325	572,992
Derivative financial assets	61,184	99,491
Deposits, prepayments and other receivables	3,000,826	3,235,465
Income tax recoverable	65,715	58,822
Bank deposits	94,985	119,055
Cash and cash equivalents	3,858,144	3,454,082
	13,400,548	12,389,737

Inventories

Inventories of the Group increased by 37 percent, which is in line with business growth. The Group's further shift to in-house manufacturing during the year also resulted in the increase in raw materials and service parts.

Trade receivables and Notes receivable

Trade receivables and notes receivable increased in line with the increase in activities during the year.

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 a derivative contract is entered into and are subsequently re-measured at their fair values.

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. Included in prepayments are in-transit product shipments to customers by which the Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized.

Equity attributable to owners of the Company (US$'000)	2014	2013
Share capital	1,650,101	33,465
Reserves	1,360,029	2,633,178
	3,010,130	2,666,643

Share capital

Share capital amounted to US$1,650 million as at March 31, 2014. The increase in share capital is due to an entirely new Companies Ordinance (Cap.622) ("new CO") that came into effect on March 3, 2014. The new CO abolishes authorized share capital, par value, share premium, and capital redemption reserve, in respect of the share capital of Hong Kong S.A.R. of China companies. As a result, the amounts of share premium and share redemption reserve of the Company, totaling US$1,616 million, are transferred to the share capital.

Non-current liabilities (US$'000)	2014	2013
Bank borrowings	10,125	303,133
Warranty provision	277,231	279,255
Deferred revenue	438,385	403,540
Retirement benefit obligations	156,515	163,883
Deferred income tax liabilities	142,881	113,992
Other non-current liabilities	844,914	846,539
	1,870,051	2,110,342

Bank borrowings

Bank borrowings (classified as non-current) decreased by US$293 million mainly due to the reclassification of a US$300 million 5-year loan facility obtained in 2009 that was subsequently drawn down and will be repayable in July 2014 as current liabilities as at March 31, 2014.

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 include 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 7 percent when compared with last year, which is in line with business growth during the year. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Retirement benefit obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

Deferred income tax liabilities

Deferred income tax liabilities comprise withholding tax on undistributed earnings, tax liabilities on upward valuation of intangibles arising from business combination and accelerated tax depreciation.

Other non-current liabilities

Other non-current liabilities mainly comprise contingent considerations and deferred consideration in respect of certain completed business combinations, provision for environmental restoration, written put option liability in connection with a joint venture and government incentives and grants received in advance.

Current liabilities (US$'000)	2014	2013
Trade payables	4,751,345	3,624,500
Notes payable	108,559	99,503
Derivative financial liabilities	58,462	69,053
Other payables and accruals	6,658,254	6,852,344
Provisions	852,154	776,640
Deferred revenue	410,330	393,417
Income tax payable	177,741	100,179
Bank borrowings	445,477	175,838
	13,462,322	12,091,474

Trade payables and Notes payable

Trade payables and notes payable increased in line with the increase in activities during the year.

Other payables and accruals

Other payables and accruals comprise the allowance for billing adjustments relating primarily to allowance for future volume discounts, price protection, rebates, and customer sales returns. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

Provisions

Provisions comprise warranty liabilities (due within one year) and environmental restorations.

Bank borrowings

Bank borrowings (classified as current) amounted to US$445 million as at March 31, 2014, the increase is mainly attributable to a US$300 million 5-year bank loan previously classified as non-current that will be repayable in July 2014 and reclassified as current liabilities as at March 31, 2014.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of US$675 million (2013: US$441 million) during the year ended March 31, 2014, mainly for the acquisition of property, plant and equipment, additions in construction-in-progress and investments in the Group's information technology systems.

LIQUIDITY AND FINANCIAL RESOURCES

At March 31, 2014, total assets of the Group amounted to US$18,357 million (2013: US$16,882 million), which were financed by equity attributable to owners of the Company of US$3,010 million (2013: US$2,667 million), non-controlling interests (net of put option written on non-controlling interest) of US$15 million (2013: US$13 million), and total liabilities of US$15,332 million (2013: US$14,202 million). At March 31, 2014, the current ratio of the Group was 1.00 (2013: 1.02).

The Group had a solid financial position. At March 31, 2014, bank deposits, cash and cash equivalents totaled US$3,953 million (2013: US$3,573 million), of which 66.9 (2013: 56.5) percent was denominated in US dollar, 23.8 (2013: 32.4) percent in Renminbi, 4.1 (2013: 3.4) percent in Euros, 2.2 (2013: 3.4) percent in Japanese Yen, and 3.0 (2013: 4.3) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2014, 81.8 (2013: 76.3) percent of cash are bank deposits, and 18.2 (2013: 23.7) percent of cash are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes.

The Group entered into a 5-Year loan facility agreement of US$300 million with a bank on July 17, 2009. At March 31, 2014 and 2013, the facility was fully utilized, and the loan is repayable in July 2014.

The Group entered into a 5-Year loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility has not been utilized as at March 31, 2014 (2013: Nil).

In addition, on December 18, 2013, the Group entered into a 5-Year loan facility agreement with syndicated banks for US$1,200 million. The facility has not been utilized as at March 31, 2014.

On May 8, 2014, the Group completed the issuance of a 5-Year US$1,500 million, bearing annual interest at 4.7%, Notes due 2019. The proceeds of the Notes would be used for general corporate purposes including working capital, and to fund any acquisition activities.

The Group has also arranged other short-term credit facilities. At March 31, 2014, the Group's total available credit facilities amounted to US$7,890 million (2013: US$6,993 million), of which US$489 million (2013: US$391 million) was in trade lines, US$325 million (2013: US$668 million) in short-term and revolving money market facilities and US$7,076 million (2013: US$5,934 million) in forward foreign exchange contracts. At March 31, 2014, the amounts drawn down were US$214 million (2013: US$242 million) in trade lines, US$6,513 million (2013: US$4,945 million) being used for the forward foreign exchange contracts; and US$145 million (2013: US$176 million) in short-term bank loans.

At March 31, 2014, the Group's outstanding bank loans represented the term loan of US$310 million, including US$300 million reclassified as current as it will be due for repayment in July 2014 (2013: US$303 million) and short-term bank loans of US$145 million (2013: US$176 million). When compared with total equity of US3,025 million (2013: US$2,680 million), the Group's gearing ratio was 0.15 (2013: 0.18). The net cash position of the Group at March 31, 2014 is US$3,498 million (2013: US$3,094 million).

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

At March 31	2014 US$'000	2013 US$'000
Bank deposits and cash and cash equivalents	**3,953**	3,573
Less: total borrowings	**(455)**	(479)
	3,498	3,094

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2014, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$6,513 million (2013: US$4,945 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, 2014, the Group had a headcount of approximately 54,000 worldwide.

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

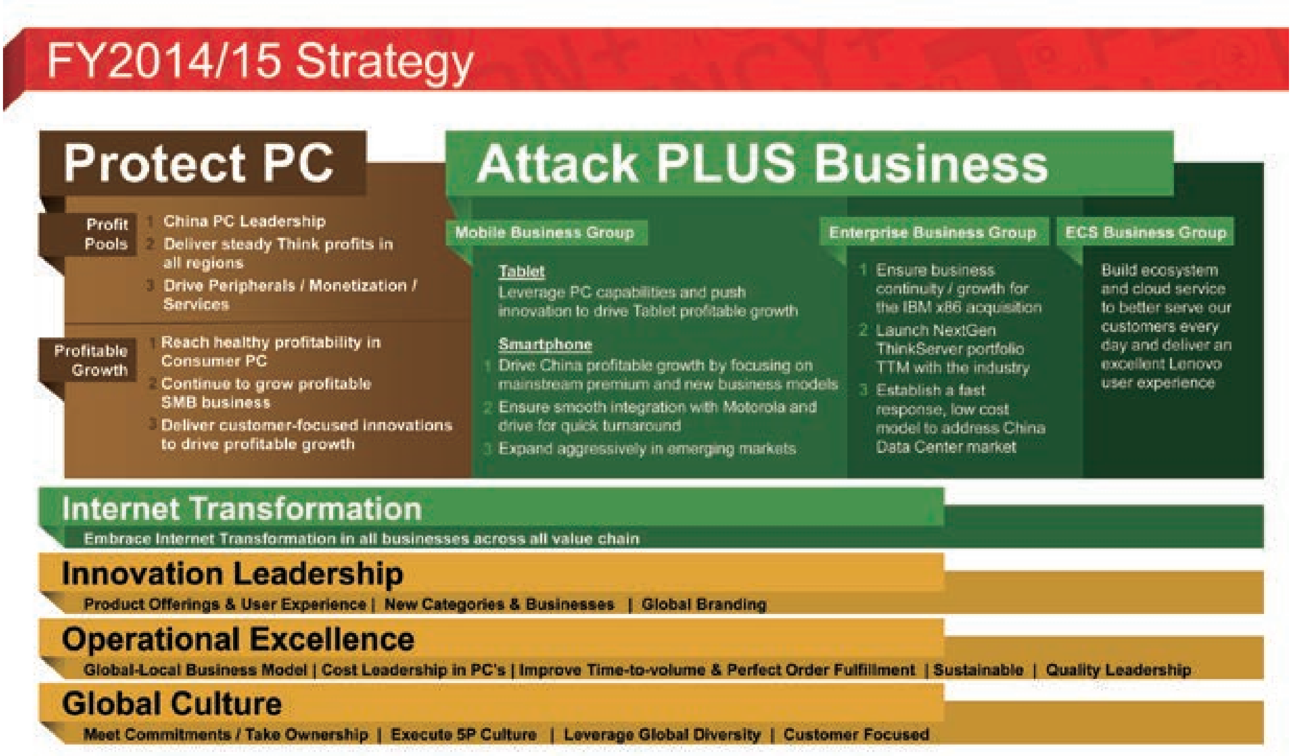
FUTURE PROSPECTS

LOOKING FORWARD, THE GROUP IS BUILDING NEW PILLARS FOR GROWTH, POSITIONING LENOVO TO BECOME AN EVEN STRONGER AND MORE DIVERSIFIED GLOBAL TECHNOLOGY LEADER IN THE FUTURE.

The broader PC industry still offers Lenovo plenty of opportunities for profitable growth, particularly as the industry consolidates. The tablet market will continue to grow, driven by the consumer desire for mobile devices.

In the meantime, the smartphone industry has continued to see much faster growth than the traditional PC market. Lenovo, which has built a solid foundation across these lines of businesses, and is uniquely positioned to capture these arising opportunities.

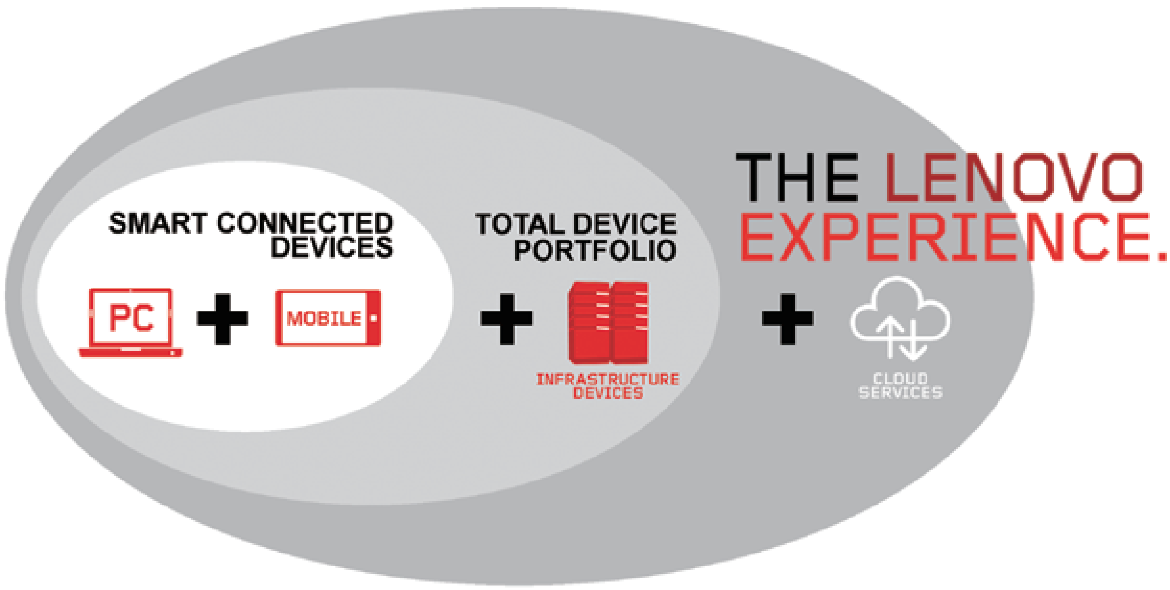
Lenovo has demonstrated a consistent and solid track record in delivering strong results through strong execution of its clear strategy to balance short-term results and long-term objectives. This consists of protecting and driving profitability in the core PC business, while attacking in faster growing Mobile, Enterprise and Ecosystem/Cloud businesses. Lenovo is committed to driving innovation, supported by its efficient business model and strong execution from its diverse global team to drive continuous strong future growth.



To facilitate the Group's strategy and sustain its growth momentum, effective from April 1, 2014, Lenovo has established four new, distinct business groups (BG), including PC, Mobile, Enterprise, and Ecosystem and Cloud Services, as new pillars of growth for the company. Some of these will leverage the strength and competitive advantage in the traditional PC business. Others will need completely different core competencies because they represent entirely new opportunities. Each business group has a strong leader, a clear strategy, and is organized as end-to-end business with an aim to drive greater efficiency and future sustainable profitable growth in each market.

The evolution of Lenovo's business leads the Group to the new "Triple PLUS" strategic roadmap. The first new PLUS combines PC, mobile and smart TV to become "Smart Connected Devices", enabling the Group to share innovation, operational excellence, channel strengths and brands across all devices. The second PLUS combines Smart Connected Devices with Infrastructure Devices, forming the Total Device Portfolio, building on the strong relationships the Group established with enterprise customers and channel partners, to PCs, tablets and smartphones they get through Lenovo. The third PLUS combines Total Device Portfolio with Cloud Service to create The Lenovo Experience, thus delivering a compelling experience and value across the entire device portfolio for the customers.

Triple PLUS Strategic Roadmap



To strengthen its future growth, the Group has recently announced plans for two acquisitions in mobile and enterprise areas. On the mobile front, Lenovo and Google Inc. entered into a definitive agreement on January 29, 2014 under which Lenovo plans to acquire the Motorola Mobility business, including the MOTOROLA brand and Motorola Mobility's portfolio of innovative smartphones like the Moto X and Moto G and the DROID™ Ultra series. The Group believes the acquisition of such an iconic brand, innovative product portfolio and incredibly talented global team will immediately make Lenovo a truly global smartphone player in the fast-growing mobile space.

Meanwhile, on the enterprise front, Lenovo and International Business Machines Corporation ("IBM") announced on January 23, 2014 a definitive agreement they have entered into under which Lenovo plans to acquire IBM's x86 server business. The Group believes the acquisition, upon completion, can enable it to gain immediate scale and credibility in the server market and become a top global x86 server provider, capturing the significant growth opportunities in the enterprise hardware systems space.

Both transactions are subject to the satisfaction of regulatory requirements, customary closing conditions and any other needed approvals. The Group is working with authorities to close both deals, and is well prepared for the upcoming integration. Leveraging the experiences from integrations of past transactions, and the Post Merger Management office already in place, the Group is confident in creating synergy from the two acquisitions once they close.

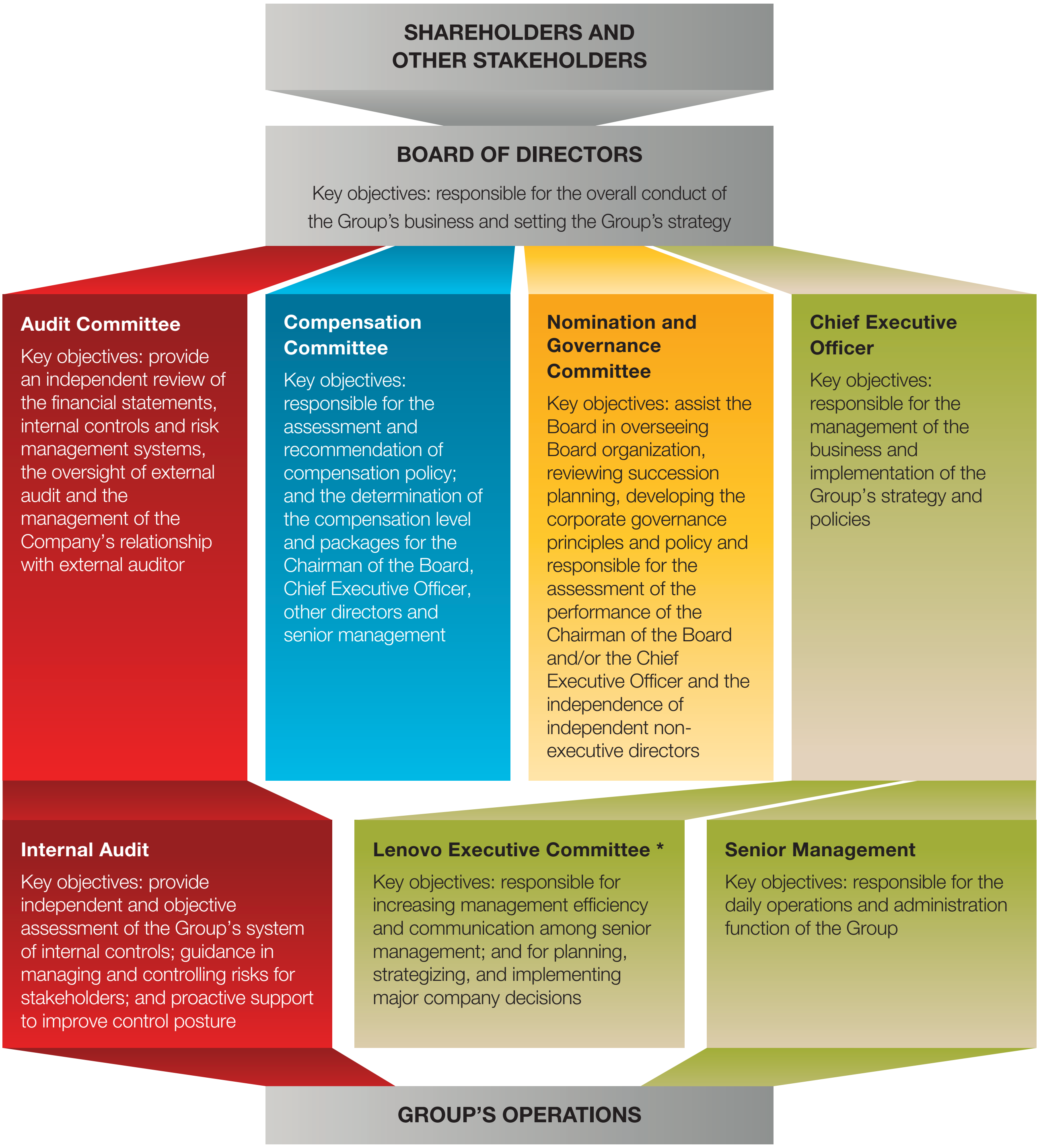
Lenovo's solid execution of its clear strategy has led the Group to establish a solid foundation and leadership in PC and mobile device markets, and its commitments to innovation built off a broad product portfolio helps differentiate the Group with market recognitions, which allowed the Group to deliver continuous growth despite market challenges. Looking forward, the Group aims to deliver a compelling experience and value across the entire device portfolio (PC, Mobile and Enterprise) with Cloud Services for the customers. This will further strengthen the Group and build new pillars for growth, positioning Lenovo to become an even stronger and more diversified global technology leader in the future. The Group will continue its investment in building its core competencies, product innovation, and end-to-end efficiency enhancing its competitiveness to ensure future sustainable profit growth.

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, 2014, 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 S.A.R. of China 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)

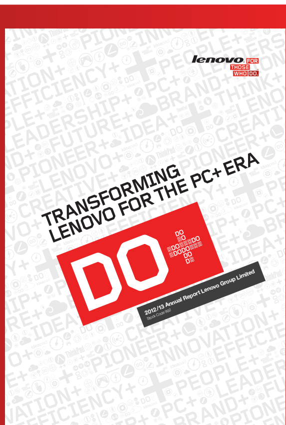
Since November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been performing both the roles as the chairman of the Board (the "**Chairman**") and chief executive officer of the Company (the "**CEO**"). The Board is of the opinion that it is appropriate and in the best interests of the Company at the 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 independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

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

Apart from the foregoing, the Company met the recommended best practices in the CG Code as 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 also prepared using the accounting standards consistent with the policies applied to the interim and annual financial results.

Best Corporate Governance Disclosure Awards 2013

During the year, the Company received the Platinum Award of 2013 Best Corporate Governance Disclosure Awards (H-share companies and other Mainland enterprises Category) organized by the Hong Kong S.A.R. of China Institute of Certified Public Accountants.



THE BOARD

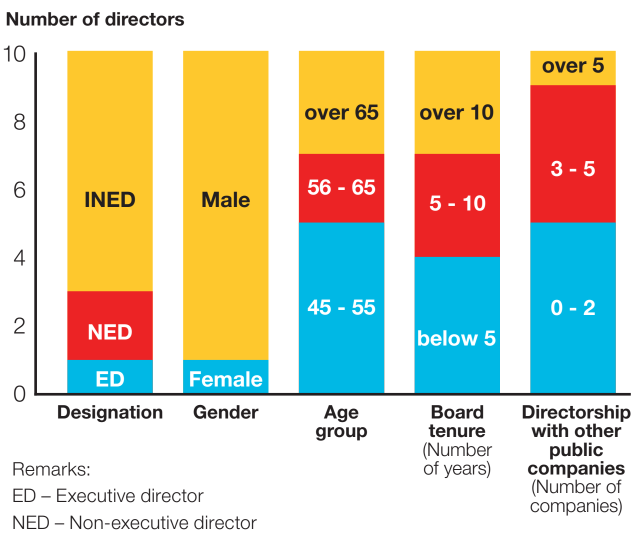
Board Composition

The composition, experience and balance of skills of the Board are regularly reviewed to ensure that the mix of skills and experience is appropriate to meet the needs of the Company and its subsidiaries (collectively the "**Group**"). As of the date of this annual report, there were ten Board members consisting of one executive director, two non-executive directors and seven independent non-executive directors.

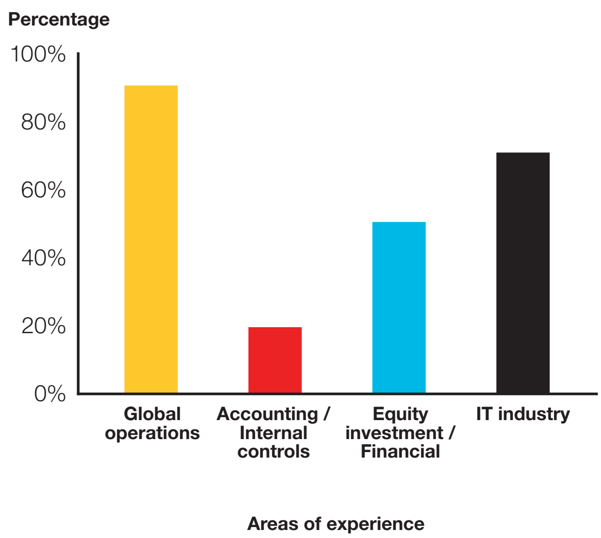
In 2013, Mr. Yang Chih-Yuan Jerry ("**Mr. Jerry Yang**") was appointed as an observer of the Board of the Company (the "**Board Observer**"). As a Board Observer, Mr. Jerry Yang will not have the power to vote at any Board meeting and will not exercise any other rights of a director at such meeting. 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.

As a means of enhancing corporate governance of the Company, Mr. Grabe, an independent non-executive director of the Company, was appointed by the Board as the Lead Independent Director in 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. The role of the Lead Independent Director are set out on page 38 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 105 to 108 of this annual report.



Remarks:
ED – Executive director
NED – Non-executive director
INED – Independent non-executive director



Key features of the Board composition
• 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 S.A.R. of China 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 of the Company, also serve on the board of directors of Legend Holdings Corporation, which company held approximately 32.44% of the total issued shares of the Company (details are set out on page 67 of this report). 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 105 to 108 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.

Division of Responsibilities

Clarity of the responsibilities of, and constructive working relationship amongst, Board members are critical factors of the Board achieving its success. A summary of responsibilities of leadership of the Company and those of Lead Independent Director is given in the diagram below.

Chairman

- leads the Board in the determination of its strategy and in the achievement of its objectives
- provides leadership and manages the Board to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner
- approves the Board's agenda, taking full account of the issues and concerns of Board members. Board agendas are structured to allow adequate and sufficient time for the discussion of the items on the agenda, in particular, strategic matters
- facilitates and encourages active engagement of Board members, particularly on matters of the Group's strategy or other major proposals, by drawing on directors' skills, experience and knowledge
- ensures good corporate governance practices and procedures are established and effective communication with shareholders and other stakeholders

Chief Executive Officer

- formulates and recommends the strategy of the Group to the Board
- executes the strategy agreed by the Board
- makes and implements operational decisions and managing the business day-to-day
- leads the business and the management team

LEADERSHIP

Lead Independent Director

- chairs 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
- calls and chairs meeting(s) with all independent non-executive directors at least once a year on such matters as are deemed appropriate and provide feedbacks to Chairman and/or CEO
- serves a key role in the Board evaluation process
- 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
- if requested by major shareholders, ensures that he is available, when appropriate, for consultation and direct communication
- performs other duties as directors may designate

Non-executive Directors

- participate in Board meetings to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct
- take the lead where potential conflicts of interests arise
- scrutinise the Group's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting
- make a positive contribution to the development of the Group's strategy and policies through independent, constructive and informed comments
- 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

Appointment and Election of Directors

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.

The Board has established 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.

During the fiscal year 2013/14, the Nomination and Governance Committee reviewed the below measurable objectives and the progress in achieving these objectives:

Measurable objectives		Progress for meeting objectives
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	FY2014/15 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	FY2014/15 and ongoing

Appointment process

The Board recognises the need to ensure the Board and senior management are always well resourced, with the suitable people in terms of skills and experience to deliver the Company's strategy. 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:

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. Under A.4.3 of the CG Code, any further appointment of an independent non-executive director, who has served the Board for more than nine years, shall be subject to a separate resolution to be approved by shareholders. The Company will set out in the document accompanying the notice of the 2014 annual general meeting the reason why the Board considers the individual continues to be independent and the recommendation to shareholders to vote in favour of the re-election of such independent non-executive director.

Independence

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.

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. On May 20, 2014, 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, 2014. 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.

On November 7, 2013, Ms. Ma Xuezheng ("**Ms. Ma**") was re-designated from a non-executive director to an independent non-executive director. Although Ms. Ma had certain previous directorships which are or may be regarded as falling within the independence guideline in rule 3.13(7) of the Listing Rules among the factors affecting independence under those rules, the Board is satisfied and has demonstrated to the satisfaction of the Stock Exchange that the re-designation of Ms. Ma as an independent non-executive director is justified for the following reasons:

1. Ms. Ma has ceased to be an executive director and chief financial officer of the Company for more than six years since May 23, 2007, the date on which she was re-designated as a non-executive director. Since then, she has not had any executive or management role in the Group. During the tenure of Ms. Ma as an executive director and chief financial officer of the Company, she was appointed as directors of various subsidiaries of the Company. Ms. Ma had also resigned from all such directorships in these subsidiaries for more than two years immediately prior to the date of her re-designation. On the above basis, the Company considers that the above previous directorships would not have any impact on her independence;

2. Prior to her re-designation as an independent non-executive director, Ms. Ma has been a non-executive director of the Company. As a non-executive director, she did not take part in the day-to-day management of the Company and did not have any management functions in the Company except for attending meetings of the Board of the Company and meetings of certain Board committees in her personal capacity. The Company considers that her non-executive role in the Company has no impact on her independence;

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

4. The Company believes that Ms. Ma is able to exercise her professional judgement and draw upon her extensive knowledge in financial, investment and corporate governance matters for the benefit of the Company and its shareholders as a whole, in particular, the independent shareholders; and

5. Ms. Ma has confirmed her independence to the Stock Exchange in respect of each of the factors set out in rule 3.13 of the Listing Rules that the Stock Exchange takes into account in assessing the independence of a non-executive director.

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

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, 2014.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company. The Board has a set procedure to deal with the actual or potential conflicts of interest of directors as follows:

- The Board deals with each appointment on its individual merit and takes into consideration all the circumstances.

- Actual and potential conflicts of interest are notified to the Board before they arise.

- Prior to taking up any additional responsibilities or external appointments, directors are obliged to ensure that they will be able to meet the time commitment expected of them in their role at the Company and do not have any potential conflicts that may arise when take up a position with another company.

- Decisions regarding transactions with directors and their related parties are always dealt with by other director, such as matter regarding the remuneration of executive director is handled by the Compensation Committee.

All potential conflicts of interest will be recorded, which are reviewed on an annual basis by the Nomination and Governance Committee to ensure that the procedures are working effectively.

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 S.A.R. of China 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 2014 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 2014 annual general meeting.

Share ownership

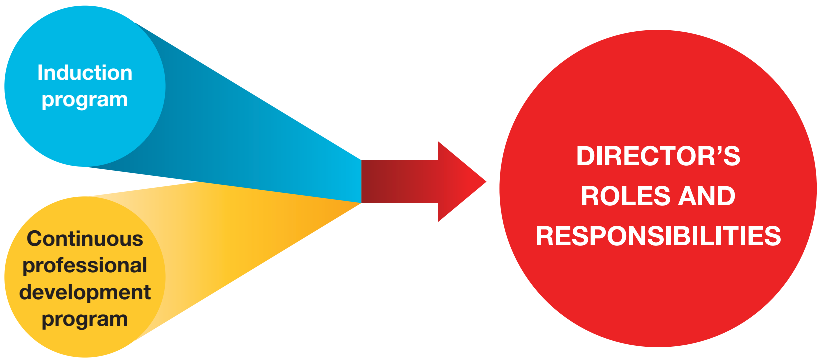
The Board has adopted stock ownership guidelines for non-employee director in 2013. The Board believes that share ownership aligns the interests of its directors with the long term interests of the shareholders and further promotes the Company's commitment to sound corporate governance. In general, these guidelines require non-employee directors to maintain a certain level of equity awards granted to them for so long as he or she is a director of the Company.

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.

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 are provided with a bespoke induction program to further their understanding of the nature of the Company, its business and the markets in which it operates, and also enhance their knowledge of the Group, its operation and staff. Induction program is tailored to each new director, depending on the experience and background of the director. Normally, a comprehensive, formal and tailored induction program covering amongst other things:

ON APPOINTMENT

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

FOLLOWING APPOINTMENT

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

Attending Briefing and Presentation from Senior Executives and Visit to Business Operations
- to ensure he/she has a proper understanding of the operations of the Group and its development

Attending Continuous Professional Development Program
- to ensure that he/she keeps breast of new laws, regulations or developments in business that are relevant to their roles as a director of the Company

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 appropriate visits and seminars covering the Group's operations, the industry and governance matters 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.

During fiscal year 2013/14, the trainings and activities for the Board were set out below:

Site Visit

The Board had the opportunity to meet with senior management of Beijing and Brazil teams and to visit Lenovo Innovation Center in Beijing, Lenovo Brazil office in Sao Paulo and the manufacturing plant in Itu, Brazil. These arrangements provided the Board with a better understanding of the latest technology and products developments of the Group and an insight into the business operations of the Group in the relevant geography.

Lenovo Beijing Innovation Center

Lenovo Brazil Office Showroom

Manufacturing Plant in Itu, Brazil

Retail Visit

During these visits, in addition to being provided with presentations on the market and business from local management, directors would also be able to meet with the local team to acquire the latest development of the management team and the business there.

Lenovo Flagship Store in Beijing

Retail Shop in Brazil

Experts Briefing and Seminar

In-house seminars are arranged for directors to keep them abreast of the latest developments in the international corporate governance development. The directors are also encouraged to attend relevant external professional programs at the Company's expense and the changes in laws and regulations as necessary to keep abreast of issues facing the changing business environment within which the Group operates.

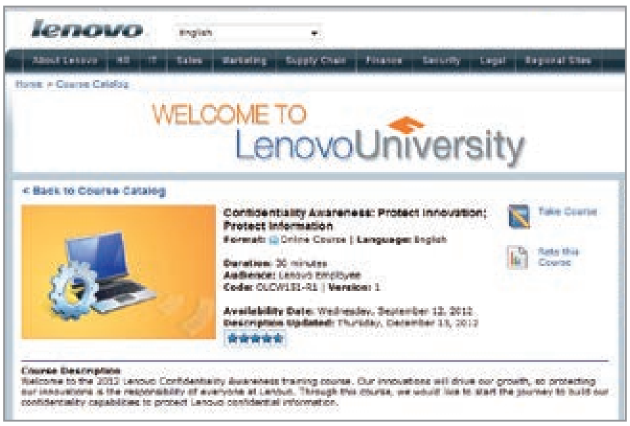
During the year, the Company arranged experts briefing and seminar for directors on the topics of "Corporate Social Responsibility", "Corporate Governance" and "New Companies Ordinance – Key Changes Affecting Directors".

Professor Jeffrey Sonnenfeld, Professor of Yale School of Management, was a guest speaker of an in-house seminar "Corporate Governance"

External expert to speak in an in-house seminar "New Companies Ordinance – Key Changes Affecting Directors"

Online Training

To facilitate the training for directors, the Company had also introduced an online training at Lenovo University for directors started in fiscal year 2012/13. In fiscal year 2013/14, the focus of the online training was "Confidentiality Awareness: Protect Innovation; Protect Information" and the attendance rate of directors was 100%.



Online training tool
As part of the global confidentiality awareness initiative, the directors are required to attend the online training for information security

Regulatory Updates

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 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. All directors are required to provide the Company with their training records on annually basis and such records are maintained by the Company Secretary for regular review by the Nomination and Governance Committee.

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.

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	✓	✓	✓	✓
Dr. Wu Yibing *(Note)*	N/A	N/A	✓	N/A
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	✓	✓	✓	✓
Ms. Ma Xuezheng	✓	✓	✓	✓

Note: Dr. Wu Yibing retired as a non-executive director of the Company on July 16, 2013.

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
Meeting dates are 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 and 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.
• The Board systematically visits the Group's business locations both to review its operations and meet with local management. During the year, the Board visited and reviewed the Group's business and its operations in Beijing and Brazil.
• 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.
• To enhance the communication between directors and senior management and have an understanding of management planning, directors are invited to attend Lenovo's Global Leadership Team event and participate in small group discussions with relevant senior management.
• Separate executive sessions were arranged for (i) the Chairman to meet with non-executive directors in the absence of management and (ii) the Lead Independent Director to meet with other independent non-executive directors in the absence of executive director and management to discuss matters relating to any issue or other matters such persons would like to raise.
• To enhance communication with and contribution from all the directors, the Chairman meet with each non-executive director on an one-on-one basis at least once a year.
• 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 established Continuous Disclosure Policy and its implementation guideline on monitoring, reporting and disseminating inside information. The critical concerns of the Group's operations and developments are communicated and addressed to the Board in a timely manner.
• 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.
• All directors were provided with a tablet and a notebook to gain access to meeting materials of the Board and Board committees meetings through an internal electronic platform.

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.

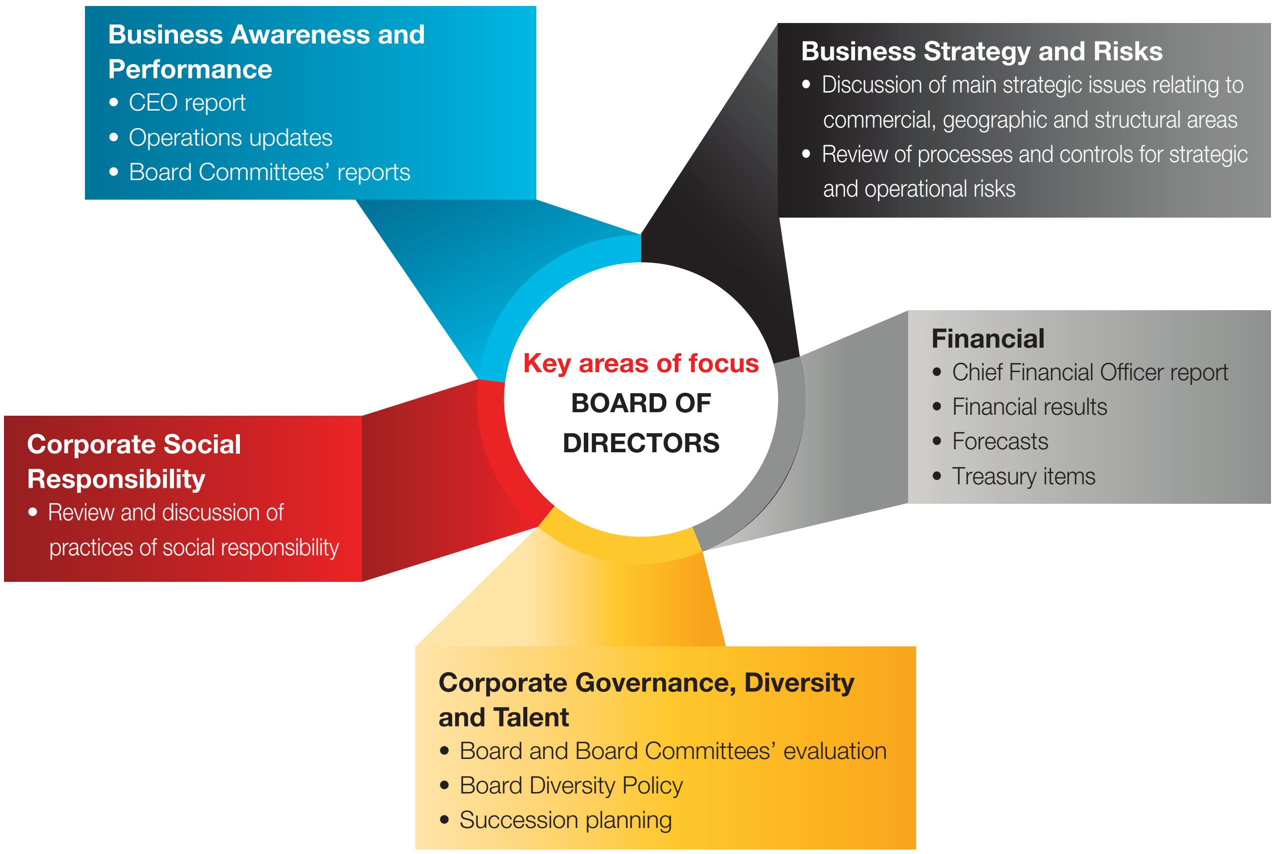
The Board has formulated a clear written policy that stipulates the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review the policy.

Schedule of matters reserved to the Board includes:

- setting the Group's strategy
- approval of annual budget
- approval of major capital and equity transactions
- approval of major disposals and acquisitions
- approval of connected transactions
- recommendation on appointment or reappointment of external auditor
- approval of the Group's financial statements
- recommending or declaring a dividend
- succession planning and appointment to the Board
- reviewing the performance of the Board and its committees
- other significant operational and financial matters

Board activities in the financial year ended March 31, 2014

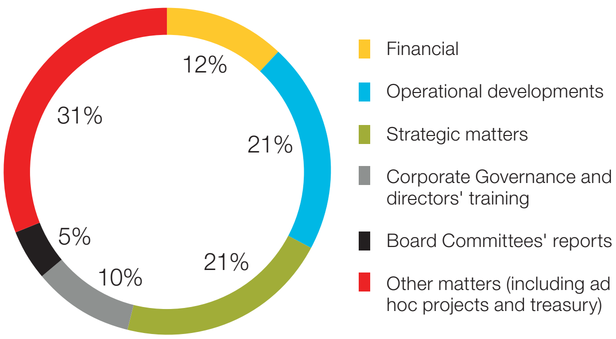
Board activities are structured to assist the Board in achieving its goal to support and advise senior management on the delivery of the Group's strategy within a transparent governance framework. The diagram below shows the key areas of focus for the Board, which appear as items on the Board's agenda 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.



During the fiscal year 2013/14, 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 S.A.R. of China, Beijing and New York, the Company also held meeting in Brazil with a particular focus on reviewing the strategies and business in this area which provided an opportunity for directors to meet with local management team. The chart beside this paragraph shows how the Board allocated its time during the year.

The Board

Allocation of agenda time



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:

- Appointment of Mr. Grabe as the Lead Independent Director and cessation as chairman of the Compensation Committee
- Re-designation of Ms. Ma as an independent non-executive director and appointment as chairman of the Compensation Committee
- Appointments of Mr. William Tudor Brown and Mr. Zhu Linan as member of the Compensation Committee
- Acquisition of X86 server hardware and related maintenance services business of International Business Machines Corporation
- Acquisition of Motorola Mobility Holdings LLC and its subsidiaries
- Amendment to the delegation of authority policy
- Adoption of the Diversity Policy of the Company
- Adoption of non-employee directors stock ownership guidelines
- 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
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
Ms. Ma Xuezheng

AUDIT COMMITTEE
Chairman: Mr. Nicholas C. Allen
Members*: Mr. Ting Lee Sen
Ms. Ma Xuezheng

COMPENSATION COMMITTEE
Chairman: Ms. Ma Xuezheng
Members: Mr. William O. Grabe
Mr. Ting Lee Sen
Mr. William Tudor Brown
Mr. Zhu Linan

NOMINATION AND GOVERNANCE COMMITTEE
Chairman: Mr. Yang Yuanqing
Members: Mr. Nobuyuki Idei
Mr. William O. Grabe

* *Mr. William Tudor Brown was appointed as a member of the Audit Committee with effect from May 22, 2014.*

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 2013/14, are summarized in the Audit Committee Report as stated on pages 69 to 74 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 2013/14, are summarized in the Compensation Committee Report as stated on pages 75 to 85 of this annual report.

NOMINATION AND GOVERNANCE COMMITTEE

Membership

The Nomination and Governance Committee (defined as "**Committee**" in this section) of the Board of the Company as at the date of this annual report, is comprised of three members including Mr. Yang Yuanqing (Committee Chairman) and two independent non-executive directors, Mr. Nobuyuki Idei and Mr. William O. Grabe.

Responsibilities

The Committee is responsible for reviewing the Board composition of the Board and Board committees to ensure they are properly constituted and balance in terms of skills, experience and diversity. In addition to this, it 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;
- Monitoring corporate governance issues and developments to ensure that the Company is in line with the international best practices;
- Reviewing and determining the director induction and continuous professional development programs; and
- Reviewing and monitoring the annual Board and Board committees' evaluation and the progress of the implementation actions.

Key features

- The 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 the HKEx.
- The Committee is provided with sufficient resources to perform its duties.
- The 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.
- General Counsel and Company Secretary are invited to attend the Committee meetings in order to provide insight and enhance the Committee's awareness of corporate governance issues and developments.
- The chairman of the Committee being also the Chairman and CEO, is required to excuse himself from the agenda items relating to succession planning of the Chairman and/or CEO and the assessment of performance of the Chairman and/or CEO.

Main activities during FY2013/14

During the year ended March 31, 2014, the Committee held two meetings in which the following activities were considered and/or resolved:

Board and Board committees' compositions

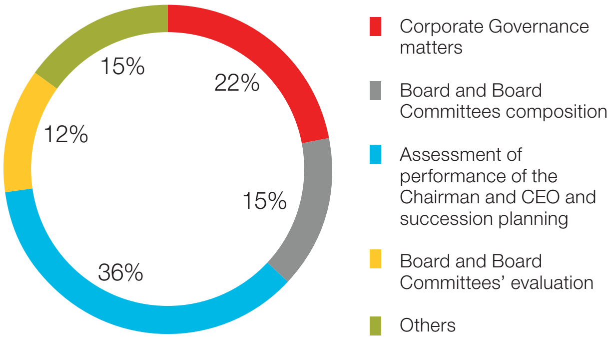
- Reviewed and recommended to the Board on the structure, size and composition of the Board including the diversity and balance of skill, knowledge and experience of the directors.

- Considered and recommended changes to the Board and Board Committee's composition:
  (i) appointment of Mr. Grabe as the Lead Independent Director;
  (ii) re-designation of Ms. Ma as an independent non-executive director and her appointment as chairman of the Compensation Committee in replace of Mr. Grabe;
  (iii) appointments of Mr. William Tudor Brown and Mr. Zhu Linan as member of the Compensation Committee.

- Reviewed the progress against Board diversity targets and discussed and agreed a Diversity Policy, recommending it to the Board for its approval.

Nomination and Governance Committee

Allocation of agenda time



Assessment of the performance of the Chairman and CEO and succession planning

- Assessed the performance of the Chairman and CEO for fiscal year 2012/13 and making recommendation to the Compensation Committee.

- Reviewed the arrangement of same person acting as Chairman and CEO.

- Reviewed and discussed succession planning for the position of directors and review potential candidates for this roles.

Corporate Governance

- Reviewed corporate governance disclosures in 2012/13 annual report and 2013/14 interim report.

- Reviewed and assessed the independence of independent non-executive directors and affirmed the Committee's view over their independence.

- Reviewed and discussed the induction and continuous development programs for the directors of the Company.

- Reviewed the policies and practices on corporate governance, and the compliance with legal and regulatory requirements of the Group.

Board and Board Committees' evaluation

- Oversaw the process of the Board and Board Committees' evaluation for fiscal year 2013/14.

- Discussed and approved the proposed actions to be taken in response to the findings of 2012/13 Board and Board Committees' evaluation. The Committee also reviewed reports on the status of the action plan to monitor the progress being made.

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 this report on pages 55 to 56.

Board and Board Committees Meetings and Attendance

Details of directors' attendance at the general meetings, Board and Board Committees meetings held during the year ended March 31, 2014 are set out below:

Name of directors	Board *(Notes 1 & 2)*	Audit Committee *(Notes 1 & 4)*	Compensation Committee *(Note 1)*	Nomination and Governance Committee *(Notes 1 & 10)*	General Meetings *(Notes 3 & 4)*
	Attendance/Meetings held in the year				
Executive director					
Mr. Yang Yuanqing *(Chairman & CEO)*	7/7	–	–	2/2	2/2
Non-executive directors					
Mr. Zhu Linan *(Note 5)*	7/7	–	1/1	–	1/2
Dr. Wu Yibing *(Note 6)*	1/1	–	–	–	1/1
Mr. Zhao John Huan	7/7	–	–	–	1/2
Independent non-executive directors					
Mr. Ting Lee Sen	7/7	4/4	4/4	–	0/2
Dr. Tian Suning	7/7	–	–	–	1/2
Mr. Nicholas C. Allen	7/7	4/4	–	–	2/2
Mr. Nobuyuki Idei	7/7	–	–	2/2	1/2
Mr. William O. Grabe *(Lead Independent Director) (Note 7)*	7/7	–	4/4	2/2	1/2
Mr. William Tudor Brown *(Note 8)*	7/7	–	3/3	–	1/2
Ms. Ma Xuezheng *(Note 9)*	7/7	4/4	4/4	–	1/2

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, one strategic meeting and two ad hoc meetings during the year.

(3) The Company held the annual general meeting and the general meeting on July 16, 2013 and March 18, 2014 respectively.

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

(5) Mr. Zhu Linan was re-designated from an observer to a member of the Compensation Committee with effect from November 7, 2013.

(6) Dr. Wu Yibing retired as non-executive director of the Company in the annual general meeting held on July 16, 2013.

(7) Mr. William O. Grabe was appointed as the Lead Independent Director with effect from May 23, 2013 and ceased to be the chairman of the Compensation Committee with effect from November 7, 2013.

(8) Mr. William Tudor Brown was appointed as a member of the Compensation Committee with effect from May 23, 2013.

(9) Ms. Ma Xuezheng was re-designated from a non-executive director to an independent non-executive director and was appointed as the chairman of the Compensation Committee, all with effect from November 7, 2013.

(10) 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 executive session with non-executive directors (including independent non-executive directors) without the presence of management to discuss on any Board matters.

To enhance the corporate governance practices, the Lead Independent Director held executive session with independent non-executive directors without the presence of executive director and all the senior management after each regular Board meeting to discuss matters relating to any issue or other matters such persons would like to raise.

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. 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.

The Board conducted the first formal evaluation of its own performance and that of its Committees in fiscal year 2012/13. 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 key themes were identified and form the basis of the action plan from 2012/13 Board and Board Committees' evaluation as follow:

- Enhancing the relationship between the Board and senior management following changes in Board composition during the year;
- Enhancing succession planning for key Board positions;
- Ensuring that an appropriate balance of skills, experience and diversity on the Board is maintained; and
- Ensuring the Board staying abreast of issues and trends affecting the Company, and use this information to assess and guide the Company's performance both year-to-year and in the long-term.

BOARD AND BOARD COMMITTEES' EVALUATION PROCESS

DETERMINE THE SCOPE OF EVALUATION

- Board and Board Committees

EVALUATION APPROACH

- Conducted by completing a comprehensive questionnaire covering the following areas:
  - Role and responsibilities
  - Composition and structure
  - Board conduct
  - Board contribution
  - Relationship with management
  - Relationship with shareholders
  - Board Committees

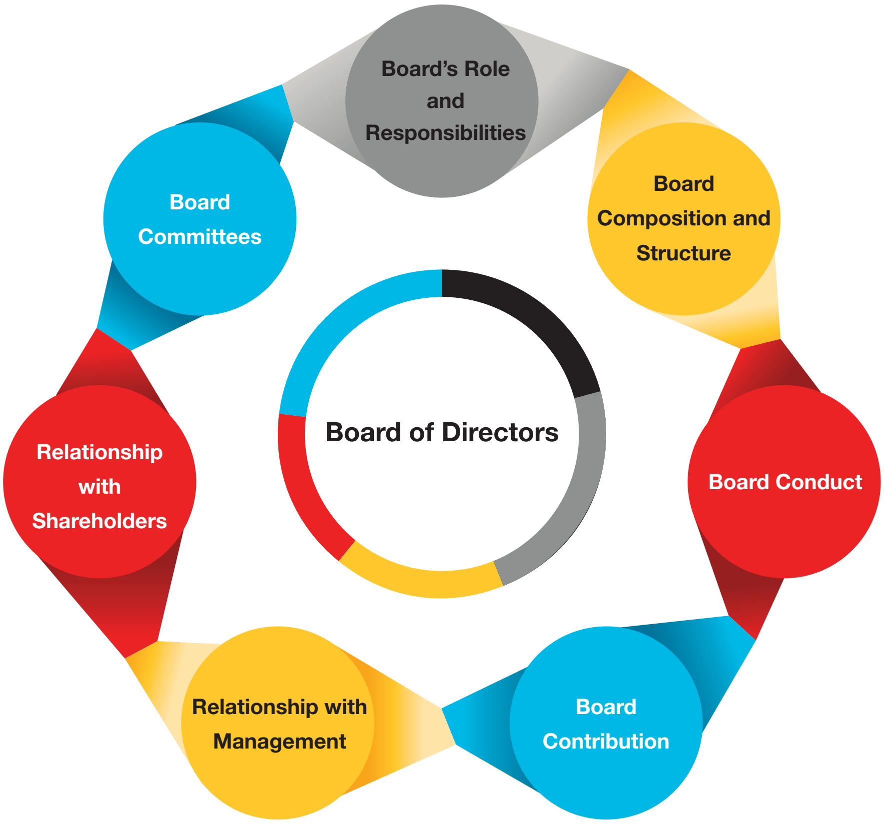
DISCUSSION AND REVIEW OF EVALUATION RESULTS

- Preparing the draft results report
- Discussion of the draft results report between the Lead Independent Director and the chairpersons of Audit Committee and Compensation Committee
- Review of the results report by the Nomination and Governance Committee
- Finalizing the results report
- Reporting to the Board in a manner that did not identify individuals' specific responses, ensuring that these responses could be as open, frank and informative as possible
- Following review of the results, the Board drew conclusions and agreed proposed implementation or action plan

MONITOR AND FOLLOW-UP MEETINGS

- Monitoring the progress of the implementation or action taken semi-annually
- Reporting back to the Board on the progress by Nomination and Governance Committee

In fiscal year 2013/14, the Company enhanced the evaluation process involving each of the directors completing a comprehensive questionnaire, which was structured to include a wide range of questions that focused on the seven areas shown below and the Lead Independent Director discussed the draft results report with the chairpersons of Audit Committee and Compensation Committee. The process took place between November 2013 and February 2014.



A consolidated report of 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 on February 12, 2014.

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 108 to 109 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 123 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

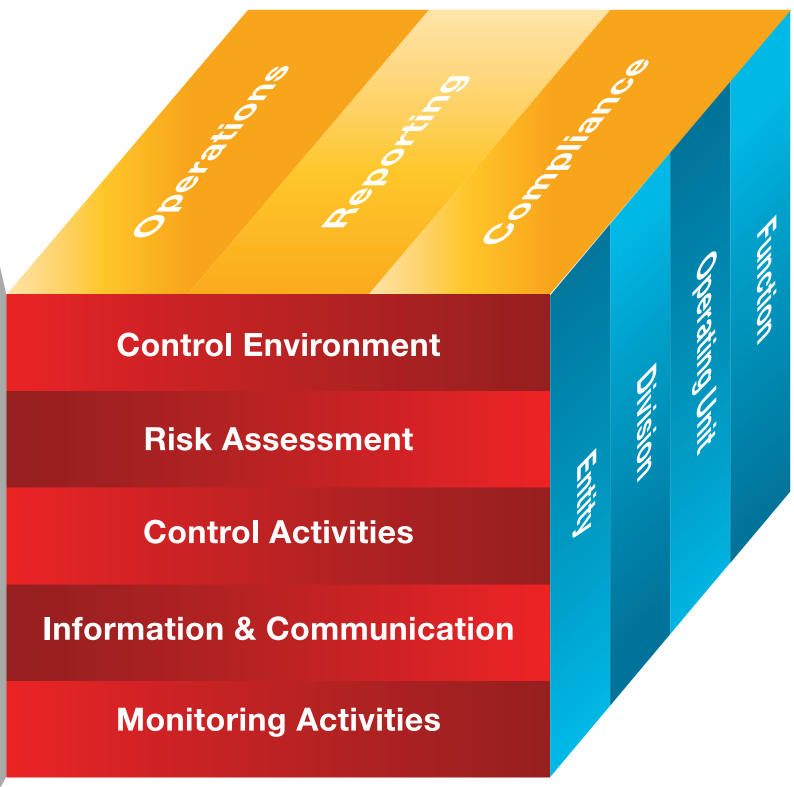
Policies and procedures are implemented to ensure organizational objectives and risk-mitigation activities are effectively executed.

- 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.

Along with establishing guidelines, principles and values, Lenovo recognizes that an environment where employees feel free to bring concerns to management is also required to make our internal control system successful. Lenovo's corporate policy on reporting unlawful or inappropriate conduct makes it clear that all reports will be kept anonymous and confidential. Most importantly, Lenovo maintains if employees seek advice, raise a concern relating to a potential compliance issue, or report suspected misconduct, any form of retaliation or harassment will not be tolerated.

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 Worldwide Business Control Organization. As part of its mission, the Worldwide Business Control Organization helps to clearly communicate control requirements across all organizations and process owners, evaluate the operating effectiveness and efficiency of the established 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 the corrective actions are monitored until 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 S.A.R. of China 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 Company's ability, favorably or unfavorably, to meet its strategic goals. Risk is an inherent part of the Company and needs to be understood and managed properly to provide a foundation for the Company's sustained growth. In line with the commitment to deliver sustainable value, Lenovo has implemented an Enterprise Risk Management (ERM) framework to proactively manage risks.

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

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

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

Within this framework, critical and major risks of the business functions, especially in view of the changing business environment, are identified and assessed to determine the appropriate risk mitigation plans to be implemented. These are monitored and reviewed by each business function as well as at the group level. With the insurance function embedded within ERM team, risk transfer options, where available, are also explored with the business functions for more effective risk management. At least annually, these influential risks are highlighted to the Audit Committee, along with the status of actions taken to manage these risks.

The ERM framework covers all types of risks faced by the Company, both external and internal, and has helped enhance the Company's efforts to provide strong support for our rapid growing business, across all markets. During the year, there was continued strong focus at the business level to address the fast changing industry trends. At the operational level, risk management was also strengthened to improve the robustness of our supply chain.

This framework will continue to be strengthened, so as to create a robust risk management culture which safeguards the value of the Company.

External Auditor

Independence of External Auditor

The Group's external auditor is PricewaterhouseCoopers ("**PwC**"), who is remunerated mainly for its audit services provided to the Group. The Company has adopted a policy on engagement of 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 S.A.R. of China 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, 2014 and the comparative figures for the financial year ended March 31, 2013 are as follows:

	2014 US$mn	2013 US$mn
Audit	**4.5**	5.6
Non-audit	**0.7**	0.8
Total	**5.2**	6.4

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 on pages 75 to 85.

COMPANY SECRETARY

The Company Secretary, Mr. Mok Chung Fu, Eric 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, 2014, the Company Secretary undertook appropriate professional training to update his skills and knowledge.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's constitutional documents during the year. The Articles of Association is available on the Company's website and the HKEx's website. However, a special resolution will be put forward to the shareholders in the forthcoming annual general meeting of the Company to be held on July 2, 2014 to adopt the new articles of association of the Company so as to bring the constitution of the Company in line with provisions of the Company Ordinance (Chapter 622 of the Laws of Hong Kong S.A.R. of China) which came into effect on March 3, 2014 ("**New Companies Ordinance**"), the Listing Rules and current corporate practices.

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 2013/14, 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 PC+ strategy in China, the Company also cooperated with different securities houses in organizing trips to the company's Beijing hub and its flagship, PC and smartphone stores in China. 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 to maintain active communications with institutional investors around the world.

Investor Conferences Attended FY2013/14

Date	Conference	Location
May 2013	Nomura Pan-Asia Tech Forum	Hong Kong S.A.R. of China
June 2013	J.P. Morgan Annual China Summit 2013	Beijing
June 2013	UBS Taiwan Conference	Taipei
September 2013	JP Morgan 16th Annual Asia Pacific Equity Conference	Boston
September 2013	Credit Suisse Asian Technology Conference	Taipei
September 2013	CLSA Investor's Forum 2013	Hong Kong S.A.R. of China
November 2013	Morgan Stanley Asia Pacific Forum	Singapore
November 2013	J.P. Morgan Global TMT Conference	Hong Kong S.A.R. of China
November 2013	Deutsche Bank 10th Annual dbAccess Taiwan Conference 2013	Taipei
November 2013	Daiwa Investment Conference	Hong Kong S.A.R. of China
December 2013	Barclays Asia TMT Conference	Hong Kong S.A.R. of China
January 2014	Nomura @ CES 2014	Las Vegas
January 2014	UBS CES Meeting	Las Vegas
March 2014	Daiwa Investment Conference	Tokyo
March 2014	Bank of America Merrill Lynch "Taiwan, Technology & Beyond" Conference	Taipei
March 2014	Credit Suisse Asian Investment Conference	Hong Kong S.A.R. of China

Market Recognitions

The Company's continuous effort in investor relations has been well-recognized by the investment community. Lenovo was honored the **Platinum Award – The Asset Excellence in Management and Corporate Governance Awards 2013** by **The Asset magazine**. The criteria accessed a range of metrics of financial performance as a gauge of management acumen, as a recognition to the Company's sustainable growth with evaluation of the quality of corporate governance, social responsibility, environmental responsibility and investor relations.

In the **IR Magazine Awards 2013**, Lenovo was named to the **Global Top 50 Investor Relations Award**, and has also been shortlisted for the **Global Top Mid-Cap ($5-$10 billion) Investor Relations Award**. At the IR Magazine's Greater China Awards 2013, Lenovo was also awarded the "**Best Use of Technology**" award and was also ranked as one of the Top 3 best performing company in other six award categories, including **"Grand Prix for Best Overall Investor Relations – Large Cap"**, **"Best Investor Relations by a Mainland Chinese Company"**, **"Best Investor Relations Officer – Mainland China"**, **"Best Investment Community Meeting"**, **"Best Investor Relations during a Corporate Transaction"**, and **"Best in Sector for Technologies & Telecoms"**.

Lenovo's fiscal year 2012/13 annual report which themed as "Transforming Lenovo For The PC+ Era" has also won a number of awards fully demonstrated the leading international best practices of the Company's annual report is being highly recognized.

The report has also won the **Gold Award of "Annual Reports – Overall Presentation: Electronics"** in **Mercury Awards 2013/14; Gold Winner of "Annual Reports – Overall Presentation: Electronics"** and **Bronze Winner of "Design Cover – Annual Reports – Artistic/Illustrations"** in **Galaxy Awards 2013**, as well as **Silver Award of "Annual Reports – Corporate – Traditional" and Bronze Award of "Annual Reports – Covers"** in **Astrid Awards 2014**.

Index Recognition
Lenovo is currently a constituent stock of the Main Board of Hang Seng Index, 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. 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 S.A.R. of China. 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, 2014, the market capitalization of listed shares of the Company was approximately HK$89.2 billion based on the total number of 10,406,375,509 issued shares of the Company and the closing price of HK$8.57 per share.

The daily average number of traded shares was approximately 49.1 million shares over an approximate free float of 6,298 million shares in the fiscal year 2013/14. The highest closing price for the Share was HK$10.96 per share on January 29, 2014 and the lowest was HK$6.45 per share on April 18, 2013.

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, 2014 and has continued to maintain the public float as at the date of this annual report.

SHAREHOLDERS

Communication with Shareholders

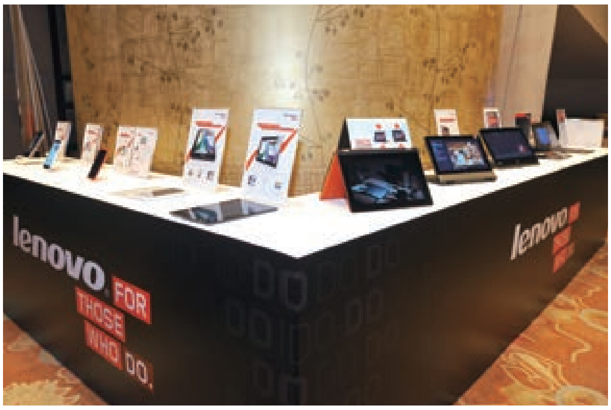
The Company is committed to safeguard shareholders' interests and believes that effective communication with shareholders and other stakeholders is essential for enhancing investor relations and investor understanding of the business performance and strategies of the Group. To achieve this, the Company 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.



During the year, the Company started to arrange a question and answer session in the annual general meeting for shareholders and media to communicate directly with Chairman and senior management. The Company also arranged a product display at the annual general meeting venue to update shareholders on the latest products strategy of the Company.

2013 Annual General Meeting

The 2013 annual general meeting of the Company held on July 16, 2013 was attended by, among others, the CEO, Chief Financial Officer, chairpersons 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
Receive and consider the Group's audited accounts for the year ended March 31, 2013 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, 2013	99.99%
Re-election of retiring directors and authorization of the Board to fix directors' fees	97.54% to 99.99% with respect to each individual resolution
Resolve not to fill up the vacated office resulted from the retirement of Dr. Wu Yibing as director	99.89%
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.50%
Approval of granting the general mandate to the directors to allot, issue and deal with the additional Company's ordinary shares	72.97%
Approval of granting the general mandate to the directors to repurchase the Company's ordinary shares	99.99%
Approval of authorisation to directors to extend the general mandate to issue new ordinary shares by adding the number of ordinary shares repurchased	73.86%

General Meeting

During the year, the Company convened and held a general meeting on March 18, 2014 ("**2014 General Meeting**") to consider and approve the revised supply annual caps and the revised royalty annual caps for existing continuing connected transactions with NEC Corporation and its associates, which meeting was attended by the CEO, Chief Financial Officer, members of the independent board committee and representatives from the independent financial advisor to independent shareholders of the Company.

Matter being voted upon	Percentage of affirmative votes
Approval of and confirm the revised supply annual caps and the revised royalty annual caps	99.99%

All of the resolutions proposed at the 2013 annual general meeting and the 2014 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 16, 2013 and March 18, 2014 respectively.

2014 Annual General Meeting

All shareholders are encouraged to attend and participate in the Company's 2014 annual general meeting. Details of the proposed resolutions for the 2014 annual general meeting are set out in the circular which will be dispatched to the Company's shareholders with this annual report.

Shareholders' Rights

Procedures for convening a general meeting

Shareholder(s) holding at least 5% of the total voting right of the Company of all the shareholders having a right to vote at general meetings may, in accordance with the requirements and procedures set out in New Companies Ordinance, request the Board to convene a general meeting by requisition, by stating the general nature of the business to be dealt at a general meeting and depositing the signed requisition at the registered office of the Company for the attention of the Company Secretary in hard copy form.

Procedures for putting forward proposals at an annual general meeting

(a) Shareholder(s) holding at least 2.5% of the total voting rights or (b) at least 50 shareholders having a right to vote on the resolution at an annual general meeting may, in accordance with the requirements and procedures set out in the New Companies Ordinance, requisition for the circulation of resolutions to be moved at annual general meetings and circulation of statements of not more than 1,000 words with respect to the matter referred to in the proposed resolution. 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 in hard copy form at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the annual general meeting; or if later, the time at which notice is given of that annual general meeting.

The detailed procedures for shareholders to convene and put forward proposals at an annual general meeting or 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.

Shareholding Structure

Shareholding as recorded in the register of members of the Company as of March 31, 2014

According to the register of members of the Company as of March 31, 2014, there were 938 registered shareholders of whom 97.76% had their registered addresses in Hong Kong S.A.R. of China. However, the actual number of investors in the 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, 2014

Size of registered shareholding	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of issued shares
1- 2,000	268	28.57%	421,167	0.00%
2,001-10,000	450	47.97%	3,078,000	0.03%
10,001-100,000	193	20.58%	5,663,745	0.06%
100,001-1,000,000	19	2.03%	6,676,000	0.06%
1,000,001 and above	8	0.85%	10,390,536,597	99.85%
Total	938	100.00%	10,406,375,509	100.00%

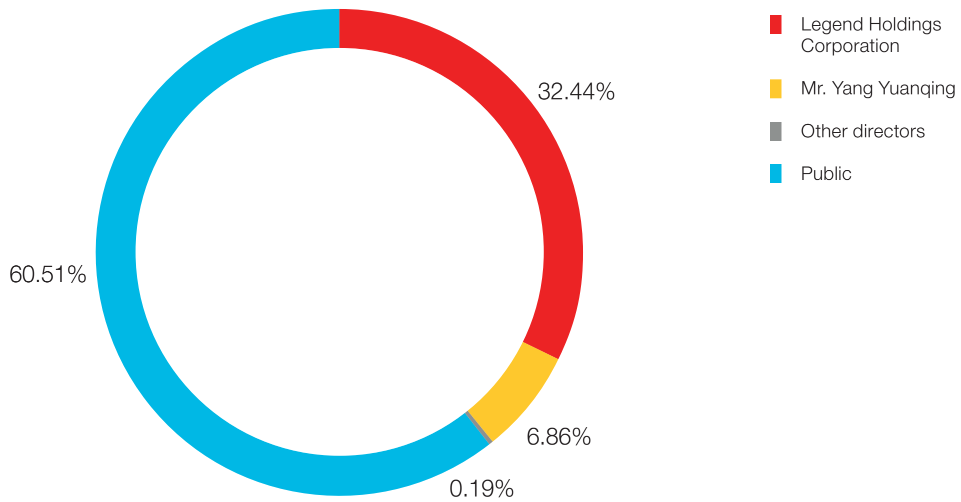
Remarks:

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

(ii) 67.42% 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, 2014

Shareholding Structure as of March 31, 2014



Remarks:

(i) The approximate percentage of shareholding is calculated based on the aggregate long positions held in the issued shares 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 10,406,375,509 Shares of the Company in issue as of March 31, 2014.

INFORMATION FOR INVESTORS

Ordinary Shares (as of 31 March 2014)

Listing	Hong Kong S.A.R. of China Stock Exchange
Stock code	992
Board lot size	2,000 shares
Ordinary shares outstanding as of March 31, 2014	10,406,375,509 shares
Free float	6,298 million shares
Market capitalization as of March 31, 2014	HK$89.2 billion (Approx. US$11.4 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, 2014	7.88 U.S. cents

Dividend per Share

Dividend per ordinary share for the year ended March 31, 2014	
– Interim	6.0 HK cents
– Proposed final dividend	18.0 HK cents

Financial Calendar 2013/2014 (Hong Kong S.A.R. of China Time)

First Quarter Results Announcement	August 15, 2013
Interim Results Announcement	November 7, 2013
Closure of Register of Members for Interim Dividend	November 22, 2013
Payment of 2013/14 Interim Dividend	December 2, 2013
Third Quarter Results Announcement	February 13, 2014
Annual Results Announcement	May 21, 2014
Annual General Meeting	July 2, 2014

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 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	Independent non-executive director

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 S.A.R. of China 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 S.A.R. of China Limited (the "**Listing Rules**"). More information on the skills and experience of the members of Audit Committee may be found in the directors' biographies set out on pages 105 to 108 of this annual report.

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 below different areas of competency:

KEY FEATURES

- 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 S.A.R. of China Exchanges and Clearing Limited.
- The Audit Committee meets with external auditor, Chief Financial Officer, General Counsel, 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 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.
- Other management from the business are also invited to attend certain meetings from time to time in order to provide insight and enhance the Audit Committee's awareness of key issues and developments.
- 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.
- In addition to standing agenda items, the Audit Committee may also request to discuss on particular "deep-dive" topics.
- The chairman will report back to the Board after each of the Audit Committee meeting on its decisions or recommendations.

MAIN ACTIVITIES DURING FY2013/14

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; the oversight of external audit and the management of the Company's relationship with PwC. The timetable of the Audit Committee for fiscal year 2013/14 is set out in the below diagram.

SPECIFIC ITEMS

May

- **Annual results, including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft annual report incorporating directors' report, corporate governance report and financial statements
  - draft results announcement
- Review of enterprise risk management
- Review of the performance and independence of external auditor
- Review of annual agenda of the Audit Committee
- Meeting with the external auditor in the absence of management
- Meeting with the Chief Auditor and the General Counsel in the absence of management
- **Recommendations to the Board on:**
  - the annual results, annual report and related results announcement
  - re-appointment of external auditor

August / February

- **Quarterly results, including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft results announcement
- Review of the Ethics and Compliance program of the Group including the whistleblowing arrangements
- **Recommendations to the Board on the quarterly results and related results announcement**

November

- **Interim results including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft interim report
  - draft results announcement
- Meeting with the external auditor in the absence of management
- Meeting with the Chief Auditor and the General Counsel in the absence of management
- **Recommendations to the Board on interim results, interim report and related results announcement**

STANDING ITEMS

Review of financial reporting:

- any proposed changes to accounting policies
- key assumptions, judgements and estimates
- key litigation and legal exposures

Review of internal audit and controls:

- internal audit planning methodology
- summary of internal audit and investigation
- non-audit services provided by the external auditor
- internal controls of the Group including key control issues

Review of external audit:

- scope of the audit work
- significant audit points

Review of follow-up items:

- minutes of previous meeting
- reports on actions taken or status of follow-up items arose from previous meeting

In the fiscal year ended March 31, 2014, 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 54 and the chart below shows how the Audit Committee allocated its time during the fiscal year 2013/14.

Audit Committee

Allocation of agenda time

	FY2013/14	FY2012/13
Financial reporting	**44%**	40%
Internal audit and controls	**17%**	20%
External audit matters and engagement	**16%**	15%
Others (including legal, tax and treasury matters)	**23%**	25%

The main matters and areas that the Audit Committee reviewed and considered at its four meetings during the year were as follows:

Financial Reporting

With the support of the external auditor, the Audit Committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and whether disclosures were in compliance with the financial reporting standards. The Audit Committee:

- 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, 2013 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, 2013 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, 2013 and for the nine months ended December 31, 2013 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 acquisitions; (b) the purchase price allocation following the establishment of joint venture and acquisition; (c) the accounting treatment on the Group's goodwill and (d) the accounting provisions and treatments for warranty costs, indirect tax receivables, inventories and employees benefits plans;
- Reviewed worldwide accounting and finance business transformation organization of the Group;

Internal Audit and Controls

To discharge the responsibility of reviewing and monitoring the effectiveness of the Group's internal control and risk management systems, the Audit Committee received regular reports from the Chief Auditor and if required from management including legal and other business units. At each meeting, the Audit Committee reviewed the process for identifying, assessing and reporting key risks and control issues of Group. The Audit Committee:

- 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 control issues of Group level significance and specific control issues. The Audit Committee was particularly concerned to understand the potential impact on resources in those businesses as they integrate and automate and standardise processes and controls;

- Reviewed the enterprise risk management of the Group including a summary of the work performed in fiscal year 2012/13 and the plan for fiscal year 2013/14; 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 related to revenue recognition and receivables, and reviewed the actions/processes undertaken by the Group;

External Audit

To discharge the responsibility of overseeing the Board's relationship with the external auditor and monitoring the external auditor's performance, objectivity and independence and also the effectiveness of the audit process, the Audit Committee:

- Reviewed and considered the external auditor's statutory audit scope for the fiscal year 2013/14, including their plan and the terms of engagement, and the letter of representation to be given by the Board in respect of the financial year ended March 31, 2013;

- Reviewed the results of the audit and the reports submitted by external auditor, which summarised matters arising from their audit on the Group during the year ended March 31, 2014, 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, 2014;

Others

During the fiscal year 2013/14, the Audit Committee also:

- Reviewed the continuing connected transactions as set out in the directors' report of 2012/13 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 and discussed with management on the financial positions of the Group following the proposed acquisitions of the X86 Server hardware and related maintenance services business of International Business Machines Corporation and the Motorola mobility group;

- Reviewed the Ethics and Compliance program including the whistleblowing procedure of the Group for employees to raise concerns about possible improprieties in financial reporting, internal controls or other matters, and the enhancements to this program;

- Reviewed the IT recovery plan of the Group;

- Reviewed the tax matters for fiscal year 2013/14;

- Reviewed and approved the audit committee report for the fiscal year 2012/13;

- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2013/14.

At the meeting held on May 20, 2014, the Audit Committee reviewed and recommended to the Board the approval of the audited financial statements of the Group for the year ended March 31, 2014 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, 2014, 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 57 to 60. The Audit Committee also confirmed that the Group had, in the fiscal year 2013/14, 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 60. 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, 2014 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 S.A.R. of China 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, 2015 for shareholders' approval at the forthcoming annual general meeting to be held on July 2, 2014.

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 55 to 56.

PRIORITIES FOR 2014/15

Looking ahead, the priorities of the Audit Committee for the fiscal year 2014/15 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.

Members of the Audit Committee*
Mr. Nicholas C. Allen *(Chairman)*
Mr. Ting Lee Sen
Ms. Ma Xuezheng

* *Mr. William Tudor Brown was appointed as a member of the Audit Committee with effect from May 22, 2014.*

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 five 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	Ms. Ma Xuezheng	Independent Non-executive Director	(appointed as Committee chairman on November 7, 2013)
Member	Mr. Ting Lee Sen	Independent Non-executive Director	
Member	Mr. William Tudor Brown	Independent Non-executive Director	(appointed as a member on May 23, 2013)
Member	Mr. William O. Grabe	Independent Non-executive Director and Lead Independent Director	(ceased to act as Committee chairman but remains as a member on November 7, 2013)
Member	Mr. Zhu Linan	Non-executive Director	(ceased to act as an observer and appointed as a member on November 7, 2013)

TERMS OF REFERENCE

The Committee is responsible for considering (i) the Company's structure and aggregate value of compensation programs for Chairman of the Board, CEO, other Directors and senior management; and (ii) 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, other Directors and senior management and reviewing the recommendation from independent consultant on the compensation of Non-executive Directors. 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, 2014, the Committee held four meetings. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 54.

During the year, the Committee:

Review of Company and Market Information

- Reviewed the analysis and the recommendations of an independent consultant on the FY2013/14 Non-executive Directors' compensation package; the Non-executive Director Stock Ownership Guidelines and the Lead Independent Director Pay and submitted the same to the Board for approval

- Reviewed the bonus update of the Chairman and CEO for FY2012/13

- Reviewed the market data and relevant trends for mobile and internet-related businesses and the broader technology industry

- Reviewed the market positioning for the compensation of CEO and senior management

- Reviewed the long-term incentive ("**LTI**") budget request for FY2014/15
- Reviewed the performance bonus and LTI programs, including the impact of acquisitions

Compensation Program
- Reviewed and approved the FY2012/13 bonus payments and FY2013/14 compensation for senior management
- Reviewed and approved the FY2012/13 bonus payments and FY2013/14 compensation for Chairman of the Board and CEO
- Reviewed and approved the changes on incentive plan
- Reviewed and approved the compensation arrangements relating to senior management

Others
- Reviewed and approved the compensation disclosure in the FY2012/13 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 closest competitors.

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

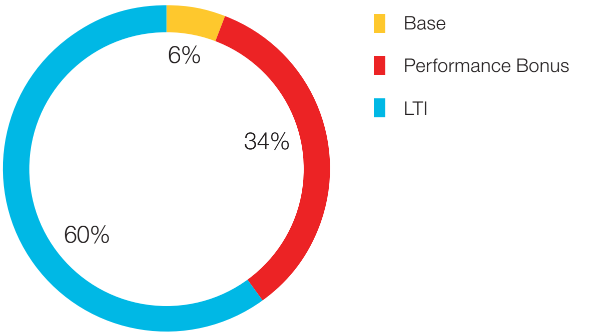
Non-executive Directors
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of 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, market practices, the Company's business performance and individual performance.

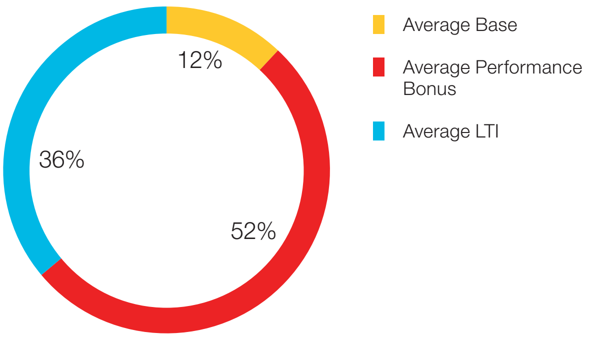
The compensation structure of Lenovo's Chairman/CEO and senior management consists of base salaries, allowances, performance-based bonuses, LTI, retirement benefits, and benefits-in-kind. These components and their mix are described below.

The Chairman/CEO Pay Mix chart reflects 2014 emoluments disclosed in note 11 plus the LTI that were awarded in February 2013, the most recent award including both SARs and RSUs. The Senior Management Pay Mix chart reflects average 2014 emoluments and LTI that were awarded in February 2013.

Chairman/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 *("LTI 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 two types of equity-based compensation vehicles: (i) share appreciation rights, and (ii) restricted 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.

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 and level.

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 111 to 113 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 114 to 117.

General Employees
As at March 31, 2014, the Group had a headcount of approximately 54,000 worldwide.

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

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

REMUNERATION REVIEWS

The Committee regularly reviews the Company's compensation programs to ensure alignment with its stated objectives as well as competitiveness in the talent market. Typically, reviews for base salary, performance bonus, and LTI 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 2013-14 Non-executive Directors Review
In May 2013, 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	**2013/14**	2012/13
Cash Retainer	**$87,500 USD**	$82,500 USD
LTI Award	**$200,000 USD**	$180,000 USD
Total Remuneration	**$287,500 USD**	$262,500 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). In addition during the most recent fiscal year, a Lead Independent Director was appointed and will receive an additional cash payment equal to US$35,000 (approximately HK$273,600) per year.

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, 2014 under this scheme are presented in the "Long-Term Incentive Schemes" section of this report.

Fiscal year 2013-14 Chairman/CEO and Senior Management Review

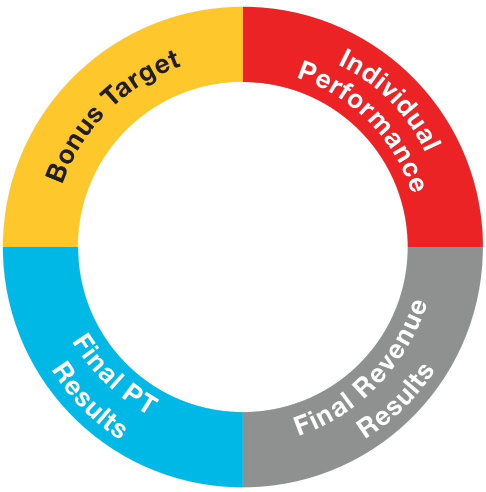
Fixed Compensation

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 2013, effective July 1, 2013.

To ensure the Chairman/CEO's compensation package remains competitive with the market, base salary for the Chairman/CEO was increased by 5% to RMB7,989,855 (approximately US$1,304,903) (actual pay delivered in local currency). Base salaries for senior management were increased by 3% to 15% 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 2013/14 performance bonus payouts were approved in the May 2014 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on individual bonus targets, the Company's final pre-tax income, and revenue, as well as individual performance.



Approved performance bonus payments for the fiscal year 2013/14 will be delivered in June 2014.

LTI Program

The most recent full cycle of LTI awards including both SARs and RSUs was made in February 2013. Selected executives, including the Chairman/CEO and senior management also received performance-based RSU awards based on Lenovo's pre-tax income during the most recent fiscal year. The next cycle of LTI awards including SARs and RSUs is expected to be in June 2014.

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2014:

Remuneration bands	Number of senior management
US$3,931,450 to US$3,995,899	1
US$4,447,050 to US$4,511,499	1
US$5,156,000 to US$5,220,449	1
US$5,478,250 to US$5,542,699	1
US$5,607,150 to US$5,671,599	1
US$6,316,100 to US$6,380,549	1
US$10,376,450 to US$10,440,899	1

Fiscal Year 2013-14 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, 2013.

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 2013/14, there were a total of approximately 30 different Performance Groups within the Company each with their unique performance metrics and targets. For the fiscal year 2013/14 performance bonus, mid-year progress payment was made in December 2013, and full payment based on annual business outcomes will be trued-up in June 2014 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).

LTI Program

During fiscal year 2013/2014 LTI awards were made on a highly selected basis. The next full cycle LTI award is expected in June of 2014. 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 FY2013/14 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 the 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 to its expiration. Further details of the New Option Scheme are set out in the Directors' Report on pages 111 to 113.

Details of the movement of the share options of the Company during the year ended March 31, 2014 were as follows:

	Number of share options						
Category of participants	**Held at April 1, 2013**	**Exercised during the year**	**Lapsed during the year**	**Held at March 31, 2014**	**Exercise price** (HK$)	**Grant date** (mm.dd.yyyy)	**Exercise period** (mm.dd.yyyy)
Continuous contract employees	15,488,000	1,314,000	14,174,000	–	2.245	04.26.2003	04.26.2003 to 04.25.2013
	48,451,051	16,963,450	–	31,487,601	2.545	04.27.2004	04.27.2004 to 04.26.2014

Notes:

1. Weighted average closing price of the listed shares of the Company immediately before the dates on which the options were exercised by continuous contract employees was HK$8.439.

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

3. The accounting policy adopted for the New Option Scheme is set out in the 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:

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2013 (Unvested)	Awarded during the period	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2014 (unvested)	Total outstanding as at March 31, 2014	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	08/09	5.88	–	–	–	–	–	–	3,939,855	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	5,700,000	–	5,700,000	–	–	–	22,800,000	05.25.2010 – 05.25.2013
	SAR	09/10	5.23	1,649,039	–	1,649,039	–	–	–	6,596,156	02.08.2011 – 02.08.2014
	SAR	10/11	4.92	5,515,109	–	2,757,555	–	–	2,757,554	11,030,219	02.21.2012 – 02.21.2015
	SAR	11/12	6.80	8,349,268	–	2,783,090	–	–	5,566,178	11,132,358	02.13.2013 – 02.13.2016
	SAR	12/13	8.22	–	14,059,573	3,514,893	–	–	10,544,680	14,059,573	02.04.2014 – 02.04.2017
	RSU	09/10	3.17	2,550,000	–	2,550,000	–	–	–	–	05.25.2010 – 05.25.2013
	RSU	09/10	5.23	1,236,780	–	1,236,780	–	–	–	–	02.08.2011 – 02.08.2014
	RSU	10/11	4.92	3,939,364	–	1,969,682	–	–	1,969,682	1,969,682	02.21.2012 – 02.21.2015
	RSU	11/12	6.80	5,009,561	–	1,669,854	–	–	3,339,707	3,339,707	02.13.2013 – 02.13.2016
	RSU	12/13	6.75	1,730,230	–	1,730,230	–	–	–	–	06.01.2013
	RSU	12/13	8.22	–	5,699,827	1,424,957	–	–	4,274,870	4,274,870	02.04.2014 – 02.04.2017
	RSU	12/13	7.82	–	2,164,779	–	–	–	2,164,779	2,164,779	06.03.2014
	RSU	12/13	7.82	–	3,216,329	–	–	–	3,216,329	3,216,329	06.03.2014 – 06.03.2016
Mr. Zhu Linan	SAR	08/09	5.88	–	–	–	195,980	132,456	–	–	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	–	–	–	87,932	39,216	–	–	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	–	–	–	38,163	19,608	–	–	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	237,001	125,038	–	–	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,333	–	107,667	215,334	112,865	107,666	107,666	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,439	–	–	182,877	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Mr. Zhao John Huan	SAR	11/12	5.78	69,275	–	34,638	–	–	34,637	103,913	11.03.2012 – 11.03.2014
	SAR	12/13	6.36	274,316	–	91,439	–	–	182,877	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	11/12	5.78	32,988	–	16,494	–	–	16,494	16,494	11.03.2012 – 11.03.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Mr. Ting Lee Sen	SAR	07/08	3.94	–	–	–	297,000	139,142	–	–	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	–	–	–	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	–	–	–	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,333	–	107,667	–	–	107,666	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,439	–	–	182,877	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Dr. Tian Suning	SAR	07/08	5.14	–	–	–	151,950	89,516	–	–	09.01.2008 – 09.01.2010
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	–	–	–	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	–	–	–	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,333	–	107,667	–	–	107,666	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,439	–	–	182,877	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2013 (Unvested)	Awarded during the period	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2014 (unvested)	Total outstanding as at March 31, 2014	Vesting period (mm.dd.yyyy)
Mr. Nicholas C. Allen	SAR	09/10	4.47	–	–	–	–	–	–	107,343	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,334	–	107,667	–	–	107,667	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,438	–	–	182,878	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Mr. Nobuyuki Idei	SAR	11/12	5.23	96,057	–	48,028	–	–	48,029	144,085	09.28.2012 – 09.28.2014
	SAR	12/13	6.36	274,316	–	91,438	–	–	182,878	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	11/12	5.23	45,742	–	22,870	–	–	22,872	22,872	09.28.2012 – 09.28.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Mr. William O. Grabe	SAR	07/08	3.94	–	–	–	297,000	140,986	–	–	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	–	–	–	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	–	–	–	–	–	–	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	–	–	–	–	–	–	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,334	–	107,667	–	–	107,667	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,438	–	–	182,878	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
	RSU (Deferral)	12/13	7.73	–	23,356	23,356	–	–	–	–	Note 1
	RSU (Deferral)	13/14	7.88	–	32,766	32,766	–	–	–	–	Note 1
	RSU (Deferral)	13/14	8.53	–	25,673	25,673	–	–	–	–	Note 1
Mr. William Tudor Brown	SAR	12/13	8.07	53,476	–	17,825	–	–	35,651	53,476	01.31.2014 – 01.31.2016
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	12/13	8.07	14,453	–	4,817	–	–	9,636	9,636	01.31.2014 – 01.31.2016
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016
Ms. Ma Xuezheng	SAR	07/08	5.62	–	–	–	693,130	446,463	–	–	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	–	–	–	195,980	132,076	–	–	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	–	–	–	175,864	78,207	–	–	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	–	–	–	38,163	19,552	–	–	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	79,001	–	79,001	237,001	124,680	–	–	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	215,333	–	107,667	215,334	112,541	107,666	107,666	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	274,316	–	91,439	91,439	66,654	182,877	182,877	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	364,084	–	–	–	364,084	364,084	08.16.2014 – 08.16.2016
	RSU	10/11	4.59	39,501	–	39,501	–	–	–	–	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	102,540	–	51,270	–	–	51,270	51,270	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	109,729	–	36,576	–	–	73,153	73,153	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	–	98,401	–	–	–	98,401	98,401	08.16.2014 – 08.16.2016

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.

OTHER SHAREHOLDER ORIENTED FEATURES

Share Ownership Guidelines

Lenovo maintains share ownership guidelines for selected executives, including the Chairman/CEO and senior management. The guidelines help to align executives with shareholders and focus executives on the long-term performance of Lenovo by requiring certain levels of share ownership. The guidelines (expressed as a multiple of base salary) vary by role and level and are expected to be achieved within 5 years of becoming an eligible executive. If the guideline is not achieved, executives are required to retain a minimum portion of vested shares delivered through Lenovo's incentive plans until the guideline is met. The guideline is then expected to be maintained throughout the executive's remaining employment.

Claw Back Policy

Lenovo maintains a claw back policy for selected executives, including the Chairman/CEO and senior management. The policy states that in the event of a restatement of the Company's previously issued financial statements as a result of errors, omission, fraud or non-compliance, the Board may, in its discretion, attempt to recover all or a portion of compensation, with respect to any fiscal year in which the Company's financial results are negatively affected by such restatement.

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 55 to 56.

Members of the Compensation Committee

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

SUSTAINABILITY

Lenovo is committed to being a responsible and active corporate citizen, consistently working to improve its business while contributing to the betterment of our local communities, the environment and society overall. We practice corporate citizenship in everything we do at Lenovo, from a commitment to the highest ethical standards, product quality and safety, and safe and healthy workplaces – to a concern for the environment in all aspects of business, as well as efforts to donate our time and resources to philanthropy. We believe this outlook and approach differentiates Lenovo as we work to become not only a leading PC Plus brand, but also one of the most respected technology companies in the world.

Despite a difficult worldwide PC market over the past several years, in FY2013/14 Lenovo achieved record revenue and record profits. The Company also reached a number of significant milestones – not only did we become the world's number 1 PC company, but also number 2 worldwide in PCs and tablets combined; and the number 4 smartphone player in the world.

Beyond organic growth, Lenovo continued its rapid expansion announcing plans for two of the largest acquisitions in company history – Motorola Mobility and IBM x86 servers – that will serve to further accelerate our growth as a PC plus pioneer and will benefit customers, employees, local communities and investors.

While Lenovo is proud of our accomplishments in the past fiscal year, we have many challenges ahead of us and recognize that with such significant growth in sales and market leadership comes increased social responsibility and, in particular, increases the investment that will be required to meet our aggressive environmental sustainability targets.

At Lenovo, the core of our culture is ownership and commitment. We empower employees to take ownership for what they do along with living up to their commitments. As a result, as a company, we are continually striving to improve the world not only through our innovations and business advancements, but also through the way we do business, how we treat our people, the many communities we serve and the environment around us.

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

In the past, Lenovo's organization was structured around consumer and commercial PC sectors – now as we move forward, we're aligning around four distinct business groups – PC, Mobile, Enterprise and Ecosystem and Cloud Services. This new structure will support the seamless integration of our planned acquisitions as well as provide greater consistency across the business organizations in how we deliver our sustainability commitments. We will be focused on integrating the new cultures and sustainability programs and ensuring that any new acquisitions are quickly and fully aligned to Lenovo's environmental management system and our environmental objectives and targets, as well as accounted for in our internal and external metrics.

Lenovo continued to demonstrate leadership in FY2013/14 with sustainability and social responsibility programs that have been recognized by the global community, including:

- Lenovo was selected as a constituent stock of the 2013 Hang Seng Corporate Sustainability Index for the fourth year in a row, acknowledging Lenovo's ongoing commitment to sustainability. For the third consecutive year, Lenovo earned a position on the index's Honour Board, which puts it among the top 5 out of 353 companies whose corporate sustainability performance was 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 S.A.R. of China top 20.

- Lenovo was selected for inclusion in the first United Nations Global Compact 100 (GC 100) – a new global stock index that combines corporate sustainability and baseline financial performance. The GC 100 marries corporate performance on environmental and social issues with a requirement of basic profitability.

- Lenovo is 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.

- In FY2013/14 Lenovo achieved a 2013 CDP score of 94 (out of a possible 100) which placed Lenovo in performance band A through the CDP public reporting system. Lenovo has received honors from CDP over the past year including a "Best Responding Companies" award, and recognition as part of the CDP Supply Chain Performance Leadership Initiative 2013. For further details on these accomplishments and Lenovo's climate change initiatives, please see www.lenovo.com/climate.

- In July 2013 Lenovo appeared for the first time on the U.S Environmental Protection Agency's Top 30 Tech & Telecom list of the largest green power purchasers. Lenovo purchased more than 35 million kWh of green power annually by buying renewable energy certificates. According to the U.S. EPA, Lenovo's green power purchase of more than 35 million kWh is equivalent to avoiding the carbon dioxide (CO_2) emissions of more than 5,000 passenger vehicles per year or the CO_2 emissions from the electricity use of nearly 4,000 average American homes annually. Please click here for more information: www.epa.gov/greenpower/toplists.

- Lenovo was awarded the 2013 ET Carbon Ranking Leader Award on behalf of the Environmental Investment Organisation. Lenovo ranked third in the 2013 BRICS (Brazil, Russia, India, China and South Africa) 300 Carbon Ranking for greenhouse gas emissions reporting and disclosures. Please visit www.eio.org.uk for more detail.

- Lenovo was featured in "The Business Case for Carbon Measurement and Disclosure in China" (May 2013) report as one of the Chinese companies that recognize that responding to climate change has become a business imperative. Lenovo's practices provide an example for other Chinese companies and their role to promote a low carbon future in China. Please see a full report here: The Business Case for Carbon Measurement and Disclosure in China.

- Lenovo continues to be recognized in the area of occupational health and safety management and was awarded the *"Safety Enterprise"* award by the Futian District in Shenzhen, China, the *"Safety Culture Excellence Company"* award by the Guangdong Province, China and consecutive *Gold* awards for Whitsett and Morrisville by the North Carolina Department of Labor.

- Lenovo has made investments in our supply chain and is actively engaged in due diligence efforts to track the use of materials sourced from conflict regions and challenge our suppliers to set and meet climate change reduction targets, in addition to the extensive auditing and reporting requirements we maintain for our suppliers.

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 area of human rights, labor, environment and anti-corruption.

Our Corporate Sustainability Policy, signed and endorsed by Chairman and CEO Yuanqing Yang, outlines the social, environmental and economic principles against which the company operates. The policy is available at http://www.lenovo.com/sustainability.

Lenovo's sustainability commitments and 2013 highlights are summarized below. More extensive information on sustainability can be found at http://www.lenovo.com/csr or in Lenovo's annual Global Sustainability Report which is available at http://www.lenovo.com/sustainability.

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. 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

At Lenovo, our commitment to the health and safety of all our employees is ingrained in the company's culture. We believe that workplace injuries and illnesses are preventable, and as a result our incident rate is consistently significantly below the industry average.

Lenovo's Occupational Health and Safety organization is committed to ensuring the implementation of an effective health and safety management system that includes programs that are designed to meet or exceed regulatory compliance. All our global manufacturing locations are OHSAS 18001 certified by Bureau Veritas. In addition all our manufacturing locations go through a rigorous internal audit process to ensure a high level of regulatory and OHS compliance. Lastly, this past year, all China manufacturing locations were certified to meet requirements of the national Work Safety Standardization law.

Our OHS performance has received external recognition at the local and national governmental levels. Here are just a few examples:

In March 2014, the Lenovo Information Products Company (LIPC) subsidiary was recognized with the *"Safety Enterprise"* award by the Futian District in Shenzhen, China.

The Monterrey, Mexico manufacturing facility is currently certified by the Mexico State Secretary of Labor with the Program of Self-Assessment on Safety and Occupational Health in the Workplace.

Lenovo Huiyang was recognized with the "*Safety Culture Excellence Company*" award by the Guangdong Province, China.

Lenovo Chengdu was recognized by the local government for attaining OHSAS 18001 and Work Safety Standardization certifications in 2013.

The Lenovo United States Fulfillment Center in Whitsett, NC will receive its sixth consecutive *Gold* award in May 2014 and for the ninth year in a row, Lenovo Morrisville, NC headquarters will receive the *Gold* award in June 2014 by the North Carolina Department of Labor for low incident rates reported in 2013.

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.

Lenovo is committed to maximizing the inclusion of diverse suppliers by identifying opportunities, developing and incubating relationships, creating processes that encourage diverse supplier integration, and creating a culture of inclusion. We believe that our suppliers should reflect the diversity of the communities in which we live and do business. To that end, Lenovo proactively seeks to identify minority, women, veteran and disabled suppliers to support our products and people. Our Supplier Diversity Program has grown significantly over the past few years and we currently conduct more than US$22 million in business with diverse suppliers.

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 including design, development, manufacturing, transportation, installation, use, service, and recycling. This enables Lenovo to have deep insight into opportunities to minimize risk and cost, as well as identifying new opportunities for enhancing and increasing product quality and safety to meet the preferences of an increasingly informed public.

Corporate strategies, policies and guidelines have been designed to support Lenovo's commitment to product quality and safety. Lenovo strives to ensure that our products meet all applicable legal requirements and we subscribe to voluntary safety and ergonomics practices 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 link below) forms the foundation of our Quality Management System.

Lenovo's Quality Policy is available at http://www.lenovo.com/quality

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, tablets, smartphones 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.	Manufacturing and Fulfillment Center
3-6-1 Minatomirai, Nishi-ku, Yokohama, Japan	Development
No. 999 Qishan North 2nd Road, Xiamen, China	Manufacturing
No. 627 Wuyi Road, Dalian City, China	Administration
3188-1 Yungu Road, Hefei, Anhui Province, China	Manufacturing, Development
No. 19 Gaoxin 4th Road, Wuhan, Hubei, China	Manufacturing, Development

The Lenovo Environmental Affairs Policy (linked from www.lenovo.com/environment) 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 FY2013/14 Lenovo continued to experience great change – as we grew to become the world's largest PC vendors and one of the most respected technology companies in the world.

Lenovo's growth continues to provide significant challenges in managing the integration and alignment of new employees, 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.

During the past year accomplishments and challenges included:

- Completion of the integration of Lenovo's new manufacturing facility in Itu, Brazil, into our global EMS.

- Continued integration of CCE operations and management systems in Brazil into Lenovo's global EMS.

- Completion of the integration of the Lenovo Mobile Business Group's manufacturing facility in Wuhan, China, into Lenovo's EMS.

- The opening of a new manufacturing line in Whitsett, North Carolina.

Environmental compliance management during rapid growth can also be a challenge. FY2013/14 saw increases in the number and types 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 suppliers comply with the Electronics Industry Code of Conduct and verify this compliance through third-party audits. During FY2013/14 Lenovo drove Tier 1 suppliers to perform 21 self-audits, covering 37% of Lenovo's procurement spend. Moreover, for recent acquisitions Medion and NEC, Lenovo has validated suppliers covering the majority of their procurement spend as part of the existing EICC audit program.

In FY2013/14, Lenovo continued the process begun in FY2012/13 to formally add environmental and sustainability risk into our official risk management process. Lenovo's risk management evaluation template 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 commitment at the beginning of FY2011/12. 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.

Our second milestone to reduce Scope 2 emissions by 13% relative to FY2009/10 and offset or eliminate all Scope 1 emissions was achieved on target by March 31, 2013. We accomplished this by implementing energy efficiency projects, installing a solar array at the manufacturing plant in Shanghai, China and purchasing Renewable Energy Credits (RECs) and carbon offsets.

In FY2013/14, Lenovo continued our progress in reducing our greenhouse gas emissions. We achieved a 1% reduction in global Scope 2 GHG emissions relative to previous fiscal year and carbon balanced 100% of Scope 1 GHG emissions. We implemented several energy efficiency projects (AC upgrade in Chengdu, China; low energy lighting in Morrisville, NC, USA; manufacturing process & building services improvements in Pondicherry, India); used renewable energy (solar array in Shanghai, China; hot water solar system in Huiyang, China and solar lamps in Beijing, China) and purchased carbon offsets (45,765 MT CO_2e) from carbon offsets projects located in China and RECs from renewable projects in the United States (12,621 MWh).

In October 2013, Lenovo was selected for a pilot emission trading system in Beijing, China as a significant energy consumption enterprise and as such must meet an emissions trading requirement and emissions reduction of 2% year-to-year for our Beijing sites. Lenovo is closely monitoring other provinces where this pilot program has been imposed since our sites in Shanghai, Shenzhen, Huiyang and Wuhan could be impacted in the future. Lenovo is working on establishing a comprehensive energy system for Beijing sites to minimize the amount of carbon emissions allowances we must purchase.

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 FY2009/10 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 comprehensive energy efficiency audits 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 analyzed the environmental impact of all sites larger than 9,000 square feet, including newly acquired sites, evaluated multiple energy projects 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 FY2013/14 we continued work with the Electronics Industry Citizenship Coalition (EICC) on the development of an online environmental data reporting system to engage our suppliers' support in helping reduce GHG emissions and to track the emissions of our supply chain. Working with suppliers we have achieved significant emissions reductions through greater efficiency and also ensured a high level of supplier reduction goals and validated third-party verification. Our efforts with the EICC also continue to include work on tracking water and waste impacts in our supply chain. The new reporting system will allow us to begin tracking the water and waste performance of our suppliers and initiate dialogue regarding opportunities for improved performance and corrective actions for identified compliance issues. We are planning to start evaluating waste generation and disposal in our supply chain next fiscal year.

Lenovo established a product transportation carbon emissions baseline for FY2011/12 and since then has been working on improving data collection processes and increasing carriers' coverage in the baseline through the use of a web-based carbon dashboard. Lenovo has become a founding board member of the Green Freight Asia Network (GFAN) for promoting sustainable logistics practices. GFAN was officially launched in October 2013. Please visit www.greenfreightasia.org for further information.

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 has also been actively involved in the following carbon footprint projects:

- China ICT Product Life-Cycle Assessment Data Service Platform,
- IEC Technical Report GHG Quantification Methodology for Computers,
- Low Carbon Product Certificate in China,
- China ICT Supporting Low Carbon Economy,
- EICC Product Carbon Footprint Data Allocation Algorithm Development.

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 published 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 will participate in the China MIIT (Ministry of Industry and Information Technology) voluntary energy conservation agreement. By participating in this program Lenovo commits to drive down the energy consumption of select mainstream products year to year, over the next 3 years.

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 FY2013/14 Lenovo achieved a 2013 CDP score of 94 (out of a possible 100) which placed Lenovo in performance band A. Lenovo's CDP reports are publicly available at http://www.cdproject.net. This placed Lenovo in the Leadership Group for performance and disclosure for the Asia excluding Japan region. In November 2013, Lenovo was awarded a "Best Responding Companies" award at a CDP event in Hong Kong S.A.R. of China. Lenovo was also recognized in 2013 as part of the CDP Supply Chain Performance Leadership Initiative 2013. For further details on these accomplishments and Lenovo's climate change initiatives, please see www.lenovo.com/climate.

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 90% non-hazardous waste recycling rate for manufacturing and research and development sites over the past year and achieved our goal of a global waste intensity equal to or better than the previous year. Lenovo generates only minimal amounts of hazardous waste and strives to reduce this amount year to year. We are planning to start monitoring and reporting global landfill avoidance rates beginning FY2014/15. 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 four years (beginning with the baseline year FY2009/10) was third-party verified by Bureau Veritas. In addition, Lenovo's waste and water data for FY2012/13 was third-party verified. Please see verification statements at http://www.lenovo.com/climate and http://www.lenovo.com/waterandwaste. Lenovo plans to verify FY2013/14 GHG, waste and water data to a reasonable level of assurance.

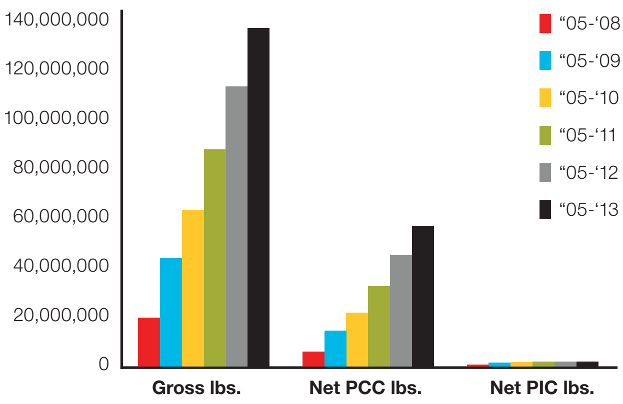
Further details on our strategy, objectives, targets and environmental performance are available at http://www.lenovo.com/environment. Detailed results regarding our environmental performance are published in our annual sustainability report available at http://www.lenovo.com/sustainability.

Lenovo's Environmentally Conscious Products program focused in FY2013/14 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

In the product materials area, Lenovo has made tremendous progress in the use of post-consumer recycled content (PCC) plastics. By working with our suppliers to develop and qualify engineered grades of PCC plastics, Lenovo has used more than 133 million pounds of recycled content plastics with over 55 million net PCC plastics since beginning these efforts.

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 85 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® qualified notebooks, desktops, workstations, monitors, and servers. In 2013, ENERGY STAR® 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® energy efficiency criteria by 10% to more than 25%. Seventy-five percent of all ENERGY STAR® qualified monitors exceeded the ENERGY STAR® standard by at least 10%, with 33% exceeding the criteria by at least 25%.

Lenovo offers product take-back and recycling programs for both consumer and business customers worldwide. Lenovo offers these programs in every country 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 supply chain. As a member of the Electronics Industry Citizenship Coalition (EICC), Lenovo is helping to execute a global, standards-based approach to monitoring suppliers across a broad range of sustainability and social responsibility criteria. Lenovo's policies and processes are consistent with the requirements of the EICC. 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.

Lenovo drives numerous supplier programs with a continual improvement focus that has had a positive impact on society and the environment. This includes proactively addressing concerns about labor, environmental conditions, greenhouse gases, conflict minerals, post-consumer recycled content materials, and many other areas.

Suppliers are contractually required through purchase order terms and conditions and other formal agreements to comply with legal, regulatory and various additional sustainability requirements. They are required to implement and maintain documented quality and environmental management systems that meet ISO9001/14001 requirements, to follow all laws regarding environmental and workplace conditions, and to comply with restricted materials requirements while providing necessary declarations. Finally, suppliers are also contractually required, via a specific and separate agreement, to comply with the EICC Code of Conduct.

Due to significant joint ventures and acquisitions, Lenovo has strategic actions planned to incorporate the suppliers of these new companies into our programs. However, as many of these suppliers are common to both Lenovo's and these new companies' business and activities, by default we have solid starting coverage already in place.

From an EICC Code of Conduct perspective, Lenovo requires its Tier 1 suppliers representing greater than 95% of its procurement spend to comply with the code. The contracts require suppliers to:

- Read, understand and comply with the code
- Receive independent third-party audits at least every 24 months with EICC approved auditors
- Provide Lenovo the audit reports and provide accompanying corrective action plans
- Require that their primary suppliers also comply with the code and receive EICC audits as well

In FY2013/14, 100% of the suppliers targeted for the program had formally executed agreements in place and a monthly management system was in place to ensure timely audits. We also require suppliers to conduct annual EICC Self-Assessments and to report the results in EICC tools (EICC-ON). Due to our efforts there have been very limited occurrences of supplier non-compliance.

Lenovo participates with the EICC in the Greenhouse Gas (GHG) reporting program. In FY2013/14, similarly suppliers representing over 95% of our procurement spend reported their emissions. Through focus on reduction goals, supplier Scope 1 and 2 total emissions are flat even though Lenovo's growth in shipments from the previous two years has increased over 50%. We have validated that suppliers representing 93% of our procurement spend have formal published reduction goals and that 72% have third party verification.

Lenovo made significant progress in FY2013/14 on Conflict Minerals due diligence policies, programs and execution. First we adopted the OECD Due Diligence guidance for Conflict Minerals and the U.S. Securities and Exchange Commission Dodd-Frank ruling as our framework and established a clear public policy on conflict minerals. Secondly, suppliers are required contractually to establish similar policies and to conduct due diligence on the source and custody of conflict minerals in the supply chain. It is important to note that even though Lenovo and less than 40% of our suppliers are not subject to the Dodd-Frank ruling, we are conducting and requiring the due diligence activities system-wide.

We conducted a full country of origin inquiry using the EICC Conflict Minerals Reporting Template and then used the EICC Conflict-Free Smelter Program and other initiatives to validate that the identified smelters were conflict free compliant. We determined that suppliers representing over 80% of our procurement spend have conflict minerals policies and that they require their suppliers to conduct the CMRT reporting. Most of our suppliers have identified all the smelters and refiners in their supply chain and we are working to ensure they are conflict-free compliant. We have found that approximately half our suppliers and the smelters and refiners in our supply chain are determined to be conflict free compliant. While the remaining suppliers and smelters may or may not be validated as conflict-free yet, this is a major advancement in our efforts to ensure responsible sourcing of conflict minerals. We will conduct on-going actions to drive continual improvement in all areas of conflict minerals compliance.

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. Transportation GHG emissions for FY2012/13 were verified by Bureau Veritas North America in June of 2013. 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 S.A.R. of China and their reuse in Lenovo's distribution center in Shenzhen. It was estimated that this initiative will reduce approximately 640MT CO_2e per year. With the first launch in South China in June 2013, Lenovo also plans to expand the project to East China and subsequently to the rest of the world.

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 the Asia Pacific region. GFAN was incorporated in August 2013 in Singapore. Lenovo is one of the founding members of GFAN and is working closely with the organization to identify opportunities to road test the GFAN Green Freight Label 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.

Lenovo North America employees volunteered more than 7,500 hours in local communities, focusing on K-12 disadvantaged youth and STEM (Science, Technology, Engineering and Math) education.

Lenovo North America invests in causes that support K-12 disadvantaged youth with a focus on Science, Technology, Engineering and Math (STEM) education. With the goal of empowering young people with technology and building future leaders, Lenovo donated technology and strengthened partnerships with various nonprofit organizations, including Boys & Girls Clubs, YMCA, Kenan Fellows Program for Curriculum and Leadership Development and Kramden Institute, a nonprofit that refurbishes used PCs for students without computer access in their homes.

In 2013, Lenovo partnered with the Mark Wahlberg Youth Foundation in the United States and donated 250 IdeaPad Yoga tablets, with a value of approximately US$50,000. The Mark Wahlberg Youth Foundation is dedicated to helping inner city youth reach their full potential in life. The Foundation aspires to reach those children whose dreams and passions are limited due to financial circumstances and provide them with opportunities that allow them to see the value in their education and planning for their future.

During FY2013/14, Lenovo announced a new partnership with Plan International to support and fund its *Open Space Literacy Program*, which aims to increase the quality of education in primary schools around the world. Founded over 75 years ago, Plan International is one of the world's top 10 NGOs and one of the oldest and largest children's development organizations in the world. Plan works in 50 developing countries across Africa, Asia and the Americas to promote child rights and lift millions of children out of poverty. As part of the joint effort with Plan, Lenovo will be donating a sum of US$115,000 over a period of two years to equip 50 schools in Kenya with new X131e laptops, which are built for education. Lenovo devices will provide students with access to quality digital educational content and, in return, help them transform their lives and realize their full potential.

A Room to Read Social Mobilizer in India uses a Lenovo laptop during a workshop with the program's at-risk girls.

In 2013, Lenovo's Asia Pacific/Latin America region established an exclusive technology partnership with Room to Read, one of the world's fastest growing NGOs. Lenovo donated US$400,000 worth of ThinkPad laptops to support its Girls' Education Program in India, Vietnam and other countries across Asia Pacific. The program, which aims to abolish illiteracy among more than 16,000 at-risk girls in the region, is facilitated by Girls' Education Social Mobilizers that used to lack the resources to effectively run their lessons and workshops.

Since the partnership began, over 170 laptops have been shipped, with more than 130 additional units to follow. The introduction of this equipment has been hugely beneficial to the program, enabling greater efficiency and clarity of communication. Since receiving the units, the Social Mobilizers have used the laptops in life skills training sessions with at-risk girls, discussions and parent meetings. Room to Read's senior spokespersons also use Lenovo ThinkPad technology as they travel around the world to raise awareness about the organization and its mission.

Lenovo delegation at the Women's Forum 2013.

For seven 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, 8.6 million RMB (approximately US$1.4 million) in financial assistance has been donated to over 33 NGOs across the country.

As a new endeavor based on the venture philanthropy project, Lenovo China focused on education during fiscal year 2013/14. In cooperation with the YouChange China Social Entrepreneur Foundation, Lenovo initiated the *Lenovo Flipped Classroom* project which is aimed at providing quality educational resources and experiences to schools in remote areas in China by utilizing information technology. In the project, Lenovo has provided its digital devices as teaching assistance appliances to six schools in China, and plans to roll out to more schools next year.

Students having English lessons with Lenovo Tablets on at ChengXiang Middle School of Fu Ping County, Hebei Province, P.R. China (December 2013).

The Lenovo China Volunteers Association (LCVA), a volunteer organization formed by Lenovo China employees in 2008, now has over 3,500 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 November 2013, the East Asia Region team rallied to help the people of the Philippines who were affected by Typhoon Haiyan. Local country teams collected donations on the ground and partnered with local relief organizations to send supplies including food, clothing and medicine to the affected areas. Also, during FY2013/14, Lenovo donated US$25,000 to support tornado disaster relief efforts in the state of Oklahoma in the United States.

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.

Nearly 200 Lenovo North America employees volunteered to help build seven homes for Habitat for Humanity in 2013.

During fiscal year 2013/14, Lenovo North America employees volunteered more than 7,500 hours of their time to support their local communities. Since 2005, Lenovo and its U.S. employees have contributed more than US$9 million to nonprofit organizations. In addition, during fiscal year 2013/14 Lenovo U.S. employees donated 28,000 items for military care package drives, collected 2,700 pounds of food for food bank drives, and provided over 12,000 items for school supply drives.

In the East Asia Region, Lenovo embarked on the "Power Up Kids Project" in March 2014. The Project was designed to engage and mobilize millennials to take action for positive change within their communities in Indonesia. Working with a local NGO, Sahabat Anak, and a group of volunteer street artists, Graffiteach, the Power Up Kids Project implemented a unique education method that engaged street kids in learning through pictures sketched on the Lenovo Yoga Tablet and drawn on walls by Graffiteach artists, rather than from conventional text books. Teachers from Sahabat Anak then explained the lessons contained in the pictures to the kids thus creating a warm and interactive learning environment.

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, 2014.

PRINCIPAL BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 124 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2014 is set out in the consolidated and company balance sheets on pages 126 to 128 of this annual report.

The consolidated cash flows of the Group for the year are set out in the statement on page 129 of this annual report.

An interim dividend of HK6.0 cents (2013: HK4.5 cents) per share, amounting to a total of approximately HK$623.6 million (approximately US$80.4 million) (2013: approximately HK$464.5 million (approximately US$59.9 million)), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of HK18.0 cents per share for the year ended March 31, 2014 (2013: HK14.0 cents). Subject to shareholders' approval at the forthcoming annual general meeting ("AGM"), the proposed final dividend will be payable on Monday, July 14, 2014 to the shareholders whose names appear on the register of members of the Company on Tuesday, July 8, 2014.

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Monday, June 30, 2014
Closure of register of members	Wednesday, July 2, 2014
Record date	Wednesday, July 2, 2014

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Monday, July 7, 2014
Closure of register of members	Tuesday, July 8, 2014
Record date	Tuesday, July 8, 2014

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong S.A.R. of China 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, 2014 and for the last four financial years are set out on page 195 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, 2014, the distributable reserves of the Company amounted to US$375,324,000 (2013: US$290,204,000).

BANK BORROWINGS

Particulars of bank borrowings as at March 31, 2014 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$1,006,000 (2013: US$1,108,000).

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 JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at March 31, 2014 are set out in notes 38 and 19 to the financial statements respectively.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 26% 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	14%
Five largest suppliers combined	43%

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 51,054,000 shares of the Company at prices ranging from HK$6.64 to HK$7.00 per share on The Stock Exchange of Hong Kong S.A.R. of China Limited (the "Stock Exchange" or "HKSE"). Details of the repurchases of such shares were as follows:

Month of the repurchases	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate consideration paid (excluding expenses)**
		HK$	HK$	HK$
June 2013	18,376,000	7.00	6.66	126,399,560
July 2013	32,678,000	7.00	6.64	224,064,240
	51,054,000			350,463,800

All 51,054,000 shares repurchased were cancelled during the year. The repurchases were effected by the Company for the enhancement of shareholders' value.

During the year ended March 31, 2014, the trustee of the long-term incentive program of the Company purchased 103,812,000 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 78 of this annual report.

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, 2014.

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
Mr. Zhao John Huan
Dr. Wu Yibing (retired on July 16, 2013)

Independent Non-executive Directors

Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe (appointed as the lead independent director on May 23, 2013)
Mr. William Tudor Brown
Ms. Ma Xuezheng (redesignated from a non-executive director to an independent non-executive director on November 7, 2013)

DIRECTORS *(continued)*

In accordance with article 101 of the Company's articles of association, Mr. Zhu Linan, Mr. Nobuyuki Idei, Mr. William O. Grabe and Ms. Ma Xuezheng 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, 70, has been appointed the Honorary Chairman and 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 our Honorary Chairman, Mr. Liu is not a director or an officer of the Company or of 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 Corporation, a company holding substantial interests in the issued shares of the Company.

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 49, is the Chairman of the Board, Chief Executive Officer and an executive director of the Company. He is also a director and a shareholder of Sureinvest Holdings Limited which holds interests in the issued shares 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.

Mr. Yang 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. In July 2013, Lenovo became the number one PC company in the world. Lenovo started the mobile internet business in 2010 and is now the second-largest smartphone company in China and the third-largest company in smart connected devices (PC, tablet and smartphone) market. 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; a member of the New York Stock Exchange's International Advisory Committee and a member of the International Advisory Council of Brookings Institute.

Non-executive directors

Mr. Zhu Linan, 51, 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 previously a senior vice president of the Group. Mr. Zhu is currently a director, president and member of executive committee of Legend Holdings Corporation, a company holding substantial interests in the issued shares of the Company. He is also a non-executive director of Peak Sport Products Co., Limited (HKSE listed). He was previously a director of Foshan Saturday Shoes Co., Ltd. (Shenzhen Stock Exchange listed).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Non-executive directors *(continued)*

Mr. Zhao John Huan, 51, 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 Corporation, a company having substantial interests in the issued shares of the Company and the president of Hony Capital Limited.

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).

Mr. Zhao was previously a director of Jiangsu Phoenix Publishing & Media Corporation Limited (Shanghai Stock Exchange listed) and an independent director of both Fiat Industrial S.P.A.(MTA Italian Stock Exchange listed) and Gemdale Corporation (Shanghai Stock Exchange listed).

Independent non-executive directors

Mr. Ting Lee Sen, 71, has been an independent non-executive director of the Company since February 27, 2003. Mr. Ting has extensive knowledge and experience in the IT industry and was previously a corporate vice president of Hewlett-Packard Company, where he worked for more than 30 years. He holds a bachelor of science degree in electrical engineering from the Oregon State University and graduated from the Stanford Executive Program at Stanford University. Mr. Ting is currently the managing partner of W.R. Hambrecht Venture I and II and an independent board member of NeoPhotonics Corporation (NYSE listed). He was a director of Microelectronics Technology Inc. (Taiwan Stock Exchange listed) until June 14, 2013.

Dr. Tian Suning, 50, has been an independent non-executive director of the Company since August 2, 2007. He is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. 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). He held various senior positions in China Netcom Group Corporation (Hong Kong S.A.R. of China) Ltd. (formerly listed on HKSE and NYSE) from 2000 to 2007 and was a vice chairman of PCCW Ltd. (HKSE listed) between 2005 and 2007. From 1993 till 1999, he was co-founder and chief executive officer of AsiaInfo-Linkage, Inc. (formerly listed on NASDAQ) of which he is now a board member. 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.

Mr. Nicholas C. Allen, 59, 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 S.A.R. of China 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, Hysan Development Company Limited (both HKSE listed), VinaLand Limited (London Stock Exchange AIM listed) and Texon International Group Limited.

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Nobuyuki Idei, 76, has been an independent non-executive director of the Company since September 28, 2011. Mr. Idei is the founder and chief executive officer of Quantum Leaps Corporation, a consultancy company. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions in 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), FreeBit Co., Ltd. and Monex Group, Inc. (both Tokyo Stock Exchange listed). Mr. Idei is also chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei holds a bachelor's degree in political science and economics from Waseda University in Tokyo.

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, 76, has been an independent non-executive director of the Company since February 8, 2012 and was appointed as the lead independent director of the Company on May 23, 2013. Before that, he was a non-executive director of the Company since May 17, 2005. Mr. Grabe is currently a director of the following listed companies: Gartner Inc. (NYSE listed), Compuware Corporation, Covisint Corporation and QTS Realty Trust, Inc. (all are NASDAQ listed). Mr. Grabe is an advisory director of General Atlantic LLC. He formerly served as a managing director of General Atlantic and has been associated with General Atlantic Group since 1992. Prior to that, he served as the vice president and corporate officer of IBM.

Mr. William Tudor Brown, 55, has been an independent non-executive director of the Company since 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. He was awarded as Member of the Order of the British Empire (MBE) on June 15, 2013.

Mr. Brown was one of the founders of ARM Holdings plc (London Stock Exchange and NASDAQ listed). During the years with ARM, he held a broad range of leadership positions including engineering director, chief technical officer, executive vice president for global development, chief operating officer and president. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. He also served as a director of ARM from October 2001 to May 3, 2012. Before joining ARM, he was the principal engineer at Acorn Computers Ltd., working exclusively on the ARM research & development programme since 1984.

Mr. Brown is currently an independent non-executive director of Tessera Technologies, Inc. (NASDAQ listed), Semiconductor Manufacturing International Corporation (NYSE and HKSE listed) and P2i Limited. He also sits on the advisory board of Annapurna Labs. He 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 also served on the UK Government Asia Task Force until May 2012.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Ms. Ma Xuezheng, 61, was re-designated as an independent non-executive director of the Company on November 7, 2013. Prior to that, she was a non-executive vice chairman of the Company since 2007. Before becoming a non-executive director, she was an executive director and the chief financial officer of the Company at different times between 1997 and 2007 and held directorship in various subsidiaries of the Company. She is currently chairman of Boyu Capital Advisory Company Limited and a non-executive director of the Securities and Futures Commission following her resignation from the Main Board and GEM Listing Committees of the HKSE on November 14, 2013. Besides, she is also a non-executive director of Wumart Stores, Inc., STELUX Holdings International Limited (HKSE listed), Unilever N.V. (NYSE and Euronext Amsterdam listed) and Unilever PLC (NYSE and London Stock Exchange listed). She was formerly an independent non-executive director of Standard Chartered Bank (Hong Kong S.A.R. of China) Limited. Ms. Ma holds a bachelor of arts degree from Capital Normal University.

Biography of senior management

(in alphabetical order of surname)

Mr. He Zhiqiang, 51, joined the Group in 1986 and is currently the Senior Vice President of the Company and President of the Ecosystem and Cloud Services Business Group. This group is responsible for building Lenovo's ecosystem and driving the strategy for monetization and ecosystem expansion. Previously, Mr. He was the chief technology officer and 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, 53, joined the Group in May, 2005 and is currently the Senior Vice President of the Company and the Chief Technology Officer with responsibility for Lenovo's technical strategy, R&D of systems and technology, and exploration of emerging areas. He leads a worldwide team that focused on innovation for smartphones, tablets, PCs and servers and is widely known for his extensive expertise in product and technology research & development.

Dr. Hortensius has held several key leadership positions in Lenovo including most recently President of the Think Business Group where he managed the company's commercial product portfolio and was responsible for increasing market share and profitability in enterprise segments and in new growth areas like small-to-medium business. His focus areas included driving leadership in Lenovo's core global commercial business, growing Lenovo's workstation business, and managing Lenovo's global enterprise business in server and related products. Dr. Hortensius also led the business team that negotiated the IBM x86 server acquisition. Prior to the Think Business Group president role, he served as president of the Product Group where he managed both the company's commercial and consumer PC product portfolio, and enterprise business.

Previously, Dr. Hortensius spent 17 years with IBM, including 10 years at IBM's Watson Research Center and his last role at IBM was as the vice president, Products and Offerings, for IBM's PC Division. Dr. Hortensius earned his doctorate degree in electrical engineering from the University of Manitoba in Canada.

Mr. Gianfranco Lanci, 59, joined the Group in April, 2012 and is currently the Executive Vice President and Chief Operating Officer of the Company, and President of Lenovo's EMEA, APMM and the PC Business Group. Mr. Lanci is responsible for driving and expanding the lead in the core PC business worldwide, overseeing the business in EMEA and APMM, integrating operations, strategic alliances and driving the Group's business review and operations processes. Before assuming these positions, Mr. Lanci was senior vice president of the Company and president of the EMEA geography. Mr. Lanci has substantial 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 number two position globally and number one in EMEA while recording record profitability for three consecutive years. He holds a degree in engineering from the Politecnico of Turin.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Mr. Liu Jun, 45, joined the Group in 1993 and is currently the Executive Vice President of the Company and President of the Mobile Business Group, responsible for driving Lenovo's profitable growth in smartphone and tablet and developing Lenovo's smart TV business. Previously, Mr. Liu held a broad range of leadership positions in Lenovo, including senior vice president of the Company, president of Lenovo Business Group, Products Group, Consumer Business Group, Global Supply Chain and Lenovo China. Mr. Liu holds a bachelor's degree in automation and an EMBA, both from Tsinghua University. Mr. Liu also completed executive programs at Harvard and Stanford Universities.

Ms. Qiao Jian, 46, joined the Group in 1990 and is currently the Senior Vice President of 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 the China Europe International Business School.

Mr. Gerry P. Smith, 50, joined the Group in August, 2006 and is currently the Executive Vice President of the Company and President of Lenovo's Americas Group and the Enterprise Business Group. Mr. Smith is responsible for overseeing the business in Lenovo's Americas Group and building Lenovo's enterprise business worldwide. Prior to that, Mr. Smith was senior vice president of the Company and president of the Americas Group. Before that, Mr. Smith was senior vice president of Global Operations. Prior to that, Mr. Smith was senior vice president of Global Supply Chain. Before joining the Group, Mr. Smith held a number of leadership roles at Dell, including vice president and general manager of Notebook Development, Peripherals Development and the Display Line of Business. Mr. Smith holds a bachelor's degree in finance and marketing from Pacific Lutheran University.

Mr. Wong Wai Ming, 56, is currently the Executive Vice President of the Company and the Chief Financial Officer. He was previously an investment banker for more than 15 years and also held senior management positions in listed companies in Hong Kong S.A.R. of China. 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 S.A.R. of China 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 in the 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, 2014, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the shares and underlying shares of the Company

	Capacity and number of shares/underlying shares held					
Name of director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate Long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	53,243,379	–	661,000,000 *(Note 3)*	714,243,379	
	Share awards	84,523,528	–		84,523,528	
					798,766,907	7.68%
Mr. Zhu Linan	Ordinary shares	2,960,719	–	–	2,960,719	
	Share awards	968,890	–	–	968,890	
					3,929,609	0.04%
Mr. Zhao John Huan	Ordinary shares	69,564	–	–	69,564	
	Share awards	930,361	–	–	930,361	
					999,925	0.01%
Mr. Ting Lee Sen	Ordinary shares	685,178	–	–	685,178	
	Share awards	1,919,164	–	–	1,919,164	
					2,604,342	0.03%
Dr. Tian Suning	Ordinary shares	588,215	–	–	588,215	
	Share awards	1,919,164	–	–	1,919,164	
					2,507,379	0.02%
Mr. Nicholas C. Allen	Ordinary shares	315,464	–	–	315,464	
	Share awards	1,528,568	–	–	1,528,568	
					1,844,032	0.02%
Mr. Nobuyuki Idei	Ordinary shares	82,850	–	–	82,850	
	Share awards	976,911	–	–	976,911	
					1,059,761	0.01%
Mr. William O. Grabe	Ordinary shares	1,806,668	–	–	1,806,668	
	Share awards	1,919,164	–	–	1,919,164	
					3,725,832	0.04%
Mr. William Tudor Brown	Ordinary shares	54,817	–	–	54,817	
	Share awards	525,597	–	–	525,597	
					580,414	0.01%
Ms. Ma Xuezheng	Ordinary shares	11,471,636	–	2,240,000	13,711,636	
	Share awards	877,451	–	–	877,451	
					14,589,087	0.14%

DIRECTORS' INTERESTS *(continued)*

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

Notes:

1. Share awards represent underlying shares convertible into shares. Details of share awards are set out under the section "Long-Term Incentive Program" of Compensation Committee Report on page 78 of this annual report.

2. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of all the issued share 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 661,000,000 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, 2014, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Share Option Scheme *(continued)*

1. New Option Scheme *(continued)*

(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, 2014, share options were outstanding under the New Option Scheme entitling the holders to subscribe for 31,487,601 ordinary shares of the Company, which represented approximately 0.3% of the ordinary shares of the Company in issue as at the date of this report.

(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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Share Option Scheme *(continued)*

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, 2014 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, 2014 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, 2014, 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:

		Capacity and number of shares/ underlying shares held			
Name	**Long position/ short position**	**Beneficial owner**	**Corporate interests**	**Aggregate long and short positions**	**Approximate percentage of interests** *(Note 1)*
Legend Holdings Corporation	Long position	2,867,636,724	507,819,317 *(Note 2)*	3,375,456,041	32.44%
	Short position	–	89,900,000	89,900,000 *(Note 3)*	0.86%
Sureinvest Holdings Limited	Long position	661,000,000	–	661,000,000 *(Note 4)*	6.36%
Google Inc.	Long position	–	618,301,731	618,301,731 *(Note 5)*	5.94%
Google International LLC	Long position	618,301,731	–	618,301,731 *(Note 5)*	5.94%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

Notes:

1. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of all the issued share 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. Out of 507,819,317 shares, 477,819,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 30,000,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited.

3. These shares are held by Right Lane.

4. Mr. Yang Yuanqing holds more than one-third of the issued share capital of Sureinvest Holdings Limited ("SHL"). Accordingly, Mr. Yang is deemed to have interests in those 661,000,000 shares of the Company held by SHL under the SFO. This interest is also included as corporate interests of Mr. Yang in the above section headed "Directors' Interests".

5. These interests in the underlying shares of the Company are held by Google International LLC, a direct wholly-owned subsidiary of Google Inc.. On January 30, 2014, the Company entered into an acquisition agreement with Google Inc., pursuant to which the Company conditionally agreed to acquire 100% of the equity interests in Motorola Mobility Holdings LLC, details of the acquisition are set out in an announcement of the Company of the same date. As at the date of this report, the transaction had not been completed and accordingly the consideration shares, limited to a maximum of 618,301,731 shares of the Company as disclosed above, had not been issued to Google Inc. pursuant to the aforesaid agreement. The interests of Google Inc. or Google International LLC disclosed above are in the underlying shares of the Company issuable under the acquisition agreement and as recorded in the register maintained by the Company under section 336 of the SFO.

Save as disclosed above, as at March 31, 2014, 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 U.S. regular, full-time and part-time employees who were employed by IBM prior to being hired by the Company and who were members of the IBM Personal Pension Plan (“PPP”) with non-contributory defined benefit pension benefits via the Lenovo Pension Plan. The plan is frozen to new entrants.

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

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

For the year ended March 31, 2014, an amount of US$5,851,046 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, 2014 were the following:

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.

- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

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

- The qualified plan was 67% funded at the actuarial valuation date.

- There was a net liability of US$28,179,186 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, 2014, an amount of Yen 494,440,913 was charged to the income statement with respect to this plan.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

DEFINED BENEFIT PENSIONS PLANS *(continued)*

Japan – Pension Plan *(continued)*

The principal results of the most recent actuarial valuation of the plan at March 31, 2014 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 90% funded at the actuarial valuation date.

- There was a net liability of Yen 1,092,765,330 under this plan at the actuarial valuation date.

Germany – Pension Plan

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

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

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, 2014, an amount of EUROS 1,214,920 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, 2014 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 68% funded at the actuarial valuation date.

- There was a net liability of EUROS 11,414,676 under this plan at the actuarial valuation date.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

DEFINED CONTRIBUTION PLANS *(continued)*

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

U.S. regular, full-time and part-time employees are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. The Company matches 50% 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, 2013 to March 31, 2014, the amount of forfeitures accumulated was US$381,719 while an amount of US$83,340 had been used to reduce Company contributions, leaving US$323,530 at March 31, 2014 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.

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 S.A.R. of China – Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme for all qualified employees employed in Hong Kong S.A.R. of China. 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.

On January 20, 2014, it was proposed to revise the annual cap on the transaction amount of transactions contemplated under the Supply Agreement and the NEC Patent License Agreement, both of which form part of the CCT Agreements, for the three financial years ending March 31, 2014, 2015 and 2016 and for the period from April 1, 2016 and ending on July 1, 2016 (the "Revised Annual Caps") given the continued business growth and improving market conditions. Details of the Revised Annual Caps are set out in the announcement dated January 20, 2014 and the circular issued by the Company to the shareholders on February 24, 2014. The Revised Annual Caps were approved by independent shareholders at an extraordinary general meeting of the Company on March 18. 2014 and are subject to reporting requirements under the Listing Rules.

Details of the CCT Agreements are set out below:

Supply Agreement

Date:	February 28, 2011
Parties:	NEC and NEC Embedded Products, Ltd. ("NECP") (formerly known as NEC Personal Products, Ltd.), 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 cap(Note 1):	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)
Revised annual cap(Note 2):	1/4/2013 – 31/3/2014 : JPY140,000 million (US$1,372,000,000) 1/4/2014 – 31/3/2015 : JPY140,000 million (US$1,372,000,000) 1/4/2015 – 31/3/2016 : JPY140,000 million (US$1,372,000,000) 1/4/2016 – 1/7/2016 : JPY35,000 million (US$343,000,000)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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(Note 1):	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)

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(Note 1):	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)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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(Note 1):	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)

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(Note 1):	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)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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(Note 1):	1/7/2011 – 31/3/2012: JPY50 million (US$605,000) 1/4/2012 – 31/3/2013: JPY66 million (US$798,600)
Revised annual cap(Note 2):	1/4/2013 – 31/3/2014 : JPY79 million (US$774,200) 1/4/2014 – 31/3/2015 : JPY79 million (US$774,200) 1/4/2015 – 31/3/2016 : JPY79 million (US$774,200) 1/4/2016 – 1/7/2016 : JPY20 million (US$196,000)

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(Note 1):	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)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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 S.A.R. of China 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 S.A.R. of China Listing Rules" Issued by the Hong Kong S.A.R. of China 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.

Note 1: The translation of Japanese yen into United States dollars is based on the exchange rate of JPY1.00 to US$0.0121 for information purposes only.

Note 2: The translation of Japanese yen into United States dollars is based on the exchange rate of JPY1.00 to US$0.0098 for information purposes only.

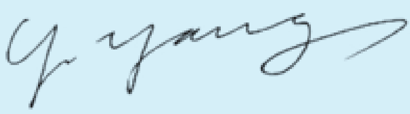
AUDITOR

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 21, 2014

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the shareholders of Lenovo Group Limited

(incorporated in Hong Kong S.A.R. of China 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 124 to 194, which comprise the consolidated and company balance sheets as at March 31, 2014, 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 S.A.R. of China Financial Reporting Standards issued by the Hong Kong S.A.R. of China Institute of Certified Public Accountants, and the Hong Kong S.A.R. of China 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 80 of Schedule 11 of the Hong Kong S.A.R. of China 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 S.A.R. of China Standards on Auditing issued by the Hong Kong S.A.R. of China 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, 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong S.A.R. of China Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong S.A.R. of China Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong S.A.R. of China, May 21, 2014

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2014

	Note	2014 US$'000	2013 US$'000
Revenue	5	**38,707,129**	33,873,401
Cost of sales		**(33,643,480)**	(29,446,358)
Gross profit		**5,063,649**	4,427,043
Other income – net	6	**22,427**	19,907
Selling and distribution expenses		**(1,900,005)**	(1,888,101)
Administrative expenses		**(1,402,979)**	(1,199,841)
Research and development expenses		**(732,454)**	(623,987)
Other operating income – net		**1,417**	64,984
Operating profit	7	**1,052,055**	800,005
Finance income	8(a)	**33,893**	44,881
Finance costs	8(b)	**(80,974)**	(42,869)
Share of profits/(losses) of associates and joint ventures	19	**9,221**	(718)
Profit before taxation		**1,014,195**	801,299
Taxation	9	**(196,725)**	(169,707)
Profit for the year		**817,470**	631,592
Profit/(loss) attributable to:			
Equity holders of the Company		**817,228**	635,148
Non-controlling interests		**242**	(3,556)
		817,470	631,592
Earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US7.88 cents**	US6.16 cents
Diluted	12(b)	**US7.78 cents**	US6.07 cents
Dividends	13	**321,875**	247,674

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2014

	Note	2014 US$'000	2013 US$'000
Profit for the year		**817,470**	631,592
Other comprehensive income/(loss):			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	9, 36	**4,177**	(18,806)
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of taxes	22	**(2,288)**	(4,057)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset		**(20,526)**	–
Fair value change on cash flow hedges, net of taxes	9		
– Forward foreign exchange contracts			
Fair value (loss)/gain, net of taxes		**(49,106)**	40,725
Reclassified to consolidated income statement		**10,818**	(20,953)
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary		**1,250**	–
Currency translation differences		**(69,781)**	(118,602)
		(125,456)	(121,693)
Total comprehensive income for the year		**692,014**	509,899
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**691,772**	513,455
Non-controlling interests		**242**	(3,556)
		692,014	509,899

CONSOLIDATED BALANCE SHEET

At March 31, 2014

	Note	2014 US$'000	2013 US$'000
Non-current assets			
Property, plant and equipment	14	667,413	479,777
Prepaid lease payments	15	40,884	36,522
Construction-in-progress	16	351,934	184,051
Intangible assets	17	3,339,516	3,326,418
Interests in associates and joint ventures	19	20,753	2,763
Deferred income tax assets	21	389,330	349,389
Available-for-sale financial assets	22	35,157	69,962
Other non-current assets		111,558	43,378
		4,956,545	4,492,260
Current assets			
Inventories	23	2,701,015	1,964,791
Trade receivables	24(a)	3,171,354	2,885,039
Notes receivable	24(b)	447,325	572,992
Derivative financial assets		61,184	99,491
Deposits, prepayments and other receivables	24(c)	3,000,826	3,235,465
Income tax recoverable		65,715	58,822
Bank deposits	25	94,985	119,055
Cash and cash equivalents	25	3,858,144	3,454,082
		13,400,548	12,389,737
Total assets		18,357,093	16,881,997

	Note	2014 US$'000	2013 US$'000
Share capital	30	**1,650,101**	33,465
Reserves		**1,360,029**	2,633,178
Equity attributable to owners of the Company		**3,010,130**	2,666,643
Non-controlling interests		**227,490**	226,438
Put option written on non-controlling interest	29(iii)	**(212,900)**	(212,900)
Total equity		**3,024,720**	2,680,181
Non-current liabilities			
Bank borrowings	28	**10,125**	303,133
Warranty provision	27(b)	**277,231**	279,255
Deferred revenue		**438,385**	403,540
Retirement benefit obligations	36	**156,515**	163,883
Deferred income tax liabilities	21	**142,881**	113,992
Other non-current liabilities	29	**844,914**	846,539
		1,870,051	2,110,342
Current liabilities			
Trade payables	26(a)	**4,751,345**	3,624,500
Notes payable	26(b)	**108,559**	99,503
Derivative financial liabilities		**58,462**	69,053
Other payables and accruals	27(a)	**6,658,254**	6,852,344
Provisions	27(b)	**852,154**	776,640
Deferred revenue		**410,330**	393,417
Income tax payable		**177,741**	100,179
Bank borrowings	28	**445,477**	175,838
		13,462,322	12,091,474
Total liabilities		**15,332,373**	14,201,816
Total equity and liabilities		**18,357,093**	16,881,997
Net current (liabilities)/assets		**(61,774)**	298,263
Total assets less current liabilities		**4,894,771**	4,790,523

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

BALANCE SHEET

At March 31, 2014

	Note	2014 US$'000	2013 US$'000
Non-current assets			
Property, plant and equipment	14	**2,478**	2,218
Construction-in-progress	16	**174**	3,967
Intangible assets	17	**39,269**	52,133
Investments in subsidiaries	18(a)	**2,888,712**	2,807,103
Available-for-sale financial assets	22	**8,500**	–
Other non-current assets		**11,690**	–
		2,950,823	2,865,421
Current assets			
Deposits, prepayments and other receivables	24(c)	**4,999**	1,722
Amounts due from subsidiaries	18(b)	**227,859**	412,660
Cash and cash equivalents	25	**5,414**	6,511
		238,272	420,893
Total assets		**3,189,095**	3,286,314
Share capital	30	**1,650,101**	33,465
Reserves	31	**370,520**	1,956,823
Total equity		**2,020,621**	1,990,288
Non-current liabilities			
Bank borrowings	28	**–**	300,000
Other non-current liabilities	29	**306,236**	301,710
		306,236	601,710
Current liabilities			
Derivative financial liabilities		**–**	238
Other payables and accruals	27(a)	**36,685**	17,415
Bank borrowings	28	**300,000**	–
Amounts due to subsidiaries	18(b)	**525,553**	676,663
		862,238	694,316
Total liabilities		**1,168,474**	1,296,026
Total equity and liabilities		**3,189,095**	3,286,314
Net current liabilities		**623,966**	273,423
Total assets less current liabilities		**2,326,857**	2,591,998

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, 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Net cash generated from operations	35	**1,640,386**	245,383
Interest paid		**(71,199)**	(33,452)
Tax paid		**(137,129)**	(192,401)
Net cash generated from operating activities		**1,432,058**	19,530
Cash flows from investing activities			
Purchase of property, plant and equipment		**(177,562)**	(106,331)
Sale of property, plant and equipment		**9,106**	2,266
Acquisition of subsidiaries, net of cash acquired		**–**	(137,052)
Interests acquired in an associate and a joint venture		**(8,769)**	–
Payment for construction-in-progress		**(388,238)**	(277,003)
Payment for intangible assets		**(109,544)**	(57,978)
Payment for prepaid lease payments		**–**	(5,026)
Purchase of available-for-sale financial assets		**(8,550)**	(4,104)
Net proceeds from disposal of an available-for sale financial asset		**41,348**	–
Decrease in bank deposits		**24,070**	294,617
Dividend received		**547**	362
Interest received		**33,893**	44,881
Net cash used in investing activities		**(583,699)**	(245,368)
Cash flows from financing activities			
Exercise of share options		**5,946**	6,403
Repurchase of shares		**(45,304)**	(44,122)
Contributions to employee share trusts		**(100,688)**	(91,280)
Capital contribution from non-controlling interest		**–**	147,700
De-recognition of contingent consideration		**–**	(119,991)
Dividends paid		**(266,692)**	(194,676)
Exchange in ownership interest in subsidiary without change in control		**–**	(1,493)
Proceeds from bank borrowings		**119,292**	360,230
Repayments of bank borrowings		**(142,661)**	(130,974)
Net cash used in financing activities		**(430,107)**	(68,203)
Increase/(decrease) in cash and cash equivalents		**418,252**	(294,041)
Effect of foreign exchange rate changes		**(14,190)**	(9,529)
Cash and cash equivalents at the beginning of the year		**3,454,082**	3,757,652
Cash and cash equivalents at the end of the year	25	**3,858,144**	3,454,082

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2014

	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, 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	–	–	–	–	–	–	–	–	–	–	147,700	–	147,700
Put option written on non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	(212,900)	(212,900)
Transfer to statutory reserve	–	–	–	–	–	–	–	–	164	(164)	–	–	–
Issue of ordinary shares	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 trust	–	–	–	–	(91,280)	–	–	–	–	–	–	–	(91,280)
Dividends paid	–	–	–	–	–	–	–	–	–	(191,729)	(2,947)	–	(194,676)
Exchange in ownership interest in subsidiary without change in control	–	–	–	–	–	–	–	–	–	–	(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
At April 1, 2013	33,465	1,654,806	16,080	1,188	(22,197)	(3,149)	35,079	(166,850)	64,457	1,053,764	226,438	(212,900)	2,680,181
Profit for the year	–	–	–	–	–	–	–	–	–	817,228	242	–	817,470
Other comprehensive (loss)/income	–	–	(22,814)	–	–	–	(38,288)	(68,531)	–	4,177	–	–	(125,456)
Total comprehensive (loss)/income for the year	–	–	(22,814)	–	–	–	(38,288)	(68,531)	–	821,405	242	–	692,014
Transfer to statutory reserve	–	–	–	–	–	–	–	–	2,379	(2,379)	–	–	–
Exercise of share options	816	5,130	–	–	–	–	–	–	–	–	–	–	5,946
Repurchase of shares	(164)	(45,304)	–	164	–	–	–	–	–	–	–	–	(45,304)
Vesting of shares under long-term incentive program	–	–	–	–	73,882	(100,747)	–	–	–	–	–	–	(26,865)
Share-based compensation	–	–	–	–	–	80,274	–	–	–	–	–	–	80,274
Contribution to employee share trust	–	–	–	–	(100,688)	–	–	–	–	–	–	–	(100,688)
Dividends paid	–	–	–	–	–	–	–	–	–	(266,692)	–	–	(266,692)
Change in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	810	–	810
Release of escrow shares for settlement of acquisition consideration	–	–	–	–	–	–	–	–	5,044	–	–	–	5,044
Transfer to share capital (Note 30, 31)	1,615,984	(1,614,632)	–	(1,352)	–	–	–	–	–	–	–	–	–
At March 31, 2014	1,650,101	–	(6,734)	–	(49,003)	(23,622)	(3,209)	(235,381)	71,880	1,606,098	227,490	(212,900)	3,024,720

NOTES 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 S.A.R. of China. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong S.A.R. of China. The Company has its primary listing on The Stock Exchange of Hong Kong S.A.R. of China Limited.

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

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

Changes in accounting policies and disclosures

The Group has adopted the following new and revised standards and amendments to existing standards that are mandatory for the year ended March 31, 2014 which the Group considers are appropriate and relevant to its operations:

- HKAS 19 (2011), Employee benefits
- HKAS 27 (2011), Separate financial statements
- HKAS 28 (2011), Investments in associates and joint ventures
- HKFRS 10, Consolidated financial statements
- HKFRS 11, Joint arrangements
- HKFRS 12, Disclosure of interest in other entities
- HKFRS 13, Fair value measurement
- Amendments to HKAS 1 (Revised), Presentation of items of other comprehensive income
- Amendments to HKFRS 1, Government loans
- Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12, Consolidated financial statements, Joint arrangements and Disclosure of interest in other entities: transition guidance

The adoption of these newly effective and revised standards and amendments to existing standards 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, 2014 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	January 1, 2015
HK(IFRIC) – Int 21, Levies	January 1, 2014
Amendments to HKAS 19 (2011), Employee benefits	July 1, 2014
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to HKAS 36, Impairment of assets: Recoverable amount disclosures for non-financial assets	January 1, 2014
Amendments to HKAS 39, Financial instruments: Recognition and measurement – Novation of derivatives and continuation of hedge accounting	January 1, 2014
Amendments to HKFRS 10, HKFRS 12, HKAS 27 (2011), Investment entities	January 1, 2014
Amendments to HKFRS 7 and HKFRS 9, Mandatory effective date and transition disclosures	January 1, 2015

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

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

Effective April 1, 2013 the Group has re-organized its structure into two end-to-end business groups (Lenovo Business Group and Think Business Group), which enhances the Group's capabilities in both efficiency and innovation. As part of the Group re-organization, the Group redistributes certain global operation functions to directly align with the respective business groups. The re-organization of the global operation functions enables each of the geographical segments to directly control their businesses through closely aligned supply chain, services, marketing and other functions that directly report into the geography instead of part of the corporate global operations.

Certain overhead costs that were included as part of the cost of sales in the previous years have now been reclassified to administrative expenses. Management considers the current reclassification is more appropriate and consistent with industry practice.

The Group has also re-aligned its geographical segments whereby Latin America that was previously part of Asia Pacific/Latin America ("APLA") has been spun off and combined with North America, transforming into a new Americas region. The Group's original geographic structure had achieved rapid business growth through the alignment of its strategic direction and business acquisitions. The new geographical structure is in recognition that the Group's stronger infrastructure in the Latin America aligns the Group's strategy to expand across the entire Americas region.

The comparative 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, unless otherwise stated.

(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 is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity 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, 2013 and 2014 have been used for the preparation of the Group's consolidated financial statements.

2 Significant accounting policies *(continued)*

(a) Subsidiaries *(continued)*

(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.

(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.

A 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.

2 Significant accounting policies *(continued)*

(a) Subsidiaries *(continued)*

(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 joint ventures

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.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Interests in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's interests in associates and joint ventures include goodwill identified on acquisition, net of any accumulated impairment losses.

If the ownership interest in an associate or a joint venture 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 joint ventures' 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 joint venture equals or exceeds its interest in the associate or the joint venture 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 joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture 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 joint venture and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates and joint ventures in the consolidated income statement.

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

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

For associates and joint ventures which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2013 and 2014 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.

2 Significant accounting policies *(continued)*

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

(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/(expense) – 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 are recognized as other comprehensive income and included in the exchange reserve in equity

(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 joint venture, 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 joint venture 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 S.A.R. of China 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.

2 Significant accounting policies *(continued)*

(e) Property, plant and equipment *(continued)*

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.

(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 joint ventures is included in interests in associates and joint ventures.

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.

2 Significant accounting policies *(continued)*

(g) Intangible assets *(continued)*

(iii) Customer relationships

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

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

(iv) Internal use software

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

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

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

– management intends to complete the software and use 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.

(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.

2 Significant accounting policies *(continued)*

(i) Financial assets *(continued)*

Classification *(continued)*

(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.

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.

2 Significant accounting policies *(continued)*

(j) Impairment of financial assets *(continued)*

(i) Assets carried at amortized cost (continued)

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.

(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.

2 Significant accounting policies *(continued)*

(k) Derivative financial instruments and hedging activities *(continued)*

(ii) Cash flow hedge *(continued)*

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/(expense) – 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 or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with HKAS 18, 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. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "Other operating expense".

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided with no consideration, the fair values are accounted for as contributions and recognized as part of the cost of the investment in the financial statements of the Company.

(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.

2 Significant accounting policies *(continued)*

(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.

(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, joint ventures 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.

2 Significant accounting policies *(continued)*

(t) Current and deferred income tax *(continued)*

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, joint ventures 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.

(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.

2 Significant accounting policies *(continued)*

(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.

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.

2 Significant accounting policies *(continued)*

(x) Employee benefits *(continued)*

(iii) Long-term incentive program *(continued)*

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 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 unvested on April 1, 2005 were 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 when the options are exercised.

(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).

2 Significant accounting policies *(continued)*

(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 financial 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. Financial 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 currency.

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 S.A.R. of China 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 dollar, 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

	2014			2013		
	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	237,972	868	134,557	233,980	396	80,431
Bank deposits and cash and cash equivalents	94,725	942	23,513	24,609	38,273	33,421
Trade and other payables	(1,288,099)	(2,739)	(167,550)	(600,487)	(4,176)	(3,552)
Intercompany balances before elimination	(1,784,195)	43,639	(305,352)	(2,173,214)	(309,721)	(193,468)
Gross exposure	(2,739,597)	42,710	(314,832)	(2,515,112)	(275,228)	(83,168)
Notional amounts of forward exchange contracts used as economic hedges	2,480,232	–	230,954	2,020,972	–	94,572
Net exposure	(259,365)	42,710	(83,878)	(494,140)	(275,228)	11,404

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

Company

	2014		2013	
	Renminbi US$'000	Euro US$'000	Renminbi US$'000	Euro US$'000
Other receivables	–	1	–	1
Bank deposits and cash and cash equivalents	–	2	–	40
Other payables	–	–	(16)	–
Amounts due from subsidiaries	212	–	222	–
Amounts due to subsidiaries	(139)	(177)	(139)	(164)
Net exposure	73	(174)	67	(123)

(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$719,704,000 (2013: US$846,272,000) (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	Over 5 years US$'000	Total US$'000
At March 31, 2014						
Bank loans	47,282	398,195	10,125	–	–	455,602
Trade, notes and other payables and accruals	8,688,816	1,065,166	–	–	–	9,753,982
Contingent considerations	–	–	318,251	–	–	318,251
Deferred consideration	–	–	2,172	–	–	2,172
Guaranteed dividend to non-controlling shareholders of a subsidiary	–	6,833	19,359	–	–	26,192
Written put option liability	–	–	224,790	–	–	224,790
Others	–	–	88,747	58,276	9,629	156,652
Derivatives settled in net:						
Forward foreign exchange contracts	19,941	–	–	–	–	19,941
Derivatives settled in gross:						
Forward foreign exchange contracts						
– outflow	5,245,168	226,392	–	–	–	5,471,560
– inflow	(5,290,774)	(229,500)	–	–	–	(5,520,274)
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)

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, 2014					
Bank loans	–	300,000	–	–	300,000
Other payables and accruals	–	36,685	–	–	36,685
Amounts due to subsidiaries	525,553	–	–	–	525,553
Contingent considerations	–	–	317,000	–	317,000
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

(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, 2014, 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$2.2 million higher/lower (2013: US$2.3 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, 2014, 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$0.9 million (2013: US$0.5 million) lower/higher.

At March 31, 2014, 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$2.2 million (2013: 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.

(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.

3 Financial risk management *(continued)*

(c) Capital risks management *(continued)*

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, 2014 and 2013 are as follows:

	2014 US$ million	2013 US$ million
Bank deposits and cash and cash equivalents	**3,953**	3,573
Less: total borrowings	**(455)**	(479)
Net cash position	**3,498**	3,094
Total equity	**3,025**	2,680
Gearing ratio	**0.15**	0.18

(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, 2014 and 2013.

Group

	2014				2013			
	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	10,455	–	–	10,455	53,800	–	–	53,800
Unlisted equity investments	–	–	24,702	24,702	–	–	16,162	16,162
Derivative financial assets	–	61,184	–	61,184	–	99,491	–	99,491
	10,455	61,184	24,702	96,341	53,800	99,491	16,162	169,453
Liabilities								
Derivative financial liabilities	–	58,462	–	58,462	–	69,053	–	69,053
Contingent considerations	–	–	307,183	307,183	–	–	302,367	302,367
Written put option liability	–	–	217,157	217,157	–	–	215,018	215,018
	–	58,462	524,340	582,802	–	69,053	517,385	586,438

Company

	2014				2013			
	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								
Unlisted equity investments	–	–	8,500	8,500	–	–	–	–
Liabilities								
Derivative financial liabilities	–	–	–	–	–	238	–	238
Contingent considerations	–	–	305,929	305,929	–	–	301,113	301,113
	–	–	305,929	305,929	–	238	301,113	301,351

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2014 and 2013.

3 Financial risk management *(continued)*

(d) Fair value estimation *(continued)*

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2014 and 2013 are as follows:

Available-for-sale financial assets

	Group		Company	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
At the beginning of the year	**16,162**	12,321	**–**	–
Exchange adjustment	**(10)**	140	**–**	–
Additions	**8,550**	4,104	**8,500**	–
Disposal	**–**	(403)	**–**	–
At the end of the year	**24,702**	16,162	**8,500**	–

Other non-current liabilities

	Group		Company	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
At the beginning of the year	**517,385**	428,915	**301,113**	256,093
Additions	**–**	255,680	**–**	41,550
De-recognition	**–**	(170,645)	**–**	(1,500)
Exchange adjustment	**(235)**	(4,661)	**–**	349
Recognized in consolidated income statement	**7,190**	8,096	**4,816**	4,621
At the end of the year	**524,340**	517,385	**305,929**	301,113
Total losses for the year included in profit or loss under "finance costs"	**6,955**	7,861	**4,816**	4,621
Changes in unrealized losses for the year included in profit or loss	**6,955**	7,861	**4,816**	4,621

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, were 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.

4 Critical accounting estimates and judgments *(continued)*

(a) Impairment of non-financial assets *(continued)*

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.

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, China, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

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

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

5 Segment information *(continued)*

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

	2014		2013	
	Revenue from external customers US$'000	**Adjusted pre-tax income US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income US$'000
China	**14,725,659**	**788,130**	14,538,534	647,702
AP	**6,162,919**	**109,350**	5,516,776	62,865
EMEA	**9,580,700**	**187,482**	7,535,483	116,591
AG	**8,237,851**	**68,627**	6,282,608	78,609
Segment total	**38,707,129**	**1,153,589**	33,873,401	905,767
Unallocated:				
Headquarters and corporate expenses		**(156,502)**		(132,960)
Restructuring costs		**(26)**		87
Finance income		**19,240**		36,775
Finance costs		**(33,754)**		(27,559)
De-recognition of contingent consideration		**–**		19,861
Net gain/(loss) on disposal of available-for-sale financial assets and investments		**21,880**		(316)
Dividend income from available-for-sale financial assets		**547**		362
Share of profit/(losses) of associates and joint ventures		**9,221**		(718)
Consolidated profit before taxation		**1,014,195**		801,299

(b) Segment assets for reportable segments

	2014 US$'000	2013 US$'000
China	**5,157,241**	4,943,934
AP	**1,993,624**	2,055,413
EMEA	**2,341,114**	1,933,011
AG	**2,559,869**	2,288,215
Segment assets for reportable segments	**12,051,848**	11,220,573
Unallocated:		
Deferred income tax assets	**389,330**	349,389
Derivative financial assets	**61,184**	99,491
Available-for-sale financial assets	**35,157**	69,962
Interests in associates and joint ventures	**20,753**	2,763
Unallocated bank deposits and cash and cash equivalents	**2,521,366**	2,093,983
Unallocated inventories	**757,648**	597,239
Unallocated deposits, prepayments and other receivables	**2,214,124**	2,253,370
Income tax recoverable	**65,715**	58,822
Other unallocated assets	**239,968**	136,405
Total assets per consolidated balance sheet	**18,357,093**	16,881,997

5 Segment information *(continued)*

(c) Segment liabilities for reportable segments

	2014 US$'000	2013 US$'000
China	**3,965,295**	4,324,261
AP	**1,671,669**	1,548,694
EMEA	**1,407,530**	1,115,554
AG	**1,636,349**	1,495,433
Segment liabilities for reportable segments	**8,680,843**	8,483,942
Unallocated:		
Income tax payable	**177,741**	100,179
Deferred income tax liabilities	**142,881**	113,992
Derivative financial liabilities	**58,462**	69,053
Unallocated bank borrowings	**300,000**	300,000
Unallocated trade payables	**2,862,851**	1,979,026
Unallocated other payables and accruals	**2,687,703**	2,750,353
Unallocated provisions	**16,522**	35,045
Unallocated other non-current liabilities	**308,889**	284,982
Other unallocated liabilities	**96,481**	85,244
Total liabilities per consolidated balance sheet	**15,332,373**	14,201,816

(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:

	2014 US$'000	2013 US$'000
Sale of personal technology products and services		
– desktop computer	**11,039,139**	10,524,707
– notebook computer	**19,705,097**	17,935,693
– mobile internet and digital home	**5,657,417**	3,039,443
– others	**1,091,200**	1,288,666
Sale of other goods and services	**1,214,276**	1,084,892
	38,707,129	33,873,401

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
China	**79,970**	93,999	**3,966**	2,738	**788**	344	**99,190**	66,235
AP	**55,481**	44,746	**1,251**	383	**6,318**	3,963	**14,822**	23,154
EMEA	**50,234**	36,278	**697**	709	**10,206**	6,476	**7,978**	8,664
AG	**69,448**	34,581	**8,739**	4,276	**29,908**	4,527	**52,071**	28,945
Total	**255,133**	209,604	**14,653**	8,106	**47,220**	15,310	**174,061**	126,998

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 is approximately US$2,305,752,000 (2013: US$2,067,456,000) and US$2,226,306,000 (2013: US$1,988,441,000) respectively.

6 Other income – net

	2014 US$'000	2013 US$'000
De-recognition of contingent consideration	–	19,861
Net gain/(loss) on disposal of available-for-sale financial assets and investments	21,880	(316)
Dividend income from available-for-sale financial assets	547	362
	22,427	19,907

7 Operating profit

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

	2014 US$'000	2013 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	109,689	92,097
Amortization of intangible assets	145,444	117,507
Employee benefit costs (Note 10)	2,745,853	2,359,593
Cost of inventories sold	31,763,864	27,825,429
Inventory write-down	57,031	13,012
Auditor's remuneration	4,543	5,567
Rental expenses under operating leases	99,024	77,530
Government grant (Note 29(iv))	(143,755)	(115,366)
Net foreign exchange loss	79,242	37,634
Net loss/(gain) on foreign exchange forward contracts for cash flow hedge reclassified from equity	10,818	(20,953)
Ineffectiveness on cash flow hedges	(4,265)	(3,581)

8 Finance income and costs

(a) Finance income

	2014 US$'000	2013 US$'000
Interest on bank deposits	26,852	34,981
Interest on money market funds	2,126	3,004
Others	4,915	6,896
	33,893	44,881

(b) Finance costs

	2014 US$'000	2013 US$'000
Interest on bank loans and overdrafts	39,811	12,592
Factoring cost	23,866	14,358
Commitment fee	5,878	5,907
Interest on contingent considerations and put option liability	7,190	8,096
Others	4,229	1,916
	80,974	42,869

9 Taxation

The amount of taxation in the consolidated income statement represents:

	2014 US$'000	2013 US$'000
Current tax		
– Hong Kong S.A.R. of China profits tax	13,024	1,328
– Taxation outside Hong Kong S.A.R. of China	201,175	181,267
Deferred tax (Note 21)	(17,474)	(12,888)
	196,725	169,707

Hong Kong S.A.R. of China profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong S.A.R. of China 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:

	2014 US$'000	2013 US$'000
Profit before taxation	1,014,195	801,299
Tax calculated at domestic rates applicable in countries concerned	231,160	137,345
Income not subject to taxation	(427,986)	(137,918)
Expenses not deductible for taxation purposes	192,706	133,750
Utilization of previously unrecognized tax losses	(3,841)	(69,347)
Effect on opening deferred income tax assets due to change in tax rates	359	(844)
Deferred income tax assets not recognized	151,136	76,772
Under-provision in prior years	53,191	29,949
	196,725	169,707

The weighted average applicable tax rate for the year was 22.8% (2013: 17.1%).The increase is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating.

9 Taxation *(continued)*

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

	2014 Before tax US$'000	2014 Tax credit US$'000	2014 After tax US$'000	2013 Before tax US$'000	2013 Tax charge US$'000	2013 After tax US$'000
Fair value change on available-for-sale financial assets	**(2,288)**	**–**	**(2,288)**	(4,057)	–	(4,057)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset	**(20,526)**	**–**	**(20,526)**	–	–	–
Fair value change on cash flow hedges	**(41,389)**	**3,101**	**(38,288)**	19,798	(26)	19,772
Remeasurements of post employment benefit obligations	**3,988**	**189**	**4,177**	(17,174)	(1,632)	(18,806)
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary	**1,250**	**–**	**1,250**	–	–	–
Currency translation differences	**(69,781)**	**–**	**(69,781)**	(118,602)	–	(118,602)
Other comprehensive income	**(128,746)**	**3,290**	**(125,456)**	(120,035)	(1,658)	(121,693)
Current tax		**–**			–	
Deferred tax (Note 21)		**3,290**			(1,658)	
		3,290			(1,658)	

10 Employee benefit costs

	2014 US$'000	2013 US$'000
Wages and salaries	**1,868,018**	1,665,223
Social security costs	**152,371**	148,311
Long-term incentive awards granted (Notes 30(a))	**80,274**	77,724
Pension costs		
– Defined contribution plans	**129,813**	107,847
– Defined benefit plans (Note 36)	**21,799**	46,601
Others	**493,578**	313,887
	2,745,853	2,359,593

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, 2014 and 2013 is set out below:

	2014						
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)	–	1,283	7,159	12,647	128	142	21,359
Non-executive directors							
Mr. Zhu Linan	88	–	–	109	–	–	197
Dr. Wu Yibing	26	–	–	290	–	–	316
Mr. Zhao John Huan	88	–	–	148	–	–	236
Independent non-executive directors							
Mr. William O. Grabe	123	–	–	278	–	–	401
Mr. Ting Lee Sen	88	–	–	180	–	–	268
Dr. Tian Suning	88	–	–	170	–	–	258
Mr. Nicholas C. Allen	115	–	–	180	–	–	295
Ms. Ma Xuezheng	98	–	–	170	–	–	268
Mr. Nobuyuki Idei	88	–	–	161	–	–	249
Mr. William Tudor Brown	88	–	–	88	–	–	176
	890	1,283	7,159	14,421	128	142	24,023

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

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

	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	–	–	181	–	–	264
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	10,773	119	131	17,257

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2014 and 2013 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2013 and 2012 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, 2014 and 2013.

(iii) Mr. William O. Grabe has elected to defer his receipt 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, 2014 and 2013.

(iv) During the year, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director (2013: Nil).

(v) Dr. Wu Yibing retired as a director on July 16, 2013.

(vi) Ms. Ma Xuezheng was redesignated from a non-executive director to an independent non-executive director on November 7, 2013.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2013: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2013: four) individuals during the year are as follows:

	2014 US$'000	2013 US$'000
Basic salaries, allowances, and benefits-in-kind	**3,873**	2,222
Discretionary bonuses	**14,199**	8,760
Employer's contribution to pension schemes	**285**	469
Long-term incentive awards	**9,262**	4,083
Others	**260**	1,074
	27,879	16,608

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

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands		
US$3,802,550 – US$3,866,999	**–**	1
US$4,124,800 – US$4,189,249	**–**	1
US$4,189,250 – US$4,253,699	**–**	1
US$4,318,150 – US$4,382,599	**–**	1
US$5,478,250 – US$5,542,699	**1**	–
US$5,607,150 – US$5,671,599	**1**	–
US$6,316,100 – US$6,380,549	**1**	–
US$10,376,450 – US$10,440,899	**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 for the purposes of awarding shares to eligible employees under the long term incentive program.

	2014	2013
Weighted average number of ordinary shares in issue	**10,408,747,622**	10,386,943,985
Adjustment for shares held by employee share trust	**(38,861,785)**	(76,705,750)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,369,885,837**	10,310,238,235

	US$'000	US$'000
Profit attributable to equity holders of the Company	**817,228**	635,148

(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.

	2014	2013
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,369,885,837**	10,310,238,235
Adjustments for share options and long-term incentive awards	**131,031,863**	152,898,247
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,500,917,700**	10,463,136,482

	US$'000	US$'000
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**817,228**	635,148

12 Earnings per share *(continued)*

(b) Diluted *(continued)*

Adjustments for the dilutive potential ordinary shares are as follows:

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

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

13 Dividends

	2014 US$'000	2013 US$'000
Interim dividend of HK6.0 cents (2013: HK4.5 cents) per ordinary share, paid on December 2, 2013	**80,426**	59,930
Proposed final dividend – HK18.0 cents (2013: HK14.0 cents) per ordinary share	**241,449**	187,744
	321,875	247,674

14 Property, plant and equipment

(a) Group

	Freehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 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
Year ended March 31, 2014							
Opening net book amount	**256,096**	**57,428**	**61,447**	**14,022**	**87,807**	**2,977**	**479,777**
Exchange adjustment	**(5,005)**	**(2,091)**	**(5,013)**	**(538)**	**(1,571)**	**(55)**	**(14,273)**
Reclassification	**(2,106)**	**2,354**	**14**	**82**	**(344)**	**–**	**–**
Additions	**10,655**	**18,579**	**98,465**	**3,766**	**44,903**	**1,194**	**177,562**
Transfer from construction-in-progress	**76,185**	**10,711**	**40,344**	**5,232**	**7,930**	**–**	**140,402**
Disposals	**(3,866)**	**(705)**	**(1,111)**	**(426)**	**(2,456)**	**(186)**	**(8,750)**
Depreciation	**(9,962)**	**(24,543)**	**(30,657)**	**(5,041)**	**(37,651)**	**(1,016)**	**(108,870)**
Acquisition of subsidiaries	**–**	**–**	**1,565**	**–**	**–**	**–**	**1,565**
Closing net book amount	**321,997**	**61,733**	**165,054**	**17,097**	**98,618**	**2,914**	**667,413**
At March 31, 2014							
Cost	**382,444**	**162,102**	**401,012**	**48,337**	**307,252**	**5,910**	**1,307,057**
Accumulated depreciation and impairment losses	**60,447**	**100,369**	**235,958**	**31,240**	**208,634**	**2,996**	**639,644**
Net book amount	**321,997**	**61,733**	**165,054**	**17,097**	**98,618**	**2,914**	**667,413**

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, 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
Year ended March 31, 2014					
Opening net book amount	**1,429**	**255**	**306**	**228**	**2,218**
Transfer from construction-in-progress	**55**	**–**	**983**	**–**	**1,038**
Additions	**–**	**106**	**57**	**–**	**163**
Disposals	**–**	**(10)**	**(3)**	**–**	**(13)**
Depreciation	**(532)**	**(85)**	**(253)**	**(58)**	**(928)**
Closing net book amount	**952**	**266**	**1,090**	**170**	**2,478**
At March 31, 2014					
Cost	**2,644**	**513**	**2,005**	**300**	**5,462**
Accumulated depreciation	**1,692**	**247**	**915**	**130**	**2,984**
Net book amount	**952**	**266**	**1,090**	**170**	**2,478**

15 Prepaid lease payments

Group

	2014 US$'000	2013 US$'000
At the beginning of the year	**36,522**	13,552
Exchange adjustment	**(17)**	185
Additions	**–**	5,026
Transfer from construction-in-progress	**5,198**	18,526
Amortization	**(819)**	(767)
At the end of the year	**40,884**	36,522

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	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
At the beginning of the year	155,474	78,052	20,177	22,415	8,400	3,519	184,051	103,986	3,967	4,607
Exchange adjustment	(1,665)	805	(132)	372	(269)	(169)	(2,066)	1,008	–	2
Reclassification	3,499	(241)	(4,215)	7,105	716	(6,864)	–	–	–	–
Additions	286,493	150,372	64,515	90,165	37,230	36,466	388,238	277,003	2,857	17,834
Transfer to property, plant and equipment	(101,217)	(54,988)	–	–	(39,185)	(24,440)	(140,402)	(79,428)	(1,038)	–
Transfer to intangible assets	–	–	(67,373)	(99,260)	(4,097)	–	(71,470)	(99,260)	(5,406)	(18,476)
Transfer to prepaid lease payments	(5,198)	(18,526)	–	–	–	–	(5,198)	(18,526)	–	–
Disposals	–	–	(1,219)	(620)	–	(112)	(1,219)	(732)	(206)	–
At the end of the year	337,386	155,474	11,753	20,177	2,795	8,400	351,934	184,051	174	3,967

No interest expenses were capitalized in construction-in-progress as at March 31, 2014 and 2013.

17 Intangible assets

(a) Group

	Goodwill (Note (c)) US$'000	Trademarks and trade names (Note (c)) US$'000	Internal use software US$'000	Customer relation-ships US$'000	Patent and technology (Note (d)) US$'000	Total US$'000
At April 1, 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
Year ended March 31, 2014						
Opening net book amount	**2,403,980**	**460,857**	**294,833**	**137,540**	**29,208**	**3,326,418**
Exchange adjustment	**(47,685)**	**4,086**	**(641)**	**908**	**(632)**	**(43,964)**
Reclassification	**–**	**–**	**(59,680)**	**–**	**59,680**	**–**
Additions	**–**	**111**	**61,001**	**395**	**48,037**	**109,544**
Transfer from construction-in-progress	**–**	**–**	**54,337**	**4,092**	**13,041**	**71,470**
Disposals	**–**	**–**	**(12,111)**	**–**	**(562)**	**(12,673)**
Amortization	**–**	**(2,011)**	**(110,883)**	**(11,937)**	**(20,613)**	**(145,444)**
Acquisition of subsidiaries	**33,527**	**(1,514)**	**–**	**2,152**	**–**	**34,165**
Closing net book amount	**2,389,822**	**461,529**	**226,856**	**133,150**	**128,159**	**3,339,516**
At March 31, 2014						
Cost	**2,389,822**	**594,084**	**715,182**	**181,468**	**302,686**	**4,183,242**
Accumulated amortization and impairment losses	**–**	**132,555**	**488,326**	**48,318**	**174,527**	**843,726**
Net book amount	**2,389,822**	**461,529**	**226,856**	**133,150**	**128,159**	**3,339,516**

Amortization of US$18,281,000 (2013: US$25,206,000), US$8,263,000 (2013: US$9,673,000), US$91,312,000 (2013: US$75,948,000) and US$27,588,000 (2013: US$6,680,000) 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, 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
Year ended March 31, 2014	
Opening net book amount	**52,133**
Transfer from construction-in-progress	**5,406**
Additions	**224**
Disposals	**(1,939)**
Amortization	**(16,555)**
Closing net book amount	**39,269**
At March 31, 2014	
Cost	**98,241**
Accumulated amortization	**58,972**
Net book amount	**39,269**

(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	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
At March 31, 2014					
Goodwill	**1,123**	**597**	**287**	**383**	**2,390**
Trademarks and trade names	**209**	**59**	**118**	**67**	**453**

	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	68	113	58	448

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 five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. 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% (2013: 11%) across all CGUs. The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	2014	2013
China	**2%**	8%
APLA	**N/A**	-2%
EMEA	**-2%**	-1%
North America	**N/A**	0%
AP	**-1%**	N/A
AG	**0%**	N/A

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, 2014 arising from the review (2013: Nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. Except for AP in 2014 and APLA in 2013, 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, 2014, the recoverable amount for AP calculated based on value in use exceeded carrying value by US$578 million. Had AP's forecasted operating margin been 1.60 percentage point lower than management's estimates, the AP's remaining headroom would be removed.

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 0.80 percentage point lower than management's estimates, the APLA's remaining headroom would be removed.

(d) At March 31, 2014, included in the patent and technology is a construction-in-progress balance of US$58,880,000 (2013: Nil).

18 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2014 US$'000	2013 US$'000
Unlisted investments, at cost	**2,888,712**	2,807,103

A summary of the principal subsidiaries of the Company is set out in Note 38.

(b) Amounts due from/to subsidiaries

The amounts are interest-free, unsecured and have no fixed terms of repayment.

19 Interests in associates and joint ventures

	Group	
	2014 US$'000	2013 US$'000
Share of net assets		
– Associates	**5,401**	1,149
– Joint ventures	**15,352**	1,614
	20,753	2,763

19 Interests in associates and joint ventures *(continued)*

The following is a list of the principal associates and joint ventures as at March 31, 2014:

Company name	Place of establishment	Interest held indirectly 2014	2013	Principal activities
Associates				
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
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited)	Chinese Mainland	**23.69%**	–	Distribution and development of IT technology
Joint ventures				
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, 2014, the Group had a capital commitment of US$4,021,000 to Shanghai Shiyun Network Technology Limited. As at March 31 2013, pursuant to the joint venture agreement, the Group had a capital commitment of US$3,787,000 to Chengdu Lenovo Rongjin Investment Limited.

Notes:

(i) The associates and joint ventures 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.

The following sets out the aggregate amount of the Group's share of associates and joint ventures:

	Group 2014 US$'000	2013 US$'000
Share of (losses)/profits of associates	**(679)**	446
Share of profits/(losses) of joint ventures	**9,900**	(1,164)
	9,221	(718)

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, 2014					
Available-for-sale financial assets	–	–	–	35,157	35,157
Derivative financial assets	–	49,460	11,724	–	61,184
Trade receivables	3,171,354	–	–	–	3,171,354
Notes receivables	447,325	–	–	–	447,325
Deposits and other receivables	1,939,314	–	–	–	1,939,314
Bank deposits	94,985	–	–	–	94,985
Cash and cash equivalents	3,858,144	–	–	–	3,858,144
	9,511,122	49,460	11,724	35,157	9,607,463
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

	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, 2014				
Trade payables	–	–	4,751,345	4,751,345
Notes payable	–	–	108,559	108,559
Derivative financial liabilities	43,530	14,932	–	58,462
Other payables and accruals	–	–	4,873,232	4,873,232
Bank borrowings	–	–	455,602	455,602
Deferred consideration and guaranteed dividend under other non-current liabilities	–	–	21,073	21,073
Contingent considerations and written put option liability under other non-current liabilities	524,340	–	–	524,340
	567,870	14,932	10,209,811	10,792,613
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
Deferred consideration and guaranteed dividend under other non-current liabilities	–	–	25,850	25,850
Contingent considerations and written put option liability under other non-current liabilities	517,385	–	–	517,385
	582,757	3,681	9,263,386	9,849,824

20 Financial instruments by category *(continued)*

Company

	Loans and receivables	
	2014 US$'000	2013 US$'000
Assets		
Deposits	**462**	448
Amounts due from subsidiaries	**227,859**	412,660
Cash and cash equivalents	**5,414**	6,511
	233,735	419,619

	Liabilities at fair value through income statement US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities			
At March 31, 2014			
Other payables and accruals	**–**	**36,685**	**36,685**
Amounts due to subsidiaries	**–**	**525,553**	**525,553**
Contingent consideration under other non-current liabilities	**305,929**	**–**	**305,929**
Bank borrowings	**–**	**300,000**	**300,000**
	305,929	**862,238**	**1,168,167**
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

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	
	2014 US$'000	2013 US$'000
Deferred income tax assets:		
Recovered within 12 months	**324,837**	290,414
Recovered after 12 months	**64,493**	58,975
	389,330	349,389
Deferred income tax liabilities:		
Recovered after 12 months	**(142,881)**	(113,992)
Net deferred income tax assets	**246,449**	235,397

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

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

	Group	
	2014 US$'000	2013 US$'000
At the beginning of the year	**235,397**	248,899
Reclassification and exchange adjustments	**(9,496)**	(2,713)
Credited to consolidated income statement (Note 9)	**17,474**	12,888
Credited/(charged) to other comprehensive income (Note 9)	**3,290**	(1,658)
Acquisition of subsidiaries	**(216)**	(22,019)
At the end of the year	**246,449**	235,397

(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, 2012	224,379	26,099	6,561	71,074	4,653	332,766
Reclassification and exchange adjustments	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 and April 1, 2013	**245,892**	**30,686**	**6,086**	**65,574**	**5,588**	**353,826**
Reclassification and exchange adjustments	**(4,750)**	**(3,185)**	**57**	**1,094**	**(416)**	**(7,200)**
Credited/(charged) to consolidated income statement	**18,479**	**23,081**	**(3,936)**	**7,682**	**355**	**45,661**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**291**	**291**
At March 31, 2014	**259,621**	**50,582**	**2,207**	**74,350**	**5,818**	**392,578**

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, 2014, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$2,188,939,000 (2013:US$2,406,161,000) and tax losses of approximately US$1,687,310,000 (2013: US$791,723,000) that can be carried forward against future taxable income, of which, tax losses of US$1,181,408,000 (2013: US$428,827,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	Group	
	2014 US$'000	2013 US$'000
Expiring in		
– 2014	**–**	13,051
– 2015	**20,832**	6,423
– 2016	**1,900**	2,177
– 2017	**33,309**	35,631
– 2018	**10,704**	115,722
– 2019	**294,209**	4,489
– 2020	**9,786**	–
– 2021	**8,548**	11,275
– 2022	**125,812**	174,128
– 2023	**802**	–
	505,902	362,896

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, 2012	51,971	27,268	4,401	227	–	83,867
Reclassification and exchange adjustments	(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 and April 1, 2013	**72,093**	**36,586**	**4,273**	**748**	**4,729**	**118,429**
Reclassification and exchange adjustments	**1,463**	**485**	**333**	**(18)**	**33**	**2,296**
(Credited)/charged to consolidated income statement	**(5,845)**	**10,427**	**(12)**	**23,864**	**(247)**	**28,187**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**(2,999)**	**(2,999)**
Acquisition of subsidiaries	**216**	**–**	**–**	**–**	**–**	**216**
At March 31, 2014	**67,927**	**47,498**	**4,594**	**24,594**	**1,516**	**146,129**

22 Available-for-sale financial assets

	Group		Company	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
At the beginning of the year	**69,962**	71,946	**–**	–
Exchange adjustment	**(1,073)**	(1,072)	**–**	–
Fair value change recognized in other comprehensive income	**(2,288)**	(4,057)	**–**	–
Additions	**8,550**	4,104	**8,500**	–
Disposals	**(39,994)**	(959)	**–**	–
At the end of the year	**35,157**	69,962	**8,500**	–
Equity securities, at fair value				
Listed in Hong Kong S.A.R. of China	**722**	498	**–**	–
Listed outside Hong Kong S.A.R. of China	**9,733**	53,302	**–**	–
Unlisted	**24,702**	16,162	**8,500**	–
	35,157	69,962	**8,500**	–

23 Inventories

	Group	
	2014 US$'000	2013 US$'000
Raw materials and work-in-progress	**1,222,589**	884,591
Finished goods	**1,263,341**	910,666
Service parts	**215,085**	169,534
	2,701,015	1,964,791

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	
	2014 US$'000	2013 US$'000
0 – 30 days	**2,206,799**	1,967,312
31 – 60 days	**601,499**	560,180
61 – 90 days	**181,916**	136,543
Over 90 days	**220,754**	257,924
	3,210,968	2,921,959
Less: provision for impairment	**(39,614)**	(36,920)
Trade receivables – net	**3,171,354**	2,885,039

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

At March 31, 2014, trade receivables, net of impairment, of US$371,549,000 (2013: US$331,457,000) were past due. The ageing of these receivables, based on due date, is as follows:

	Group	
	2014 US$'000	2013 US$'000
Within 30 days	**186,913**	221,310
31 – 60 days	**82,652**	42,559
61 – 90 days	**45,306**	37,395
Over 90 days	**56,678**	30,193
	371,549	331,457

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

	Group	
	2014 US$'000	2013 US$'000
At beginning of the year	**36,920**	29,397
Exchange adjustment	**342**	(649)
Provisions made	**22,000**	23,527
Uncollectible receivables written off	**(244)**	(9,261)
Unused amounts reversed	**(20,675)**	(13,653)
Acquisition of subsidiaries	**1,271**	7,559
At the end of the year	**39,614**	36,920

(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	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Deposits	**1,635**	2,923	**462**	448
Other receivables (i)	**1,937,679**	2,127,671	**11**	555
Prepayments (ii)	**1,061,512**	1,104,871	**4,526**	719
	3,000,826	3,235,465	**4,999**	1,722

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$413 million as at March 31, 2014 (2013: US$180 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	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Bank deposits				
– matured between three to twelve months	**94,165**	116,696	**–**	–
– restricted bank balances	**820**	2,359	**–**	–
	94,985	119,055	**–**	–
Cash and cash equivalents				
– cash at bank and in hand	**3,138,440**	2,607,810	**5,414**	6,511
– money market funds	**719,704**	846,272	**–**	–
	3,858,144	3,454,082	**5,414**	6,511
	3,953,129	3,573,137	**5,414**	6,511
Maximum exposure to credit risk	**3,953,129**	3,573,137	**5,414**	6,511
Effective annual interest rates	**0%-12.36%**	0%-12.42%	**0%-0.4%**	0%-0.6%

26 Payables

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

	Group	
	2014 US$'000	2013 US$'000
0 – 30 days	**2,761,170**	2,526,465
31 – 60 days	**1,217,547**	566,747
61 – 90 days	**586,145**	332,223
Over 90 days	**186,483**	199,065
	4,751,345	3,624,500

(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	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Accruals	**1,359,002**	1,327,327	**32,904**	16,015
Allowance for billing adjustments (i)	**1,785,022**	1,817,782	**–**	–
Other payables (ii)	**3,514,230**	3,707,235	**3,781**	1,400
	6,658,254	6,852,344	**36,685**	17,415

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 US$'000	**Restructuring** US$'000	**Environmental restoration** US$'000	**Total** US$'000
Year ended March 31, 2014				
At the beginning of the year	**1,054,181**	–	**56,042**	1,110,223
Exchange adjustment	**3,997**	–	**(2,837)**	1,160
Provisions made	**898,264**	–	**8,610**	906,874
Amounts utilized	**(812,936)**	–	**(5,179)**	(818,115)
Unused amounts reversed	**(16,246)**	–	**(36,952)**	(53,198)
	1,127,260	–	**19,684**	1,146,944
Long-term portion classified as non-current liabilities	**(277,231)**	–	**(17,559)**	(294,790)
At the end of the year	**850,029**	–	**2,125**	852,154
Year ended March 31, 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

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

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

28 Bank borrowings

	Group		Company	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
Term loans (i)	**310,125**	303,133	**300,000**	300,000
Short-term loans (ii)	**145,477**	175,838	**–**	–
	455,602	478,971	**300,000**	300,000

Notes:

(i) Term loans comprise a US$300 million (2013: US$300 million) 5-year term loan facility entered into in July 2009. It has been withdrawn 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	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
Within 1 year	**445,477**	175,838	**300,000**	–
Over 1 to 3 years	**10,125**	303,133	**–**	300,000
	455,602	478,971	**300,000**	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	
	2014	2013	**2014**	2013
	US$'000	US$'000	**US$'000**	US$'000
Revolving loans	**1,300,000**	500,000	**–**	–
Term loans	**711,045**	389,000	**310,125**	303,133
Short-term loans	**324,643**	668,000	**145,477**	175,838
Foreign exchange contracts	**7,076,019**	5,934,000	**6,513,326**	4,945,000
Other trade finance facilities	**489,054**	391,000	**213,745**	242,000
	9,900,761	7,882,000	**7,182,673**	5,665,971

All the bank borrowings are unsecured and the effective annual interest rates at March 31, 2014 are as follows:

	United States dollar		Other currencies	
	2014	2013	**2014**	2013
Term loans	**2.24%**	2.3%-2.45%	**8%**	5.54%-12.92%
Short-term loans	**0%-5.0%**	N/A	**0%-12.87%**	3.5%-12.92%

29 Other non-current liabilities

	Group		Company	
	2014 **US$'000**	2013 US$'000	**2014** **US$'000**	2013 US$'000
Contingent considerations (i)	**307,183**	302,367	**305,929**	301,113
Deferred consideration (i)	**2,151**	2,151	**–**	–
Guaranteed dividend to non-controlling shareholders of a subsidiary (ii)	**18,922**	23,699	**–**	–
Environmental restoration (Note 27(b))	**17,559**	54,328	**–**	–
Written put option liability (iii)	**217,157**	215,018	**–**	–
Government incentives and grants received in advance (iv)	**143,778**	122,841	**–**	–
Others	**138,164**	126,135	**307**	597
	844,914	846,539	**306,236**	301,710

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.

As at March 31, 2014, 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$4 million and US$30 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 incentives and 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 incentives and grants. The government incentive and grants are credited to the income statement upon fulfillment of those conditions.

30 Share capital

	2014		2013	
	Number of shares	US$'000	Number of shares	US$'000
Maximum number of shares can be issued:				
At the beginning and end of the year				
Ordinary shares	20,000,000,000		20,000,000,000	
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	10,439,152,059	33,465	10,335,612,596	33,131
Issue of ordinary shares	–	–	140,299,463	452
Exercise of share options	18,277,450	816	20,486,000	67
Repurchase of shares	(51,054,000)	(164)	(57,246,000)	(185)
Transfer from share premium and share redemption reserve (Note 31)	–	1,615,984	–	–
At the end of the year	10,406,375,509	1,650,101	10,439,152,059	33,465

An entirely new Companies Ordinance (Cap.622) ("new CO") that came into effect on March 3, 2014. The authorized share capital of the Company as at March 31, 2013 was HK$500,000,000, representing 20,000,000,000 of ordinary shares, which become the maximum number of shares that can be issued under the new CO. The limit may be removed by shareholders of the Company passing an ordinary resolution. The new CO abolishes authorized share capital, par value, share premium, and share redemption reserve, in respect of the share capital of Hong Kong S.A.R. of China companies. As a result, the amounts of share premium and share redemption reserve of the Company are transferred to the share capital.

(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.

30 Share capital *(continued)*

(a) Long-term incentive program *(continued)*

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.

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, 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
Outstanding at April 1, 2013	**164,412,435**	**170,406,536**
Granted during the year	**7,057,800**	**55,119,546**
Vested during the year	**(59,706,679)**	**(71,231,773)**
Lapsed/cancelled during the year	**(8,535,288)**	**(16,790,916)**
Outstanding at March 31, 2014	**103,228,268**	**137,503,393**
Average fair value per unit (HK$)		
– At March 31, 2013	2.37	6.50
– At March 31, 2014	**2.15**	**7.34**

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, 2014, 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 36.62 percent (2013: 39.47 percent), expected dividends during the vesting periods of 2.71 percent (2013: 2.25 percent), contractual life of 4.75 years (2013: 4.75 years), and a risk-free interest rate of 0.67 percent (2013: 0.24 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2014 ranged from 0.08 to 3.92 years (2013: 0.08 to 3.92 years).

30 Share capital *(continued)*

(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 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.

	2014 Number of outstanding share options	2013 Number of outstanding share options
At the beginning of the year	**63,939,051**	92,661,051
Exercised during the year (ii)	**(18,277,450)**	(20,486,000)
Lapsed during the year (iii)	**(14,174,000)**	(8,236,000)
At the end of the year (iv)	**31,487,601**	63,939,051

(i) No share options were granted or cancelled by the Company during the years ended March 31, 2013 and 2014.

(ii) Details of share options exercised during the year ended March 31, 2014 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$**
04.03.2013 to 04.25.2013	**2.245**	**6.45-7.63**	**1,314,000**	**2,949,930**
04.03.2013 to 04.25.2013	**2.545**	**6.60-7.63**	**164,000**	**417,380**
05.15.2013 to 05.31.2013	**2.545**	**6.71-7.99**	**260,000**	**661,700**
06.03.2013 to 06.17.2013	**2.545**	**7.40-8.08**	**472,000**	**1,201,240**
07.12.2013 to 07.31.2013	**2.545**	**7.06-7.27**	**72,000**	**183,240**
08.01.2013 to 08.30.2013	**2.545**	**7.12-7.88**	**446,000**	**1,135,070**
09.03.2013 to 09.27.2013	**2.545**	**7.55-8.26**	**3,158,000**	**8,037,110**
10.08.2013 to 10.31.2013	**2.545**	**8.07-8.33**	**2,612,000**	**6,647,540**
11.01.2013 to 11.29.2013	**2.545**	**8.36-9.46**	**4,892,000**	**12,450,140**
12.02.2013 to 12.31.2013	**2.545**	**9.13-9.49**	**526,000**	**1,338,670**
01.02.2014 to 01.30.2014	**2.545**	**8.99-10.96**	**1,805,450**	**4,594,870**
02.10.2014 to 02.28.2014	**2.545**	**7.72-8.62**	**222,000**	**564,990**
03.03.2014 to 03.31.2014	**2.545**	**8.14-8.59**	**2,334,000**	**5,940,030**
			18,277,450	**46,121,910**
				US$5,946,000

30 Share capital *(continued)*

(b) Share options *(continued)*

(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

(iii) Details of share options lapsed during the years ended March 31, 2014 and 2013 are as follows:

Exercise period (MM.DD.YYYY)	Exercise price HK$	**2014 Number of share options lapsed**	2013 Number of share options lapsed
New Option Scheme			
04.26.2003 to 04.25.2013	2.245	**14,174,000**	–
10.10.2002 to 10.09.2012	2.435	**–**	8,236,000
		14,174,000	8,236,000

30 Share capital *(continued)*

(b) Share options *(continued)*

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

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2014 Number of outstanding share options**	2013 Number of outstanding share options
New Option Scheme			
04.26.2003 to 04.25.2013	2.245	**–**	15,488,000
04.27.2004 to 04.26.2014	2.545	**31,487,601**	48,451,051
		31,487,601	63,939,051

31 Share premium and reserves – Company

The changes in the share premium and reserves of the Company during the years ended March 31, 2014 and 2013 are as follows:

	Share premium US$'000	**Share redemption reserve** US$'000	**Share-based compensation reserve** US$'000	**Exchange reserve** US$'000	**Other reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000
At April 1, 2013	**1,654,806**	**1,188**	**(3,149)**	**10,204**	**3,570**	**290,204**	**1,956,823**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**353,129**	**353,129**
Exercise of share options	**5,130**	**–**	**–**	**–**	**–**	**–**	**5,130**
Repurchase of shares	**(45,304)**	**164**	**–**	**–**	**–**	**–**	**(45,140)**
Vesting of shares under long-term incentive program	**–**	**–**	**(100,747)**	**–**	**–**	**–**	**(100,747)**
Share-based compensation	**–**	**–**	**80,274**	**–**	**–**	**–**	**80,274**
Release of escrow shares for settlement of acquisition consideration	**–**	**–**	**–**	**–**	**5,044**	**–**	**5,044**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(268,009)**	**(268,009)**
Transfer to share capital (Note 30)	**(1,614,632)**	**(1,352)**	**–**	**–**	**–**	**–**	**(1,615,984)**
At March 31, 2014	**–**	**–**	**(23,622)**	**10,204**	**8,614**	**375,324**	**370,520**
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

32 Significant related party transactions

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

	2014 US$'000	2013 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate)		
– Purchase of goods	2,508	9,183
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
– Service income	–	351

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, 2014, the Group and the Company had the following other capital commitments:

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Contracted but not provided for:				
– Property, plant and equipment	153,621	102,341	–	–
– Patent and technology	122,500	–	122,500	–
– Prepaid lease payments	–	6,015	–	–
– IT consulting services	830	1,953	–	–
	276,951	110,309	122,500	–
Authorized but not contracted for:				
– Property, plant and equipment	890,701	914,126	–	–
– Prepaid lease payments	65,692	52,229	–	–
	956,393	966,355	–	–

Acquisition of IBM X86 server business

On January 23, 2014, the Company entered into a Master Asset Purchase Agreement with International Business Machines Corporation ("IBM"), pursuant to which the Company agreed to acquire the X86 server hardware and related maintenance service business of IBM. The acquisition will be made with a total consideration of US$2,300,000,000.

Acquisition of Motorola Mobility Group

On January 30, 2014, the Company entered into an Acquisition Agreement with Google Inc. ("Google"), pursuant to which the Company agreed to acquire 100% interest in Motorola Mobility Group. The acquisition will be made with a total consideration of US$2,910,000,000.

The completion of these two acquisitions is pending for the approval of certain relevant government authorities.

33 Commitments *(continued)*

(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:

	2014 US$'000	2013 US$'000
Not later than one year	**63,798**	65,980
Later than one year but not later than five years	**162,487**	184,605
Later than five years	**61,784**	96,025
	288,069	346,610

At March 31, 2014, the Company did not have any operating lease commitments (2013: 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, 2014, such facilities granted and utilized amounted to approximately US$1,865,449,000 and US$107,299,000 (2013: US$2,680,817,000 and US$229,308,000) 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

	2014 US$'000	2013 US$'000
Profit before taxation	**1,014,195**	801,299
Share of (gain)/loss of associates and joint ventures	**(9,221)**	718
Finance income	**(33,893)**	(44,881)
Finance costs	**80,974**	42,869
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**109,689**	92,097
Amortization of intangible assets and share-based compensation	**225,718**	195,231
(Gain)/loss on disposal of property, plant and equipment	**(356)**	1,353
(Gain)/loss on disposal of available-for-sale assets	**(21,880)**	959
Loss on disposal of construction-in-progress	**1,219**	732
Loss on disposal of intangible assets	**12,673**	3,124
Dividend income	**(547)**	(362)
De-recognition of contingent consideration	**–**	(19,861)
Fair value change on financial instruments	**(10,572)**	725
Release of escrow shares for settlement of acquisition consideration	**(6,913)**	–
Increase in inventories	**(739,964)**	(653,642)
Decrease/(increase) in trade receivables, notes receivable, deposits, prepayments and other receivables	**1,474**	(187,202)
Increase in trade payables, notes payable, provisions, accruals and other payables	**1,011,546**	17,842
Effect of foreign exchange rate changes	**6,244**	(5,618)
Net cash generated from operations	**1,640,386**	245,383

36 Retirement benefit obligations

	Group	
	2014 US$'000	2013 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**142,482**	149,219
Post-employment medical benefits	**14,033**	14,664
	156,515	163,883
Expensed in income statement		
Pension benefits (Note 10)	**21,799**	46,601
Post-employment medical benefits	**492**	1,055
	22,291	47,656
Remeasurements for:		
Defined pension benefits	**(3,060)**	16,958
Post-employment medical benefits	**(928)**	216

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:

	2014 US$'000	2013 US$'000
Present value of funded obligations	**389,172**	405,537
Fair value of plan assets	**(266,875)**	(275,422)
Deficit of funded plans	**122,297**	130,115
Present value of unfunded obligations	**20,185**	19,104
Liability in the balance sheet	**142,482**	149,219
Representing:		
Pension benefits obligation	**142,482**	149,340
Pension plan assets	**–**	(121)
	142,482	149,219

The principal actuarial assumptions used are as follows:

	2014	2013
Discount rate	**1.75%-3.75%**	1.75%-3.5%
Future salary increases	**0%-3%**	2%-5%
Future pension increases	**0%-1.75%**	0%-1.8%
Life expectancy for male aged 60	**23**	23
Life expectancy for female aged 60	**29**	27

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 6.6%	Increase by 7.4%
Salary growth rate	0.5%	Increase by 0.5%	Decrease by 0.5%
Pension growth rate	0.5%	Increase by 1.2%	Decrease by 1.6%
Life expectancy	Increase by 1 year in assumption	Increase by 1.7%	Decrease by 1 year in assumption / Decrease by 1.6%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

36 Retirement benefit obligations *(continued)*

(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:

	2014 US$'000	2013 US$'000
Present value of funded obligations	**18,287**	18,676
Fair value of plan assets	**(5,545)**	(5,878)
	12,742	12,798
Present value of unfunded obligations	**1,291**	1,866
Liability in the balance sheet	**14,033**	14,664

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

Plan assets of the Group comprise:

	2014			2013		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension						
Equity instruments						
Information technology	**860**	**–**	**860**	1,004	–	1,004
Energy	**298**	**–**	**298**	279	–	279
Manufacturing	**1,216**	**–**	**1,216**	2,360	–	2,360
Others	**11,239**	**–**	**11,239**	6,461	–	6,461
	13,613	**–**	**13,613**	10,104	–	10,104
Debt instruments						
Government	**26,775**	**42,898**	**69,673**	21,207	90,291	111,498
Corporate bonds (investment grade)	**39,673**	**7,105**	**46,778**	37,471	2,359	39,830
Corporate bonds (Non-investment grade)	**–**	**472**	**472**	400	–	400
	66,448	**50,475**	**116,923**	59,078	92,650	151,728
Property	**–**	**18,877**	**18,877**	–	19,215	19,215
Qualifying insurance policies	**845**	**41,555**	**42,400**	7,836	34,645	42,481
Cash and cash equivalents	**8,135**	**–**	**8,135**	3,841	–	3,841
Investment funds	**437**	**–**	**437**	763	126	889
Structured bonds	**–**	**48,503**	**48,503**	–	42,433	42,433
Others	**158**	**17,829**	**17,987**	–	4,731	4,731
	9,575	**126,764**	**136,339**	12,440	101,150	113,590
	89,636	**177,239**	**266,875**	81,622	193,800	275,422
Medical Plan						
Cash and cash equivalents	**5,545**	**–**	**5,545**	5,878	–	5,878

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership and liability profile, the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 14.5 years.

36 Retirement benefit obligations *(continued)*

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

Expected maturity analysis of undiscounted pension and post-employments medical benefits:

At March 31, 2014	Less than a year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Over 5 years US$'000	Total US$'000
Pension benefits	10,614	11,840	42,873	569,171	634,498
Post-employment medical benefits	3,328	3,630	2,562	22,238	31,758
Total	13,942	15,470	45,435	591,409	666,256

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2013: Nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Opening fair value	**275,422**	224,497	**5,878**	6,445
Exchange adjustment	**(12,285)**	(17,494)	**(1)**	10
Interest income	**5,965**	5,904	**160**	174
Remeasurements:				
Return on plan assets excluding interest income	**1,015**	888	**–**	–
Experience (losses)/gains	**(281)**	7,217	**(146)**	(265)
Contributions by the employer	**19,698**	59,953	**27**	(90)
Contributions by plan participants	**415**	167		–
Benefits paid	**(23,074)**	(5,710)	**(373)**	(396)
Closing fair value	**266,875**	275,422	**5,545**	5,878
Actual return on plan assets	**6,699**	14,009	**14**	(91)

Contributions of US$8,295,000 are estimated to be made for the year ending March 31, 2015.

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

	Pension		Medical	
	2014 US$'000	2013 US$'000	**2014 US$'000**	2013 US$'000
Opening defined benefit obligation	**424,641**	415,910	**20,542**	19,850
Exchange adjustment	**(16,002)**	(36,259)	**(169)**	(79)
Current service cost	**15,850**	16,233	**495**	522
Past service cost	**(695)**	2,031	**(34)**	–
Interest cost	**9,689**	10,407	**685**	707
Remeasurements:				
Loss from change in demographic assumptions	**509**	911	**69**	33
(Gain)/loss from changes in financial assumptions	**(4,614)**	13,389	**(678)**	127
Experience losses/(gains)	**1,779**	10,763	**(465)**	(209)
Contributions by plan participants	**415**	167	**–**	–
Benefits paid	**(25,135)**	(8,709)	**(373)**	(409)
Curtailments	**2,920**	(202)	**(494)**	–
Closing defined benefit obligation	**409,357**	424,641	**19,578**	20,542

During the year, benefits of US$2,061,000 were paid directly by the Group (2013: US$2,999,000).

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:

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Present value of defined benefit obligations	**428,935**	445,183	435,760	255,673	239,566
Fair value of plan assets	**272,420**	281,300	230,942	180,803	158,699
Deficit	**156,515**	163,883	204,818	74,870	80,867
Actuarial (gains)/losses arising on plan assets	**(588)**	(7,840)	1,786	3,642	(386)
Actuarial (gains)/losses arising on plan liabilities	**(3,400)**	25,014	35,751	3,548	11,226
	(3,988)	17,174	37,537	7,190	10,840

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

	Pension		Medical	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Current service cost	**15,850**	16,233	**495**	522
Past service cost	**(695)**	26,031	**(34)**	–
Interest cost	**9,689**	10,407	**685**	707
Interest income	**(5,965)**	(5,904)	**(160)**	(174)
Curtailment losses	**2,920**	(166)	**(494)**	–
Total expense recognized in the consolidated income statement	**21,799**	46,601	**492**	1,055

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

37 Business combinations

During the year, the Group has finalized the fair value assessments for the net assets acquired (including intangible assets) from the business combination activities in respect of Stoneware and CCE. The goodwill of Stoneware and CCE, amounting to approximately US$163 million (March 31, 2013: US$150 million) has been allocated to the AG market segment. The movement mainly represents additional indirect tax provisions recognized following the relevant tax reviews that were completed during the year, and certain minor adjustments on working capital balances and non-current asset items (including intangible assets), net of exchange adjustments.

38 Principal subsidiaries

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2014	2013	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	BRL174,669,670	100%	100%	Manufacturing and distribution of IT products
Digibrás Indústria do Brasil S.A.	Brazil	BRL728,440,677.92	100%	100%	Manufacturing and distribution of IT products
Dual Mix Comércio de Eletrônica Ltda.	Brazil	BRL106,719	100%	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.) [1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	51%	51%	Manufacturing and distribution of IT products
Lenovo (Asia Pacific) Limited	Hong Kong S.A.R. of China	HK$1,667,065,380.02	100%	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD30,069,597	100%	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,275,770,952.46	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 S.A.R. of China	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

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2014	2013	Principal activities
Lenovo (France) SAS	France	EUR1,837,000	100%	100%	Distribution of IT products
Lenovo (Hong Kong S.A.R. of China) Limited	Hong Kong S.A.R. of China	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	INR5,296,421,514	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
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 S.A.R. of China	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
聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	RMB10,000,000	100%	100%	R&D of mobile software
聯想移動通信(武漢)有限公司 (Lenovo Mobile Communication (Wuhan) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	RMB60,000,000	100%	100%	Manufacturing of mobile products
Lenovo PC HK Limited	Hong Kong S.A.R. of China	HK$2 ordinary and HK$1,000,000 non-voting deferred	100%	100%	Procurement agency and distribution of IT products
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	100%	100%	Distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2014	Percentage of issued capital held 2013	Principal activities
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,862,818,706	100%	100%	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	BRL1,986,893,072	100%	100%	Manufacturing and Distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB100,000,000	100%	100%	Distribution of IT products as well as mobile phone, smart phone and tablet
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 S.A.R. of China	HK$366,012,965.72 ordinary	51%	51%	Distribution of IT products
聯想(武漢)有限公司 (Lenovo (Wuhan) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
聯想(西安)有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	100%	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	79.82%	79.82%	Retail and service business for consumer electronic products
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	51%	51%	Manufacturing and distribution of IT products
Stoneware, Inc.	United States	US$861,341.25	100%	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

38 Principal subsidiaries *(continued)*

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 and of CCE for the years ended March 31, 2013 and 2014 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.

39 Subsequent events

On May 8, 2014, the Group completed the issuance of a 5-Year US$1,500 million, bearing annual interest at 4.7%, Notes due 2019. The proceeds of the Notes issue would be used for general corporate purposes including working capital, and to fund any acquisition activities.

40 Approval of financial statements

The financial statements were approved by the board of directors on May 21, 2014.

FIVE-YEAR FINANCIAL SUMMARY

Condensed consolidated income statement

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Revenue	**38,707,129**	33,873,401	29,574,438	21,594,371	16,604,815
Profit before taxation	**1,014,195**	801,299	582,443	357,751	176,303
Taxation	**(196,725)**	(169,707)	(107,027)	(84,515)	(46,935)
Profit for the year	**817,470**	631,592	475,416	273,236	129,368
Profit/(loss) attributable to:					
Equity holders of the Company	**817,228**	635,148	472,992	273,234	129,368
Non-controlling interests	**242**	(3,556)	2,424	2	–
	817,470	631,592	475,416	273,236	129,368
Earnings per share					
Basic (US cents)	**7.88**	6.16	4.67	2.84	1.42
Diluted (US cents)	**7.78**	6.07	4.57	2.73	1.33

Condensed consolidated balance sheet

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Non-current assets	**4,956,545**	4,492,260	4,040,348	2,769,476	2,720,315
Current assets	**13,400,548**	12,389,737	11,820,400	7,936,463	6,235,613
Total assets	**18,357,093**	16,881,997	15,860,748	10,705,939	8,955,928
Non-current liabilities	**1,870,051**	2,110,342	1,603,102	838,386	930,557
Current liabilities	**13,462,322**	12,091,474	11,809,677	8,032,653	6,419,353
Total liabilities	**15,332,373**	14,201,816	13,412,779	8,871,039	7,349,910
Net assets	**3,024,720**	2,680,181	2,447,969	1,834,900	1,606,018

CORPORATE INFORMATION

HONORARY CHAIRMAN
Mr. Liu Chuanzhi

BOARD OF DIRECTORS
Chairman and executive director
Mr. Yang Yuanqing

Non-executive directors
Mr. Zhu Linan
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
Ms. Ma Xuezheng

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu, Eric

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Citibank, N.A.
Industrial and Commercial Bank of China
The Royal Bank of Scotland plc
Standard Chartered Bank (Hong Kong S.A.R. of China) Limited

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STOCK CODES
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