lenovo联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2014/15 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended June 30, 2014 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

	3 months ended June 30, 2014 (unaudited) *US$'million*	3 months ended June 30, 2013 (unaudited) *US$'million*	Year-on-year change
Revenue	10,395	8,787	18%
Gross profit	1,349	1,191	13%
Gross profit margin	13.0%	13.6%	(0.6pts)
Operating expenses	(1,066)	(989)	8%
Operating profit	283	202	40%
Other non-operating (expense)/ income	(19)	13	N/A
Profit before taxation	264	215	22%
Profit for the period	211	170	24%
Profit attributable to equity holders of the Company	214	174	23%
Earnings per share attributable to equity holders of the Company			
Basic	US 2.06 cents	US 1.67 cents	US 0.39 cent
Diluted	US 2.03 cents	US 1.65 cents	US 0.38 cent

BUSINESS REVIEW AND OUTLOOK

Business Review

During the three months ended June 30, 2014, Lenovo continued to deliver strong growth in group sales and operating profits with margin expansion. Lenovo's clear strategy and solid execution led the Group to achieve strong results with record performance across all lines of business. During the period under review, Lenovo continued to strengthen its leading position in the industries it is in - number one worldwide in PCs, number two worldwide in the broader PC (PC plus tablet) market, and number three worldwide in the smart connected device category.

The worldwide PC market continued to show signs of stabilization with the magnitude of decline further diminishing during the fiscal quarter under review. The Group recorded 15 percent year-on-year unit shipments growth, the fastest among the top five players in the fiscal quarter one against the global PC market decline at 1 percent, thereby outperforming the worldwide PC market by a 16-points premium. Lenovo further strengthened its number one position in the worldwide PC market and reached another record high share of 19.4 percent in fiscal quarter one, according to the preliminary industry estimates. The Group recorded share gains across geographic, product and customer segments, and reached record-high market shares in EMEA and Americas (AG), notebook PC, commercial and consumer PCs.

During the period under review, the Group's mobile device business continued to deliver strong growth with improving profitability, which helped bolster its overall performance. The Group's worldwide smartphone shipments grew about 39 percent year-on-year to a record-high level of 15.8 million during the fiscal quarter one, driven by strong growth in China and continued business expansion in emerging markets outside of China. For fiscal quarter one, Lenovo maintained its position as the number four smartphone vendor in the world, according to preliminary industry estimates, driven by solid strategic execution. On the tablet side, the Group demonstrated strong growth momentum for its tablet business and became worldwide number three player during the quarter under review. Its worldwide tablet shipments grew almost 8 times the market rate year-on-year to unit shipments of 2.3 million in fiscal quarter one, according to preliminary industry estimates. Thanks to strong performance in both PC and tablet, the Group has narrowed the market share gap with Apple to only 0.7 points as the number two player in the broader PC market.

For the three months ended June 30, 2014, the Group's sales increased by 18 percent year-on-year to US$10,395 million. Sales by the Group's PC and other personal technology products were US$8,510 million, representing a year-on-year increase of 16 percent. Sales by the mobile devices increased by 32 percent year-on-year to US$1,591 million. Sales of other goods and services was US$294 million. Gross profit increased by 13 percent year-on-year to US$1,349 million. Gross margin decreased by 0.6 points year-on-year to 13 percent due to higher mix from consumer products. The Group's operating expenses increased by 8 percent year-on-year to US$1,066 million mainly attributed to increased marketing and promotion expenses. The Group's expense-to-revenue ratio benefiting from better scaling and stringent cost control, improved by 1 percentage points year-on-year to 10.3 percent. The Group recorded profit before taxation at US$264 million and profit attributable to equity holders of US$214 million, representing increases of 22 and 23 percent year-on-year respectively.

Performance of Geographies

During the three months ended June 30, 2014, Lenovo achieved solid and balanced performance in all geographies where it has operations - China, Americas ("AG"), Asia Pacific ("AP"), and EMEA - as well as across product and customer segments.

China

China accounted for 36 percent of the Group’s total revenue. Driven by solid execution of the Group’s strategy, Lenovo recorded balanced growth in both PC and mobile device businesses and delivered profitable growth during the fiscal quarter one.

The China PC market continued to show signs of stabilization with decline magnitude diminishing during the quarter. Lenovo continued to outperform in the China PC market through its solid execution and distinct strength in brand, product and distribution channel networks. The Group further strengthened its number one position with market share gain of 1.3 percentage points year-on-year to 37.1 percent in the fiscal quarter one, and continued to improve its profitability by leveraging its leadership position.

The Group’s Plus strategy continued to work well during the period under review. The Group refined its strategy and focused on the balance between growth and profitability for its mobile device business in China. The Group’s smartphone shipments were up 20 percent year to year and surpassed Samsung to become number one for the first time during the quarter according to preliminary industry estimates while improving its profits. During the period under review, the Group’s China revenue grew 2 percent year-on-year to US$3,780 million, while the operating profit increased by 8 percent to US$209 million and operating margin was 5.5 percent, an increase of 0.3 percentage points year-on-year. Operating margin for the China PC business was 7 percent, up 0.2 percentage points year-on-year, benefiting from its better product mix with improved average selling price and stringent expense control.

Americas (AG)

AG accounted for 22 percent of the Group’s total revenue. Lenovo’s unit shipments in AG grew by 24 percent year-on-year, a 27-points premium to the market driven by strong growth in both consumer and commercial businesses in the fiscal quarter one. The Group’s market share increased by 2.7 percentage points from a year ago to 12.5 percent, retaining its number three position in the AG PC market in the fiscal quarter one, according to preliminary industry estimates. The Group continued to benefit from strong growth in both commercial and consumer businesses during the quarter, and its market share was up 1.5 percentage points to 11.6 percent in North America. Lenovo continued to invest in Brazil and Latin America to strengthen its foundation to ensure operational improvement in the future.

The Group’s AG revenue grew 19 percent year-on-year to US$2,241 million. Operating profit in AG decreased by around US$1 million year-on-year to US$25 million and operating margin was 1.1 percent, a decrease of 0.3 percentage points year-on-year. The decrease was mainly attributable to continued investments in Brazil and Latin America during the fiscal quarter one.

Asia Pacific (AP)

AP accounted for 15 percent of the Group’s total revenue. The Group continued to drive profitable growth in its businesses in AP. The Group’s PC unit shipments in AP grew 5 percent year-on-year, with market share increased by 1.8 percentage points year-on-year, to 15 percent. During the period under review, Lenovo also achieved strong growth in its mobile device businesses. The smartphone unit shipments grew almost 9 times the market rate to 1.5 million and recorded strong growth in key markets such as Indonesia, Philippines and Malaysia in fiscal quarter one according to preliminary industry estimates.

The Group’s AP revenue grew 20 percent year-on-year to US$1,585 million. Thanks to its solid performance in Japan, it achieved a record high operating profit of US64 million in AP during the quarter under review. Operating profit margin improved 3.2 percentage points year-on-year to a record high level at 4.1 percent.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 27 percent of the Group's total revenue. Lenovo's PC unit shipments in EMEA grew by 51 percent year-on-year, which was a 41-points premium to the market in fiscal quarter one. Thus the Group's market share increased by 4.8 percentage points from a year ago to a record high 18 percent in fiscal quarter one, according to preliminary industry estimates. Strong year-on-year unit shipments growth and share gains were recorded across all regions during the period under review. In fiscal quarter one, Lenovo achieved the number one PC position in 15 countries in EMEA, including Germany and Russia, and became the number one player in the notebook computer market in EMEA. Lenovo has also continued to expand its smartphone and tablet business in EMEA and achieved strong growth for both businesses in this fiscal quarter. Its smartphone unit shipments have surpassed 1 million and grew almost 7 times year-on-year, mainly in the Eastern Europe region, according to preliminary industry estimates.

The Group's EMEA revenue grew 49 percent year-on-year to US$2,789 million. Thanks to strong growth across the board, it achieved a record high operating profit of US$95 million in EMEA during the quarter under review. Operating profit margin improved 1.9 percentage points year-on-year to a record high level at 3.4 percent.

Performance of Product Group

Lenovo's commercial PC unit shipments grew 12 percent year-on-year, a 9-points premium to the market. Lenovo's market share in the worldwide commercial PC market increased by 1.8 percentage points year-on-year to a record high 21.1 percent during the fiscal quarter under review, according to preliminary industry estimates. During the quarter under review, the Think brand, which mainly targets premium PCs and tablets, and enterprise solutions, continued to launch innovative models in desktop, notebook PCs and tablets. These included commercial targeted products like ThinkCentre® M83z, with performance, efficiency and durability that make it the corporate notebook workhorse that sets the industry benchmark.

The Lenovo brand, which primarily focuses on the mainstream/entry PC and tablet products, was propelled by continued strong year-on-year growth of the consumer PC segment in EMEA, AP and AG markets to gain share in the consumer business. According to industry estimates, Lenovo further solidified its number one position in the worldwide consumer PC market. Its consumer PC unit shipments grew 19 percent year-on-year, which was a 23-points premium to the market, and its market share increased by 3.5 percentage points year-on-year to a record high 17.7 percent in the fiscal quarter one. During the period under review, Lenovo launched its Horizon 2 two-in-one tabletop 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.

During the quarter under review, the Mobile Business 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 15 million for the fiscal quarter one, growing by 39 percent year-on-year, solidifying its global number four smartphone vendor position with market share growing by 0.5 points year-on-year to 5.2 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 smartphone shipments from markets outside of China in fiscal quarter one represent 18 percent of total shipments, which grew from 5 percent a year ago thanks to the strong momentum from ASEAN and Eastern Europe markets. The Group's worldwide tablet shipments grew almost 8 times the market rate with shipments of 2.3 million in fiscal quarter one, becoming the number 3 player worldwide during the quarter under review, with a market share gained of 1.7 points year-on-year to 4.9 percent. During the quarter under review, the Group broadened its smartphone portfolio by unveiling more LTE smartphones, such as S810t, a first Octa core smartphone product from Lenovo and the A788t, both of which received good feedback from the market. On the tablet side, Lenovo also debuted its upgrade version of multimode Yoga Tablet HD+. The game-changing Yoga Tablet now offers a FHD (full high definition) display plus long battery life of up to 18 hours, and also three unique modes -- hold, tilt and stand -- giving consumers a better way to use a tablet.

The Enterprise Business Group also achieved strong growth during the quarter under review. The Group had volume growth of more than 33 percent year-on-year. The Group has showed strong business progress from both EMEA and AG. Lenovo debuted its ThinkServer® RS140/RS240 which offers a value-priced rack mount solution with incredible versatility and is an ideal choice for SMB customers.

Apart from devices, Lenovo continued to build the foundation for the Ecosystem business during the fiscal quarter under review. The Group has now one of the world’s largest app stores with more than 8 billion total downloads and almost 27 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 180 million users, and this App has also won an award at Mobile World Congress.

Outlook

The broader PC industry still offers Lenovo plenty of opportunities for profitable growth, particularly as the industry continues to consolidate. The PC market has continued to show signs of stabilizing driven by commercial refresh demand and consumers’ desire for high mobility devices. For tablets, as the Group predicted two years ago, the market has been challenged by convertible PCs on the high end, and by Phablet on the low end, and the Group expects larger screen tablets will converge with PCs while smaller screen tablets will converge with smartphones. Lenovo is strong in both categories where it will launch a new generation of exciting products in the second half of this year. Lenovo believes its broader PC business can continue its strong growth worldwide, and sees plenty of room for market share gains outside of China. The Group will strengthen its position in every geography by leveraging both its momentum and the opportunity from industry consolidation to drive profitable growth. In the meantime, the smartphone industry not only has continued to see much faster growth than the traditional PC market but also continued moving from premium to mainstream market. Lenovo, which has built a solid foundation across these business lines, is uniquely positioned to capture these arising opportunities.

To strengthen its future growth in the mobile business, the Group will continue to broaden routes to market and address 4G opportunities in China, and expand aggressively in emerging markets. The recently announced plans for acquisition of Motorola Mobility will help the Group drive global outreach, once the deal is completed. 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, the Group believes the acquisition plan to acquire IBM’s x86 server business can enable it to gain immediate scale and credibility in the server market and become one of the top global x86 server providers, capturing the significant growth opportunities in the enterprise hardware systems space upon completion.

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.

To sustain its leadership in innovation, Lenovo is preparing to launch more exciting new products in the rest of year, which include the next wave of smartphone products and the next generation ecosystem to continue to improve brand image and user experience. Lenovo will remain focused on innovation to drive differentiation and expects to enhance its already strong R&D capability by adding talents from Motorola Mobility and IBM x86 server teams upon deal close.

Lenovo's solid execution of its clear strategy has led the Group to establish a firm foundation and leadership in PC and mobile device markets, and its commitments to innovation for a broad product portfolio helps differentiate the Group in its markets recognition. This allows 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 its 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.

FINANCIAL REVIEW

Results

For the period ended June 30, 2014, the Group achieved total sales of approximately US$10,395 million. Profit attributable to equity holders for the period was approximately US$214 million, representing an increase of US$40 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.6 points down from 13.6 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US2.06 cents and US2.03 cents, representing an increase of US0.39 cent and US0.38 cent respectively as compared with the corresponding period of last year.

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

	3 months ended June 30, 2014	3 months ended June 30, 2013
	US$'000	*US$'000*
China	**3,779,486**	3,718,898
AP	**1,585,429**	1,315,913
EMEA	**2,788,894**	1,867,602
AG	**2,240,827**	1,884,685
	10,394,636	8,787,098

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

Operating expenses analyzed by function for the three months ended June 30, 2014 and 2013 are as follows:

	3 months ended June 30, 2014 (unaudited)	3 months ended June 30, 2013 (unaudited)
	US$'000	*US$'000*
Other income - net	**305**	106
Selling and distribution expenses	**(466,670)**	(438,303)
Administrative expenses	**(369,284)**	(346,475)
Research and development expenses	**(180,171)**	(170,319)
Other operating expense - net	**(50,096)**	(34,527)
	(1,065,916)	(989,518)

Other income – net

Other income for the period mainly represents dividend income from available-for-sale financial assets.

Selling and distribution expenses

Selling and distribution expenses for the period increased by 6 percent as compared to the corresponding period of last year. This is principally attributable to a US$11 million increase in advertising and promotional expenses.

Administrative expenses

Administrative expenses for the period increased by 7 percent as compared to the corresponding period of last year. This is mainly attributable to the US$31 million increase in legal and professional fees in relation to business combination activities.

Research and development expenses
Research and development spending for the period increased by 6 percent as compared to the corresponding period of 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$8 million.

Other operating expense - net
The net other operating expense for the period comprises mainly a US$23 million net exchange loss and other miscellaneous expenses.

The net other operating expense in the corresponding period of last year represented mainly a US$20 million net exchange loss and other miscellaneous expenses.

Other non-operating (expense)/income for the three months ended June 30, 2014 and 2013 comprises the following:

	3 months ended June 30, 2014 (unaudited) ***US$'000***	3 months ended June 30, 2013 (unaudited) *US$'000*
Finance income	**18,480**	12,495
Finance costs	**(35,335)**	(14,747)
Share of (losses)/profits of associates and joint ventures	**(2,107)**	15,808
	(18,962)	13,556

Finance income mainly represents interest on bank deposits. The 48% increase is in line with the Group's increased cash balance.

Finance costs for the period increased by 140 percent as compared to the corresponding period of last year. This is mainly attributable to interest expense of US$10 million in relation to the new issuance of 5-Year US$1.5 billion notes bearing annual interest at 4.7% due in May 2019, and an increase in factoring costs of US$6 million.

Capital Expenditure

The Group incurred capital expenditure of US$313 million (2013/14: US$123 million) during the period ended June 30, 2014, mainly for the acquisition of property, plant and equipment, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At June 30, 2014, total assets of the Group amounted to US$20,734 million (March 31, 2014: US$18,357 million), which were financed by equity attributable to owners of the Company of US$3,243 million (March 31, 2014: US$3,010 million), non-controlling interests (net of put option written on non-controlling interest) of US$12 million (March 31, 2014: US$15 million), and total liabilities of US$17,479 million (March 31, 2014: US$15,332 million). At June 30, 2014, the current ratio of the Group was 1.10 (March 31, 2014: 1.00).

The Group had a solid financial position. At June 30, 2014, bank deposits, cash and cash equivalents totaled US$5,532 million (March 31, 2014: US$3,953 million), of which 68.3 (March 31, 2014: 66.9) percent was denominated in US dollar, 23.7 (March 31, 2014: 23.8) percent in Renminbi, 2.0 (March 31, 2014: 4.1) percent in Euros, 1.5 (March 31, 2014: 2.2) percent in Japanese Yen, and 4.5 (March 31, 2014: 3.0) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2014, 83.9 (March 31, 2014: 81.8) percent of cash are bank deposits, and 16.1 (March 31, 2014: 18.2) percent of cash are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year loan facility agreement of US$300 million with a bank on July 17, 2009. At June 30, 2014 and March 31, 2014, the facility was fully utilized, and the loan has been repaid in July 2014.

The Group entered into another 5-Year loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility has not been utilized as at June 30, 2014 (March 31, 2014: 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 June 30, 2014 (March 31, 2014: Nil).

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

The Group has also arranged other short-term credit facilities. At June 30, 2014, the Group's total available credit facilities amounted to US$8,352 million (March 31, 2014: US$7,890 million), of which US$489 million (March 31, 2014: US$489 million) was in trade lines, US$317 million (March 31, 2014: US$325 million) in short-term and revolving money market facilities and US$7,546 million (March 31, 2014: US$7,076 million) in forward foreign exchange contracts. At June 30, 2014, the amounts drawn down were US$219 million (March 31, 2014: US$214 million) in trade lines, US$7,410 million (March 31, 2014: US$6,513 million) being used for the forward foreign exchange contracts; and US$157 million (March 31, 2014: US$145 million) in short-term bank loans.

At June 30, 2014, the Group's outstanding borrowings represented the term bank loan of US$308 million, including US$300 million reclassified as current as it will be due for repayment in July 2014 (March 31, 2014: US$300 million), short-term bank loans of US$157 million (March 31, 2014: US$145 million) and long term notes of US$1,489 million (March 31, 2014: Nil). When compared with total equity of US$3,255 million (March 31, 2014: US$3,025 million), the Group's gearing ratio was 0.60 (March 31, 2014: 0.15). The net cash position of the Group at June 30, 2014 is US$3,578 million (March 31, 2014: US$3,498 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2014, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$7,410 million (March 31, 2014: US$6,513 million).

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

Contingent Liabilities

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

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended June 30, 2014 (unaudited) US$'000	3 months ended June 30, 2013 (unaudited) US$'000
Revenue	2	**10,394,636**	8,787,098
Cost of sales		**(9,045,927)**	(7,595,707)
Gross profit		**1,348,709**	1,191,391
Other income – net	3	**305**	106
Selling and distribution expenses		**(466,670)**	(438,303)
Administrative expenses		**(369,284)**	(346,475)
Research and development expenses		**(180,171)**	(170,319)
Other operating expense - net		**(50,096)**	(34,527)
Operating profit	4	**282,793**	201,873
Finance income	5(a)	**18,480**	12,495
Finance costs	5(b)	**(35,335)**	(14,747)
Share of (losses)/profits of associates and joint ventures		**(2,107)**	15,808
Profit before taxation		**263,831**	215,429
Taxation	6	**(53,272)**	(45,536)
Profit for the period		**210,559**	169,893
Profit/(loss) attributable to:			
Equity holders of the Company		**213,503**	173,932
Non-controlling interests		**(2,944)**	(4,039)
		210,559	169,893
Earnings per share attributable to equity holders of the Company			
Basic	7(a)	**US 2.06 cents**	US 1.67 cents
Diluted	7(b)	**US 2.03 cents**	US 1.65 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2014 (unaudited) *US$'000*	3 months ended June 30, 2013 (unaudited) *US$'000*
Profit for the period	**210,559**	169,893
Other comprehensive income/(loss):		
Item that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations, net of taxes	**-**	355
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	**391**	(1,378)
Fair value change on cash flow hedges, net of taxes		
- Forward foreign exchange contracts		
Fair value (loss)/gain, net of taxes	**(11,789)**	21,966
Reclassified to consolidated income statement	**15,069**	(26,682)
Currency translation differences	**10,696**	(11,721)
	14,367	(17,460)
Total comprehensive income for the period	**224,926**	152,433
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**227,870**	156,472
Non-controlling interests	**(2,944)**	(4,039)
	224,926	152,433

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2014 (unaudited)** *US$'000*	March 31, 2014 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**700,972**	667,413
Prepaid lease payments		**40,708**	40,884
Construction-in-progress		**377,825**	351,934
Intangible assets		**3,530,527**	3,339,516
Interests in associates and joint ventures		**24,268**	20,753
Deferred income tax assets		**383,628**	389,330
Available-for-sale financial assets		**38,536**	35,157
Other non-current assets		**129,510**	111,558
		5,225,974	4,956,545
Current assets			
Inventories		**2,759,281**	2,701,015
Trade receivables	*8(a)*	**3,646,651**	3,171,354
Notes receivable		**494,502**	447,325
Derivative financial assets		**20,497**	61,184
Deposits, prepayments and other receivables	*9*	**2,990,380**	3,000,826
Income tax recoverable		**64,487**	65,715
Bank deposits		**94,715**	94,985
Cash and cash equivalents		**5,437,042**	3,858,144
		15,507,555	13,400,548
Total assets		**20,733,529**	18,357,093

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**June 30, 2014 (unaudited)** *US$'000*	March 31, 2014 (audited) *US$'000*
Share capital	*13*	**1,650,486**	1,650,101
Reserves		**1,592,595**	1,360,029
Equity attributable to owners of the Company		**3,243,081**	3,010,130
Non-controlling interests		**224,546**	227,490
Put option written on non-controlling interest	*11(c)*	**(212,900)**	(212,900)
Total equity		**3,254,727**	3,024,720
Non-current liabilities			
Borrowings	*12*	**1,496,904**	10,125
Warranty provision	*10(b)*	**284,723**	277,231
Deferred revenue		**449,393**	438,385
Retirement benefit obligations		**160,218**	156,515
Deferred income tax liabilities		**144,245**	142,881
Other non-current liabilities	*11*	**848,428**	844,914
		3,383,911	1,870,051
Current liabilities			
Trade payables	*8(b)*	**5,338,269**	4,751,345
Notes payable		**103,015**	108,559
Derivative financial liabilities		**50,235**	58,462
Other payables and accruals	*10(a)*	**6,727,422**	6,658,254
Provisions	*10(b)*	**880,858**	852,154
Deferred revenue		**408,286**	410,330
Income tax payable		**129,950**	177,741
Borrowings	*12*	**456,856**	445,477
		14,094,891	13,462,322
Total liabilities		**17,478,802**	15,332,373
Total equity and liabilities		**20,733,529**	18,357,093
Net current assets/(liabilities)		**1,412,664**	(61,774)
Total assets less current liabilities		**6,638,638**	4,894,771

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2014 (unaudited) *US$'000*	3 months ended June 30, 2013 (unaudited) *US$'000*
Net cash generated from operating activities	**377,514**	140,041
Net cash used in investing activities	**(302,244)**	(138,978)
Net cash generated from/(used in) financing activities	**1,498,364**	(48,996)
Increase/(decrease) in cash and cash equivalents	**1,573,634**	(47,933)
Effect of foreign exchange rate changes	**5,264**	6,936
Cash and cash equivalents at the beginning of the period	**3,858,144**	3,454,082
Cash and cash equivalents at the end of the period	**5,437,042**	3,413,085

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital (unaudited) *US$'000*	Share premium (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Share redemption reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Hedging reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Retained earnings (unaudited) *US$'000*	Non-controlling interests (unaudited) *US$'000*	Put option written on non-controlling interest (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2014	**1,650,101**	**-**	**(6,734)**	**-**	**(49,003)**	**(23,622)**	**(3,209)**	**(235,381)**	**71,880**	**1,606,098**	**227,490**	**(212,900)**	**3,024,720**
Profit for the period	-	-	-	-	-	-	-	-	-	**213,503**	**(2,944)**	-	**210,559**
Other comprehensive income	-	-	**391**	-	-	-	**3,280**	**10,696**	-	-	-	-	**14,367**
Total comprehensive (loss)/income for the period	-	-	**391**	-	-	-	**3,280**	**10,696**	-	**213,503**	**(2,944)**	-	**224,926**
Transfer to statutory reserve	-	-	-	-	-	-	-	-	**2,990**	**(2,990)**	-	-	-
Exercise of share options	**385**	-	-	-	-	-	-	-	-	-	-	-	**385**
Vesting of shares under long-term incentive program	-	-	-	-	**27,648**	**(42,375)**	-	-	-	-	-	-	**(14,727)**
Share-based compensation	-	-	-	-	-	**19,718**	-	-	-	-	-	-	**19,718**
Contribution to employee share trusts	-	-	-	-	**(295)**	-	-	-	-	-	-	-	**(295)**
At June 30, 2014	**1,650,486**	**-**	**(6,343)**	**-**	**(21,650)**	**(46,279)**	**71**	**(224,685)**	**74,870**	**1,816,611**	**224,546**	**(212,900)**	**3,254,727**
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 period	-	-	-	-	-	-	-	-	-	173,932	(4,039)	-	169,893
Other comprehensive (loss)/income	-	-	(1,378)	-	-	-	(4,716)	(11,721)	-	355	-	-	(17,460)
Total comprehensive (loss)/income for the period	-	-	(1,378)	-	-	-	(4,716)	(11,721)	-	174,287	(4,039)	-	152,433
Transfer to statutory reserve	-	-	-	-	-	-	-	-	2,379	(2,379)	-	-	-
Exercise of share options	7	667	-	-	-	-	-	-	-	-	-	-	674
Repurchase of shares	(59)	(16,336)	-	59	-	-	-	-	-	-	-	-	(16,336)
Vesting of shares under long-term incentive program	-	-	-	-	22,845	(31,058)	-	-	-	-	-	-	(8,213)
Share-based compensation	-	-	-	-	-	21,229	-	-	-	-	-	-	21,229
Contribution to employee share trusts	-	-	-	-	(21,657)	-	-	-	-	-	-	-	(21,657)
At June 30, 2013	33,413	1,639,137	14,702	1,247	(21,009)	(12,978)	30,363	(178,571)	66,836	1,225,672	222,399	(212,900)	2,808,311

Notes

1 Basis of preparation

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

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

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

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

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

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

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	To be determined
HKFRS 15, Revenue from contracts with customers	January 1, 2017
Amendments to HKAS 19 (2011), Employee benefits	July 1, 2014
Amendments to HKFRS 11, Joint arrangements	January 1, 2016
Amendments to HKAS 16, Property, plant and equipment	January 1, 2016
Amendments to HKAS 38, Intangible assets	January 1, 2016

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

2 Segment information

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

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

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

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

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

	3 months ended June 30, 2014		3 months ended June 30, 2013	
	Revenue from external customers	**Adjusted pre-tax income**	Revenue from external customers	Adjusted pre-tax income
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**3,779,486**	**209,144**	3,718,898	194,015
AP	**1,585,429**	**64,380**	1,315,913	11,446
EMEA	**2,788,894**	**94,624**	1,867,602	27,619
AG	**2,240,827**	**24,963**	1,884,685	25,712
Segment total	**10,394,636**	**393,111**	8,787,098	258,792
Unallocated:				
Headquarters and corporate expenses		**(120,181)**		(60,057)
Finance income		**14,534**		6,246
Finance costs		**(21,831)**		(5,466)
Net gain on disposal of available-for-sale financial assets		**-**		106
Dividend income from available-for-sale financial assets		**305**		-
Share of (losses)/ profits of associates and joint ventures		**(2,107)**		15,808
Consolidated profit before taxation		**263,831**		215,429

(b) Segment assets for reportable segments

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
China	**6,505,429**	5,157,241
AP	**1,938,988**	1,993,624
EMEA	**2,456,279**	2,341,114
AG	**2,944,666**	2,559,869
Segment assets for reportable segments	**13,845,362**	12,051,848
Unallocated:		
Deferred income tax assets	**383,628**	389,330
Derivative financial assets	**20,497**	61,184
Available-for-sale financial assets	**38,536**	35,157
Interests in associates and joint ventures	**24,268**	20,753
Unallocated bank deposits and cash and cash equivalents	**3,378,604**	2,521,366
Unallocated inventories	**766,623**	757,648
Unallocated deposits, prepayments and other receivables	**1,965,667**	2,214,124
Income tax recoverable	**64,487**	65,715
Other unallocated assets	**245,857**	239,968
Total assets per consolidated balance sheet	**20,733,529**	18,357,093

(c) Segment liabilities for reportable segments

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
China	**4,240,091**	3,965,295
AP	**1,635,373**	1,671,669
EMEA	**1,404,281**	1,407,530
AG	**1,673,603**	1,636,349
Segment liabilities for reportable segments	**8,953,348**	8,680,843
Unallocated:		
Income tax payable	**129,950**	177,741
Deferred income tax liabilities	**144,245**	142,881
Derivative financial liabilities	**50,235**	58,462
Unallocated bank borrowings	**300,000**	300,000
Unallocated trade payables	**3,272,765**	2,862,851
Unallocated other payables and accruals	**2,704,410**	2,687,703
Unallocated provisions	**10,322**	16,522
Unallocated other non-current liabilities	**1,799,934**	308,889
Other unallocated liabilities	**113,593**	96,481
Total liabilities per consolidated balance sheet	**17,478,802**	15,332,373

(d) Analysis of revenue by significant category

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

	3 months ended June 30, 2014	3 months ended June 30, 2013
	US$'000	*US$'000*
Sale of personal technology products and services		
– desktop computer	**3,026,505**	2,523,393
– notebook computer	**5,095,012**	4,536,955
– mobile devices	**1,590,437**	1,203,381
– others	**388,593**	246,177
Sale of other goods and services	**294,089**	277,192
	10,394,636	8,787,098

(e) Other segment information

	China		AP		EMEA		AG		Total	
For the three months ended June 30	**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*
Depreciation and amortization	**25,222**	21,629	**15,109**	11,460	**15,663**	10,788	**20,021**	14,141	**76,015**	58,018
Finance income	**1,494**	450	**1,182**	281	**202**	299	**1,068**	5,219	**3,946**	6,249
Finance costs	**23**	2	**2,459**	1,083	**5,157**	1,503	**5,865**	6,693	**13,504**	9,281
Additions to non-current assets (Note)	**59,948**	10,695	**10,161**	1,876	**5,907**	1,133	**17,485**	16,243	**93,501**	29,947

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$2,858 million (March 31, 2014: US$2,843 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2014

	China	**AP**	**EMEA**	**AG**	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill	**1,125**	**608**	**283**	**390**	**2,406**
Trademarks and trade names	**209**	**59**	**117**	**67**	**452**

At March 31, 2014

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

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at June 30, 2014 (March 31, 2014: Nil).

3 Other income – net

	3 months ended June 30, 2014	3 months ended June 30, 2013
	US$'000	*US$'000*
Net gain on disposal of available-for-sale financial assets	**-**	106
Dividend income from available-for-sale financial assets	**305**	-
	305	106

4 Operating profit

Operating profit is stated after charging the following:

	3 months ended June 30, 2014	3 months ended June 30, 2013
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**35,296**	25,636
Amortization of intangible assets	**40,719**	32,382
Employee benefit costs, including	**703,582**	650,557
- *long-term incentive awards*	***19,718***	*21,229*
Rental expenses under operating leases	**23,873**	23,212

5 Finance income and costs

(a) Finance income

	3 months ended June 30, 2014 ***US$'000***	3 months ended June 30, 2013 *US$'000*
Interest on bank deposits	**18,095**	7,381
Interest on money market funds	**378**	728
Others	**7**	4,386
	18,480	12,495

(b) Finance costs

	3 months ended June 30, 2014 ***US$'000***	3 months ended June 30, 2013 *US$'000*
Interest on bank loans and overdrafts	**9,036**	7,863
Interest on long term notes	**10,480**	-
Factoring costs	**9,627**	3,609
Commitment fee	**3,285**	809
Interest on contingent considerations and put option liability	**1,812**	2,334
Others	**1,095**	132
	35,335	14,747

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2014 ***US$'000***	3 months ended June 30, 2013 *US$'000*
Current taxation		
Hong Kong profits tax	**7,933**	976
Taxation outside Hong Kong	**34,407**	104,032
Deferred taxation	**10,932**	(59,472)
	53,272	45,536

Hong Kong profits tax has been provided for at the rate of 16.5% (2013/14: 16.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long-term incentive program.

	3 months ended June 30, 2014	3 months ended June 30, 2013
Weighted average number of ordinary shares in issue	**10,407,329,465**	10,439,446,498
Adjustment for shares held by employee share trusts	**(45,625,700)**	(21,656,961)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,361,703,765**	10,417,789,537
	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**213,503**	173,932

(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.

	3 months ended June 30, 2014	3 months ended June 30, 2013
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,361,703,765**	10,417,789,537
Adjustments for share options and long-term incentive awards	**131,865,724**	137,415,198
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,493,569,489**	10,555,204,735
	US$'000	*US$'000*
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**213,503**	173,932

Adjustments for the dilutive potential ordinary shares are as follows:

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

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

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

8 Ageing analysis

(a) Customers are generally granted credit terms 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:

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
0 – 30 days	**2,406,422**	2,206,799
31 – 60 days	**817,797**	601,499
61 – 90 days	**228,697**	181,916
Over 90 days	**239,897**	220,754
	3,692,813	3,210,968
Less: provision for impairment	**(46,162)**	(39,614)
Trade receivables – net	**3,646,651**	3,171,354

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

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
0 – 30 days	**3,274,254**	2,761,170
31 – 60 days	**1,356,904**	1,217,547
61 – 90 days	**545,138**	586,145
Over 90 days	**161,973**	186,483
	5,338,269	4,751,345

9 Deposits, prepayments and other receivables

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

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
Deposits	**1,726**	1,635
Other receivables (a)	**1,926,583**	1,937,679
Prepayments (b)	**1,062,071**	1,061,512
	2,990,380	3,000,826

(a) Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business.

(b) The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers of US$380 million as at June 30, 2014 (March 31, 2014: US$413 million) are included in prepayments.

10 Provisions, other payables and accruals

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

	June 30, 2014 *US$'000*	March 31, 2014 *US$'000*
Accruals	**1,229,479**	1,359,002
Allowance for billing adjustments (i)	**1,869,374**	1,785,022
Other payables (ii)	**3,628,569**	3,514,230
	6,727,422	6,658,254

Notes:

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

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

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

(b) The components of provisions are as follows:

	Warranty *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
Period ended June 30, 2014			
At the beginning of the period	**1,127,260**	**19,684**	**1,146,944**
Exchange adjustment	**901**	**740**	**1,641**
Provisions made	**252,313**	**2,199**	**254,512**
Amounts utilized	**(209,722)**	**(1,422)**	**(211,144)**
Unused amounts reversed	**(8,243)**	**(16)**	**(8,259)**
	1,162,509	**21,185**	**1,183,694**
Long-term portion classified as non-current liabilities	**(284,723)**	**(18,113)**	**(302,836)**
At the end of the period	**877,786**	**3,072**	**880,858**

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.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	June 30, 2014	March 31, 2014
	US$'000	*US$'000*
Contingent considerations (a)	**308,400**	307,183
Deferred consideration (a)	**2,151**	2,151
Guaranteed dividend to non-controlling shareholders of a subsidiary (b)	**18,767**	18,922
Environmental restoration (Note 10 (b))	**18,113**	17,559
Written put option liability (c)	**217,695**	217,157
Government incentives and grants received in advance (d)	**141,066**	143,778
Others	**142,236**	138,164
	848,428	844,914

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

As at June 30, 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 respective shareholders under the arrangements are as follows:

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

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

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

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

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

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

12 Borrowings

	June 30, 2014	March 31, 2014
	US$’000	*US$’000*
Term bank loans (i)	**307,598**	310,125
Short-term bank loans (ii)	**156,856**	145,477
Long term notes (iii)	**1,489,306**	-
	1,953,760	455,602

(i) Term bank loans comprise a US$300 million (March 31, 2014: US$300 million) 5-year term loan facility entered into in July 2009. The term loan was drawn down in July 2012 and was repaid in July 2014.

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

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

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at June 30, 2014 and March 31, 2014 are as follows:

	June 30, 2014 *US$'000*	March 31, 2014 *US$'000*
Within 1 year	**456,856**	445,477
Over 1 to 3 years	**7,598**	10,125
Over 3 to 5 years	**1,489,306**	-
	1,953,760	455,602

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

13 Share capital

	June 30, 2014		March 31, 2014	
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**10,406,375,509**	**1,650,101**	10,439,152,059	33,465
Exercise of share options	**1,172,000**	**385**	18,277,450	816
Repurchase of shares	-	-	(51,054,000)	(164)
Transfer from share premium and share redemption reserve	-	-	-	1,615,984
At the end of the period/year	**10,407,547,509**	**1,650,486**	10,406,375,509	1,650,101

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

During the three months ended June 30, 2014, the trustee of the long-term incentive program of the Company purchased 300,000 shares from the market for award to employees upon vesting. Details of the program are set out in the 2013/14 Annual Report of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the three months ended June 30, 2014.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the three months ended June 30, 2014. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the three months ended June 30, 2014, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

The Board also appointed Mr. William O. Grabe as the Lead Independent Director with broad authority and responsibility. Among other responsibilities, the Lead Independent Director will chair the Nomination and Governance Committee meeting and/or the Board meeting when considering (a) the combined roles of Chairman and CEO; and (b) assessment of the performance of Chairman and/or CEO. The Lead Independent Director will also call and chair meeting(s) with all 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.

By Order of the Board
Yang Yuanqing
Chairman and
Chief Executive Officer

August 13, 2014

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