Lenovo Group Limited | 2014/15 Annual Report

Stock Code 992

NEVER STANDING STILL

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a $46 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and enterprise technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products like smartphones (including the Motorola brand), tablets and apps. Join us on LinkedIn, follow us on Facebook or Twitter (@Lenovo) or visit us at www.lenovo.com.

NEW ENGAGEMENT. NEW ERA.

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NEW JOURNEY. NEW EXPERIENCE.

Yoga 3 Pro

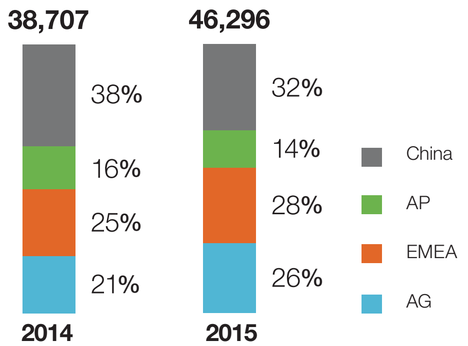
FINANCIAL HIGHLIGHTS

For the year ended March 31	2015 US$ million	2014 US$ million	Year-on-year Change
Group Results			
Revenue	**46,296**	38,707	20%
Gross profit	**6,682**	5,064	32%
Gross profit margin (%)	**14.4**	13.1	1.3 pts
Operating expenses	**(5,574)**	(4,012)	39%
Expense-to-revenue ratio (%)	**12.0**	10.4	1.6 pts
EBITDA[1]	**1,715**	1,365	26%
Pre-tax income	**971**	1,014	-4%
Pre-tax income margin (%)	**2.1**	2.6	-0.5 pts
Profit attributable to equity holders of the Company	**829**	817	1%
EPS – basic (US cents)	**7.77**	7.88	-0.11
EPS – diluted (US cents)	**7.69**	7.78	-0.09
Interim dividend per share (HK cents)	**6.0**	6.0	Nil
Final dividend per share (HK cents)[2]	**20.5**	18.0	2.5
Total dividend per share (HK cents)	**26.5**	24.0	2.5
Cash and Working Capital			
Bank deposits and cash and cash equivalents	**3,026**	3,953	-23%
Total borrowings	**(3,054)**	(455)	571%
Net (debt)/cash reserves	**(28)**	3,498	N/A
Cash conversion cycle (days)	**(2)**	(2)	Nil

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

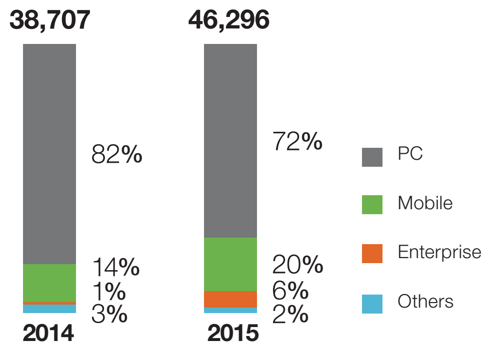
Revenue Analysis by Geography

for the year ended March 31 (US$ million)



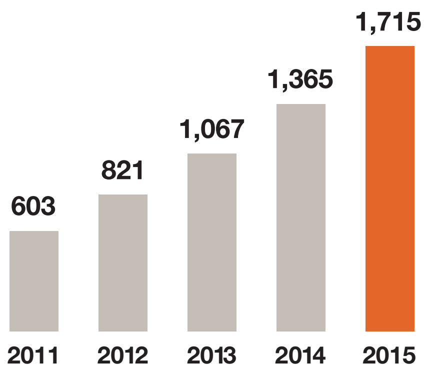
Revenue Analysis by Business Group

for the year ended March 31 (US$ million)



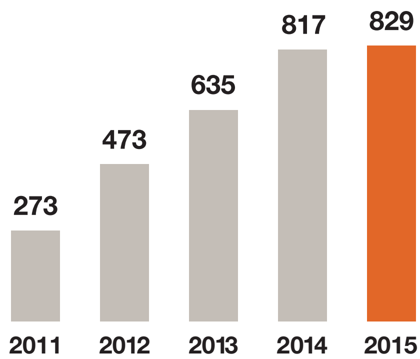
EBITDA[1]

for the year ended March 31 (US$ million)



Profit Attributable to Equity Holders of the Company

for the year ended March 31 (US$ million)



Notes:

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

NEW HORIZON. NEW VISION.

Moto 360

CHAIRMAN AND CEO STATEMENT

IN THE PAST YEAR, WE TOOK BOLD ACTION TO BUILD AN EVEN STRONGER FOUNDATION FOR OUR FUTURE. NOW, WE ARE READY TO TAKE THE NEXT STEPS. LENOVO WILL NEVER STAND STILL. INSTEAD, WE WILL BE BOLD AND WILL LEAD THE NEXT WAVE OF INNOVATIONS THAT MAKE OUR CUSTOMERS' LIVES MORE PRODUCTIVE AND MORE ENJOYABLE.

Throughout our history, Lenovo has succeeded by combining a clear focus on meeting our short-term commitments with a clear understanding of the changes and investments needed to ensure our long-term success. No fiscal year better illustrates Lenovo's ability to combine these two qualities than the one we just completed. Once again, Lenovo delivered record performance across all product lines. At the same time, we took bold action for the future, completing two major acquisitions that further strengthen our company by building new pillars for growth. We are now a stronger and more diversified company that is well positioned to be a global technology leader for years to come.

RECORD PERFORMANCE

During the past fiscal year, we again delivered record performance across all our businesses. Our achievements include:

- Record shipments and revenue: We again set all-time records for unit shipments and sales, with revenue of $46.3 billion. Lenovo now sells almost 5 devices every second of every day – while continuing to improve profitability.
- Completed two historic acquisitions: Lenovo successfully closed deals to acquire both the x86 server business from IBM and Motorola from Google. These deals immediately made Lenovo #3 worldwide in both x86 servers and in smartphones.

- Completed 2 straight years as global PC leader: We continued to win in our core PC business, achieving a record market share of almost 20%, and highlights include record share level in all Geos.
- We also set new records in smartphones and tablets:
  - In smartphones, we shipped a record 76 million units and strengthened our position as the world's #3 smartphone company. The addition of Motorola helped us expand to more than 60 markets worldwide, making us a truly global smartphone company. And now, almost 60% of smartphone volume comes from outside of China, giving us a global footprint that is a true competitive advantage.
  - We again had record volume in our tablet business, selling almost 12 million units and outperforming the market by 24 points over the year, becoming #3 in the world. Our strong performance was driven by strong growth in EMEA and our innovative new Yoga Tablets in the premium segments.
- We greatly strengthened our Enterprise business through a combination of strong organic growth with the x86 acquisition. Our ThinkServer business grew 50% year-on-year, and System X is well positioned to grow in share and profitability.
- We continued to strengthen our Ecosystem business, with approximately 400 million users and 70 million active monthly users. Two of our star apps – SHAREit and SECUREit – have become major successes globally.
- We again demonstrated our innovation leadership, with great new products driving our growth across all product lines. This year we won a record 77 awards at the Consumer Electronics Show, the world's largest and most prestigious technology event, and 20 awards at the 2015 Mobile World Congress, the top mobile technology event.

Our record performance is the result of our proven formula for 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, particularly from the continuing consolidation in the industry. In Enterprise, we protect profit as we push for rapid growth. In Mobile and Ecosystem/Cloud, we are clearly attacking 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 across our entire product portfolio. Lenovo continues to be the clear leader in the PC space, where we defined new "multimode" PC space with products like Yoga, and we also brought great innovation to markets in smartphones, tablets and servers. In addition, we are recognized for innovative software, such as our SHAREit and SECUREit apps. With our investments in key component technology, materials development, and software, you can expect a new generation of innovative products that are both more exciting and more useful for our customers.

Vibe X2 Pro

- **Operational excellence**: Lenovo never stops improving its unique, efficient business model. This starts in PCs with our dual-business model: serving global, large enterprise customers through our relationship model and small-to-medium businesses and consumers through our transaction model. Yet we also create new business models, such as our new ShenQi business in China, to reach customers online. No matter the route used to reach customers, our hybrid manufacturing model gives us a key competitive advantage by giving us additional flexibility to meet customers' needs. Operational excellence continues to be a core Lenovo strength.

  And our business transformation project, currently underway, will help us better leverage internet to do business with our customers, and make our business model even more advanced, optimized and efficient.

- **A strong, diverse global team** that attracts the top talents at both a worldwide level and in key markets. 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.

DIVERSIFIED FOR FUTURE GROWTH

Today, Lenovo is a bigger and more diverse company than ever thanks not only to strong organic growth, but also due to the successful completion of two historic acquisitions in the last fiscal year. The acquisitions of both the System X server business from IBM and then Motorola from Google immediately made Lenovo a significantly stronger global player in both x86 servers and smartphones. More importantly, Lenovo now has three major growth engines – PC, Enterprise and Mobile.

The strengthening of new growth engines makes Lenovo's business significantly more balanced. A year ago, more than 80% of Lenovo's revenue came from PCs; now, even with record PC performance, this segment is only 63% of our new business. Not only is Lenovo less reliant on one particular business, but we are now able to attack growth opportunities across the full spectrum of personal technology products.

Our business today is more diverse not only in terms of products, but also in terms of geographic focus.

In the 10 years since Lenovo made another historic deal – acquiring IBM's PC division – we have proven we know how to not only integrate acquisitions, but also how to strengthen and grow these new businesses. Just as we built the PC business from #3 a decade ago to #1 today, our expectation is to grow these new businesses to compete with the world leaders. We will accomplish in the same way we have built Lenovo in the last six years: by attacking to gain share while building from our foundation of strengths.

Yoga 3 Pro

ORGANIZED TO DRIVE GROWTH

Even though Lenovo is far larger and a much more diverse business than even a few years ago, our clear Protect and Attack strategy continues to guide our growth.

To provide better focus and to drive these diverse businesses to meet these objectives, we have reorganized our company by combining our PC and Enterprise business groups into a single strategic business unit. This combined unit enables us to better leverage our comprehensive portfolio for customers and partners, and to drive savings across our supply chain, procurement and R&D. Our Mobile Business Group and Ecosystem & Cloud will continue to focus on driving growth and innovation. This organizational structure increases focus where alignment synergies exist, and aligns our leadership strengths and talent.

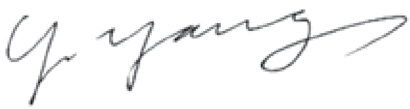
Most importantly, our strategy will be driven by a new mission: to transform from a product-centric company to a customer-centric company. To ensure we truly own relationships with the people who use our products every day, we will focus on two transformations. First, from a product perspective, we will do more than simply make the best hardware, but will create a fusion of hardware, software and cloud service platform, what we call 3-in-1 devices. Second, from a business model perspective, we will create multiple touch points to engage the people using our products, treating each essentially as a relationship customer. Through this combination, we will focus on solving customer pain points and ensuring we deliver the best customer experience.

READY FOR THE FUTURE

In the past year, we took bold action to build an even stronger foundation for our future. Now, we are ready to take the next steps. Lenovo will never stand still. Instead, we will be bold and will lead the next wave of innovations that make our customers' lives more productive and more enjoyable. We will continue to balance delivering strong short-term performance with long-term growth, making Lenovo a leader today and well into the future.

I am confident that all the great innovations and results we've accomplished already will be eclipsed by the even more remarkable achievements in Lenovo's future.

Thank you.



Yang Yuanqing

Chairman and Chief Executive Officer

Vibe band

LENOVO MANAGEMENT TEAM

YANG YUANQING
Chairman and Chief Executive Officer

GIANFRANCO LANCI
Corporate President and
Chief Operating Officer

LIU JUN
Executive Vice President and
President of Mobile Business Group

GERRY P. SMITH
Executive Vice President and Chief Operating
Officer of PC and Enterprise Business Groups

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

WONG WAI MING
Executive Vice President and
Chief Financial Officer

PETER D. HORTENSIUS
Senior Vice President and
Chief Technology Officer

QIAO JIAN
Senior Vice President,
Human Resources

System x3950 X6

NEW THINKING. NEW INSPIRATION.

Fiscal year 2014/15 was another record year for Lenovo with a more diversified business. Lenovo continued to deliver solid performance along with smooth integration of Motorola and System X. The Group has broadened its device business from PC to include mobile and enterprise business. All these businesses delivered strong performance and contributed to the Group's record performance during the year under review.

ThinkPad X1 Carbon

BUSINESS REVIEW

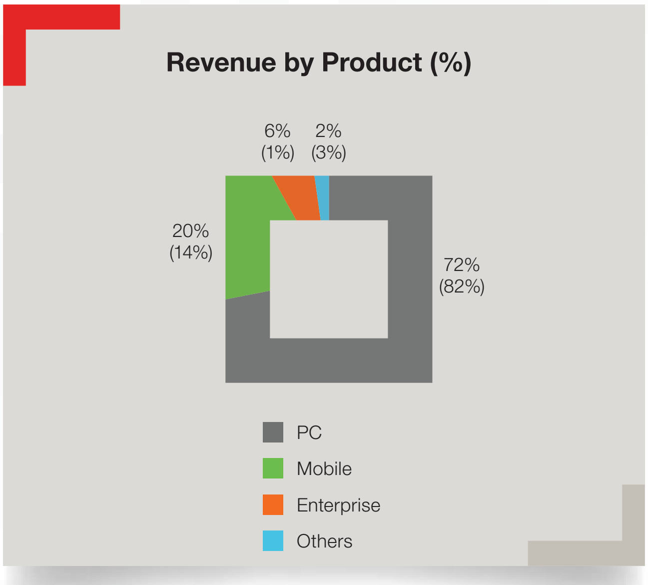
Fiscal year 2014/15 was another record year for Lenovo with a more diversified business. Lenovo continued to deliver solid performance along with smooth integration of Motorola and System X. The Group has broadened its device business from PC to include mobile and enterprise businesses. All these businesses delivered strong performance and contributed to the Group's record performance during the year under review. The Group's PC business continued to lead the industry, while the M&A transactions further strengthened its mobile and enterprise business as two new growth pillars for the Group. During the year under review, Lenovo continued to strengthen its leading position in the PC industry with record shipments and continuous growth in revenue, share and profit. The Group's mobile business together with Motorola delivered record shipments and built a more globally balanced business. The Group's Think Server business recorded hyper-growth while the System X business integration has been on track and stabilized towards the fiscal year-end. The Group has included two quarters of System X and five months' of Motorola performance in the Group's fiscal year results.

For the fiscal year ended March 31, 2015, the Group's consolidated revenue increased by 20 percent year-on-year to record-high US$46,296 million. Excluding currency impacts, the revenue increase would be 23 percent compared to last fiscal year. Revenue of the Group's PC business was US$33,346 million, representing a year-on-year increase of 5 percent. The revenue of Mobile business increased 71 percent year-on-year to US$9,142 million. The revenue of Enterprise business increased 420 percent year-on-year to US$2,628 million. Meanwhile, revenue of other goods and services were US$1,180 million.

The Group's gross profit increased by 32 percent year-on-year to US$6,682 million and gross margin increased 1.3 percentage points year-on-year to 14.4 percent. Operating expenses increased by 39 percent year-on-year to US$5,574 million. The expenses-to-revenue ratio was 12.0 percent. Both gross margin and expense to revenue ratio have included the increase from adding System X and Motorola businesses. The Group's profit before taxation before non-cash M&A related accounting charges was US$1,139 million, up 12 percent against last year. The non-cash M&A-related charges included intangible asset amortization, imputed interest expense of the three-year promissory note issued as part of the transaction, and others. The Group's profit before taxation reached US$971 million, representing a 4 percent decrease year-on-year. The Group's net income before non-cash M&A related accounting charges was US$997 million, up 22 percent year-on-year. The Group's net income was US$829 million, representing an increase of 1 percent from the previous fiscal year.

PERFORMANCE OF PRODUCT BUSINESS GROUPS

During the fiscal year 2014/15, Lenovo has built a more balanced product portfolio and each of its products achieved strong unit shipments growth. The Group's non PC revenue contribution rose from 18 percent a year ago to 28 percent in the fiscal year under review.



PC Business Group (PCG)

During the fiscal year under review, the global PC industry continued to decline due to macro-economic issues and the evolution of new form factors. Despite the market challenges, the Group continued to outperform the PC market through solid execution of its strategy to reach record-high market share across all geographic, product and customer segments. In December 2014, Lenovo achieved an important milestone with ThinkPad products reaching 100 million units sold.

The Group's commercial PC unit shipments increased 3 percent year-on-year, compared to the 3 percent year-on-year decline by the market. Lenovo's market share in the worldwide commercial PC market increased by 1.3 percentage points year-on-year to a record high of 20.9 percent during the period under review, according to preliminary industry estimates. The Group's consumer PC unit shipments grew 15 percent year-on-year, a 17-point premium to the market, to drive its market share up by 2.8 percentage points year-on-year to a record high of 18.5 percent, according to the preliminary industry estimates.

Revenue of the Group's PC business was US$33,346 million, representing approximately 72 percent of the Group's total revenue, recorded a year-on-year increase of 5 percent. The business group also recorded a record high pre-tax income of US$1,771 million, up 51 percent year-on-year and pre-tax margin was 5.3 percent against 3.7 percent last year.

Moto X

Mobile Business Group (MBG)

During the fiscal year under review, the Group's mobile business continued to deliver strong growth driven through aggressive expansion in markets outside of China. The Group's worldwide smartphone shipments grew over 50 percent year-on-year to 76 million including two quarters of Motorola, driven by aggressive business expansion in emerging markets outside of China from Lenovo brand products and strong growth of the Motorola brand products. Together with Motorola, the Group's total smartphone shipments from markets outside of China represent 41 percent of worldwide shipments in the fiscal year under review, which now makes Lenovo a truly global player that ranked number three worldwide. Lenovo's market share in the worldwide smartphone market continued to expand by 1.0 percentage points year-on-year to 5.7 percent during the period under review, according to preliminary industry estimates.

On the tablet side, the Group's tablet shipments increased 26 percent year-on-year, a 24-point premium to the market, to 11.6 million unit shipments during the fiscal year under review, according to preliminary industry estimates. The Group's tablet shipments outside of China continued to show strong growth, accounting for 87 percent of the Group's total shipments. The Group's worldwide tablet market share increased by 1.0 percentage points year-on-year to 5.1 percent.

The total revenue from Mobile business including Motorola increased 71 percent year-on-year to US$9,142 million, representing approximately 20 percent of the Group's total revenue. Profitability of Motorola has been improving since closing of the transaction in October last year. Nevertheless, the Mobile Business Group still recorded a loss before taxation of US$370 million and a negative 4.0 percent pre-tax margin.

Enterprise Business Group (EBG)

The Group's enterprise business that now includes System X has become number three worldwide, according to preliminary industry estimates. During the year under review, the Think Server business continued to show strong growth while the System X business showed signs of stabilization during the first two quarters of integration.

Revenue of the Enterprise business was US$2,628 million, including two quarters of System X contribution, representing approximately 6 percent of the Group's total revenue. The loss before taxation was US$121 million, and its pre-tax margin was negative 4.6 percent.

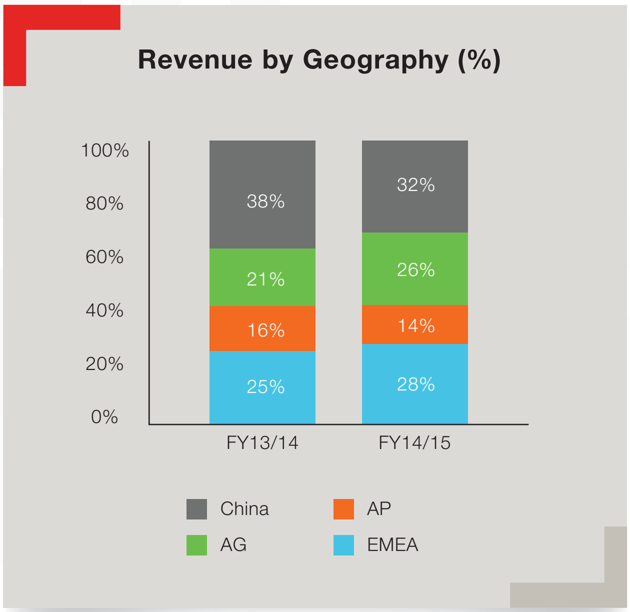
Others

Apart from devices, the Group continued to build a foundation for its ecosystem business during the period under review, helping to create a better user experience for Lenovo's product users. The Group's star applications, including SHAREit and SECUREit apps, continued to show good customer traction. The Group now has one of the world's largest app stores with around 400 million users and 70 million monthly active users, an increase of 170 percent year-on-year.

Revenue from ecosystem, cloud services and other products such as consumer electronic businesses acquired in previous acquisitions decreased 3 percent to US$1,180 million, representing approximately 2 percent of the Group's total revenue.

PERFORMANCE OF GEOGRAPHIES

Lenovo achieved solid and balanced performance in all geographies where it has operations – China, Americas, Asia Pacific, and Europe-Middle East-Africa – as well as across product and customer segments.



China

China accounted for 32 percent of the Group's total revenue. Despite the softness of 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 1.5 point year-on-year to record-high of 36.6 percent, and continued to improve its profitability by leveraging its leadership position.

The Group has refined its Lenovo brand smartphone strategy and focused on balancing growth and profitability amid stiff competition in China. The Group believes China remains an important market and will continue to expand its business through more routes to market, including online and the new channel from ShenQi, and a broader product portfolio from mainstream to premium with Motorola re-entering China.

During the year under review, the Think Server business continued to show strong growth while the System X business showed signs of stabilization during the first two quarters of integration in China.

Profit before taxation remained flat at US$795 million and operating margin was 5.4 percent, flat year-on-year attribute to the performance in smartphone business.

Americas (AG)

Americas accounted for 26 percent of the Group's total revenue driven by growth across all products. Lenovo's PC unit shipments in AG grew by 4 percent year-on-year, an 8-point premium to the market, driven by strong growth in consumer businesses. The Group's market share increased by 0.9 percentage points from a year ago to a record-high of 11.7 percent, according to preliminary industry estimates. The Group continued to deliver solid growth in the North America region driven by balanced growth in both consumer and commercial businesses, and further increased its market share in North America by 0.5 points to 10.9 percent year-on year. However, the Group's performance in Brazil was still impacted by the weak market environment, though actions have been taken to stabilize the business.

The Group's smartphone shipments have achieved strong growth in the region during the period under review, thanks to the inclusion of Motorola. The Group's EBG business is preparing to attack and gain more enterprise customers in the future.

The Group earned US$8 million operating profit in the region, and operating margin was 0.1 percent, a decrease of 0.7 percentage point year-on-year. The decrease was mainly attributable to the poor performance in Brazil.

Asia Pacific (AP)

Asia Pacific accounted for 14 percent of the Group's total revenue. The Group continued to drive strong profitable growth in its businesses in AP during the year under review. The Group's PC shipments achieved a 6-point premium growth to the market driven by strong shipments growth in ASEAN and ANZ regions with year-on-year growth of 8 percent and 51 percent, respectively. The Group's market share in AP increased by 0.9 percentage points year-on-year, to a record high of 15.7 percent during the period under review, according to preliminary industry estimates.

The Group also achieved strong growth in smartphones driven by strong growth from Motorola during the period under review. The Group's EBG business will leverage its existing PC channel expertise and product portfolio from System X to accelerate the business in the future.

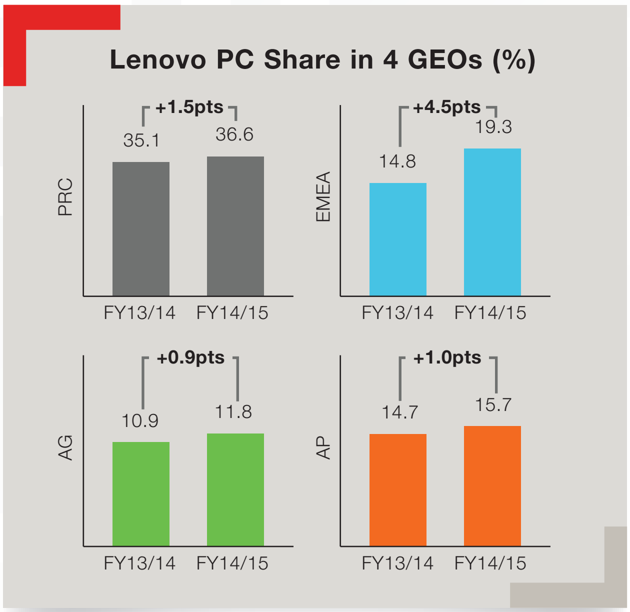
Profit before taxation increased by 176 percent to US$302 million during the fiscal year and operating margin was 4.6 percent, an increase of 2.8 percentage points year-on-year.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 28 percent of the Group's total revenue. Lenovo's PC unit shipments in EMEA grew by 35 percent year-on-year, which was a 32-point premium to the market. The Group's market share in EMEA increased by 4.5 percentage points year-on-year to a record high of 19.4 percent for the fiscal year, according to preliminary industry estimates. Strong year-on-year unit shipments growth and share gains were recorded across all EMEA regions during the period under review.

The Group continued to expand its smartphone business in EMEA and achieved strong growth during the year under review. The Group's EBG business will attack with more aggression to grow the enterprise business in the region.

Profit before taxation in EMEA regions increased by 119 percent to US$411 million during the fiscal year under review with operating margin improved by 1.2 percentage points year-on-year to 3.2 percent.



MATERIAL RISKS OF THE GROUP

The following are key risks that we consider to be of great significance to the Group as it stands today. They have the potential to affect the Group's business adversely and materially.

For each risk there is a description of the possible impact of the risk on the Group should it occur, and the mitigation plan to manage the risk.

The Group also faces risks and uncertainties in common with other businesses. These have not been set out as key risks below.

This list is likely to change over time as different risks take on larger or smaller significance. The size, complexity and spread of the business and the continually changing environment in which the Group operates also mean that the list cannot be an exhaustive list of all significant risks that could affect the Group.

Risk Description	Key Risk Mitigations
Business Risk	
The Group operates in a highly competitive industry which faces rapid changes in market trends, consumer preferences and constantly evolving technological advances in hardware performance, software features and functionality. We face aggressive product and price competition from competitors. Failure to respond effectively to changes in market trends or consumer preferences at competitive prices against the backdrop of global slowdown in the traditional PC market could harm our competitive position.	Continual reviews of competition and market trends. Maintain a competitive position through commitments to innovate and build a broad product portfolio and grow brand name to differentiate the Group and gain market recognition. Execution of clear strategy to protect and drive profitability in the core PC business, while diversifying by attacking in the faster growing Mobile and Enterprise businesses.
The Group operates globally and as such our results could be impacted by global and regional changes in macro-economic and socio-political conditions and regulatory environments. Adverse economic conditions may result in postponements or decreased spending amid concern over weak economic conditions. In addition, they may contribute to potential supply chain volatility, causing potential product shortages or delays and insolvency of key suppliers. Ongoing unstable political conditions and changes in regulatory or legal regulations in one or several countries may increase the cost of operations and expose the Group to potential liability.	The Group has diversified its geographic sources of revenue and profit to reduce its dependency on any single country or region.

Risk Description	Key Risk Mitigations
Cyber Attack and Security Risk	
The Group could be impacted negatively if we sustain cyber-attacks and other data security breaches that disrupt our operations or damage our reputation. We manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, our cloud computing business routinely processes, stores and transmits large amounts of data for our customers, including sensitive and personally identifiable information. We may be subject to attack from hackers and other malicious software programs that attempt to penetrate our networks and exploit any security vulnerability in our system and products. Sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain "bugs" that could unexpectedly interfere with the operation of the system or may present unidentified security risk. Breaches of our security measures and misappropriation of proprietary information, sensitive or confidential data about us and our customers could lead us to loss of reputation, disruption in business operations, exposure to potential litigation and liability and result in a loss of revenue and increased cost.	The Group will continue to maintain a significant investment in enhancing IT security and security information awareness.
Integration Risk	
The Group has experienced growth and expansion through acquisitions. Targets may be large and complex. We may face risks and challenges in managing the integration of business models, products and services, IT infrastructure, operations, culture and employees. The benefits of these acquisitions may not be realized as quickly and as efficiently if there is difficulty in integrating them. The diversion of management attention to integration issues encountered could adversely affect the Group's business.	Integration risk is considered at an early stage as part of the review of acquisition opportunities and integration planning takes place before completion of the acquisition. Post-acquisition stabilization support, reviews and issue resolution procedures have been established. The Group has good track record in and experience of integrating acquisitions of both large and small targets.

Risk Description	Key Risk Mitigations
Financial Risk	
As the Group operates globally, significant or prolonged economic instability or financial market deterioration may materially and adversely impact the Group's financial condition. The Group is exposed to a variety of financial risks, such as foreign currency risk, cash flow risk, credit risk and liquidity risks.	The Group Treasury department has put in place a financial risk management programme that focuses on the unpredictability of financial markets and seeks to minimize the potential adverse impact on the Group's financial performance. For more analysis, see "Notes To The Financial Statements" (pages 160 to 165).
Intellectual Property Risk	
The Group could suffer if we do not develop and protect our own intellectual property or our suppliers are not able to develop or protect desirable technology or technology licenses. The risks include: • the legal costs of protecting and enforcing intellectual property rights; • loss or diminished value of intellectual property as an asset, as a result of legal findings of unenforceability and challenges to title or ownership; • the legal costs to defend against legal action alleging intellectual property infringement and any potential resulting settlement or damages; • design-around costs and negative impact to customer relationships.	Take full advantage of legal protections by registering trademarks and applying for patents. For licensed IP, take appropriate steps to assure its continued validity. Risk transfer to suppliers by contract terms to minimize risk and obtain indemnification from suppliers. Monitor, develop and execute litigation settlement strategy. Use patent portfolio if appropriate to decrease potential damages.
Supply Risk	
The Group's supply chain operations could be disrupted by: • Catastrophic events • Unfavorable changes in business, political or economic factors. The occurrence of any of the above in our own or our suppliers' manufacturing activities and logistic hubs could result in significant losses and harm our revenue, profitability and adversely affect our competitive position, and require substantial expenditures and recovery time in order to fully resume operations.	Utilize cost and operational analysis to understand potential impacts. Ensure broad sourcing to minimize impact of regional catastrophes and ensure adaptation plans in place. Adequate insurance coverage as last line of defense.

ENVIRONMENT

Lenovo's corporate environmental policy applies to all of its operations and provides the foundation upon which Lenovo's Environmental Management System (EMS) operates. The EMS establishes the framework for Lenovo to ensure regulatory compliance, efficient resource use, and environmental performance improvements. 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.

The 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's global Quality Management System, which has earned ISO 9001 certification, aims to achieve customer satisfaction and deliver safe and superior products, solutions, and services while meeting customer requirements.

Stakeholders

Lenovo actively manages its relationships with employees, customers, suppliers, investors, regulators, members of the communities in which we operate, and other stakeholders whose actions can affect the company's performance and value.

Key mechanisms for engaging with stakeholders include:

- Employee surveys such as the "Lenovo Listens" survey, commuting surveys, and others
- Customer surveys and direct customer interaction
- Supplier conferences and quarterly business reviews, and
- Ongoing community relations interactions with local communities

In addition to these and other formal stakeholder interactions, Lenovo engages with individual stakeholder groups on an ad-hoc basis as needed.

Details of Lenovo sustainability program is set out in the Corporate Social Responsibility Report as stated on pages 102 to 120 of this annual report.

Lenovo strives for continuous improvement in its corporate social responsibility performance. The table below summarizes the objectives set for environment-related key performance indicators (KPIs) for FY 2014/15:

Sustainability Key Performance Indicators (KPIs)

Target Type	Objective
Product energy	Drive reduction in product energy use.
	Quantify and reduce lifecycle CO_2e emissions associated with the use of Lenovo products.
Product materials	Minimize the use of hazardous or potentially hazardous materials; drive the use of environmentally sustainable materials.
	Ensure all products across all business units contain some Post Consumer Recycled Content (PCC).
Waste management	Minimize environmental impacts associated with solid waste generated from Lenovo operations and products.
Site energy consumption	Maximize energy efficiency and minimize CO_2e emissions associated with the development, manufacture and delivery of Lenovo products.
Site air emissions	Absolute reduction in CO_2e emissions from Lenovo operations worldwide.
Supplier environmental performance	Minimize potential environmental impact of Lenovo's Category 1, 2 and 3 suppliers.
	Voluntary compliance with the Dodd-Frank Act.
	Monitor and drive good water management practices in the Lenovo Supply Chain.
	Monitor the Supplier FMD readiness.
Transportation	Minimize CO_2e emissions generated from transportation activities associated with the development, manufacture & delivery of Lenovo products. Establish the foundation for driving future reductions in Lenovo international product transport carbon emissions.
Packaging	Minimize packaging material consumption while driving the use of environmentally sustainable materials.
Product end-of-life management	Ensure customer access to convenient, reliable and compliant product take back programs.

To support each objective, Lenovo has established numerous KPIs and targets. Full details on these objectives and targets, including our results, will be reported in Lenovo's FY 2014/15 Global Sustainability Report. For example, climate change is a significant environmental aspect for Lenovo and is addressed via objectives related to product and facility energy use. To support these objectives, we have established numerous KPIs and targets. Some sample targets for this area are listed below.

- Establish a product carbon footprint for all newly released notebook, desktop, and visual products.
- Support external development of product carbon footprint methodologies and standards.
- Achieve a global energy intensity rate for Lenovo sites equal to or better than the previous year. Energy intensity is the kilowatt hours of electricity consumed per unit produced for manufacturing sites and kilowatt hours per employee at R&D and office sites.
- Increase the percentage of energy purchased from renewable generation sources relative to the previous fiscal year for FY 2014/15. The purchase of renewable energy credits and carbon offsets may be used to support reaching this target.

TALENT AND CULTURE

Win As One Team

The acquisitions of IBM X86 and Motorola Mobility catapulted Lenovo to the number 3 positions in both Enterprise Servers and smartphones, in 2014/15. These historic deals clearly establish Lenovo as a global technology leader with the right growth engines for future success: a balanced portfolio, a clear strategy, innovative products and services, and a diverse global team. The Talent and Culture integration of these companies was a key business priority in 2014/15.

"Bringing teams from three different cultures together is a significant challenge. But it is one we at Lenovo have successfully faced before. We will do it again."

– Yuanqing Yang, Chairman and CEO

A variety of "Win As One" talent and culture initiatives were launched to support the integration efforts, focusing on:

- Accelerating the on-boarding and effectiveness of new leaders
- Building strong engagement in newly joined teams
- Facilitating the open exchange of ideas and best practices across organizations

Leveraging previous experience with M&A integration, Lenovo's top leadership communicated a clear vision for integration success, emphasizing the importance of an inclusive, cohesive cultural environment. Three key principles were reinforced: "Be Frank, Respect and Compromise."

“We must have open minds so that we put everything on the table and build up trust. We know that differences will arise, and we must work together to find the compromise that is best for the business.”

– Yuanqing Yang, Chairman and CEO

Lenovo’s long-standing traditions of Commitment and Ownership, Innovation and Entrepreneurial Leadership are at the center of the talent and culture integration efforts. These pillars provide a clear guiding focus to drive the company’s future success.

We **PLAN** before we pledge.
想清楚再承诺

We **PERFORM** as we promise.
承诺就要兑现

We **PRIORITIZE** company first over function or team.
公司利益至上

We **PRACTICE** improving every day.
每一年每一天我们都在进步

We **PIONEER** new ideas.
敢为天下先

PLAN PERFORM PRIORITIZE PRACTICE PIONEER

We do what we say. We own what we do.
说到做到，尽心尽力

> **"We are all working from a clear strategy, and a consistent core culture of commitment and ownership... Respect everyone's different backgrounds and skill sets. Encourage cooperation, collaboration and creativity. Give people freedom and they will deliver great results."**
>
> ***– Yuanqing Yang, Chairman and CEO***

Employee Performance and Compensation

To drive a strong ownership and commitment culture, Lenovo follows a rigorous pay for performance approach at all levels of our professional workforce. This approach includes annual and goal setting and review, group calibration of individual ratings to ensure fair assessment, and pay decisions tied to both team performance and individual contribution. This pay for performance approach ensures that top contributors are paid very well relative to market and share in the company's success.

Talent Management and Succession Planning

During the annual Organizational and Human Resource Planning (OHRP) process, leaders at all levels evaluate and make key decisions about organizational structure, strategic roles, and individual talent relative to Lenovo's current and future business imperatives. Lenovo's OHRP process is critical for ensuring that the right structure and talent is in place to deliver on the company's strategy now and in the future.

Talent Acquisition

Lenovo's global talent acquisition activities are closely linked to the annual OHRP process, which drives the organization's hiring for planned talent gaps. We also quickly respond to any unplanned talent gaps driven by attrition. Our vision is to get the right talent in the right place at the right time. Our talent acquisition strategy is focused on building the Lenovo employment brand, developing our global talent acquisition capability and investing in programs to hire the next generation of Lenovo employees.

Training and Development

Development for employees at Lenovo begins with the New Employee Orientation training session when they are hired, and continues throughout their career with the company. Every employee is responsible for creating and maintaining an Individual Development Plan (IDP), which includes assessing their strengths and skill gaps and identifying the actions required for future career growth. Lenovo's 70-20-10 approach to employee development recognizes that employees learn through three distinct types of experiences: on the job assignments (70%), developmental coaching and mentoring relationships (20%), and formal coursework and training (10%). Lenovo places a high priority on executive development, bringing leaders together twice a year to share best practices, learn from external experts and drive strategic alignment across the enterprise.

BRAND BUILDING

Lenovo recognizes that just as our business has expanded dramatically, the relationship between consumers and brands also has changed significantly. Lenovo is no longer just a PC company, and our brand needs to be able to talk equally to teenagers about phones, SMB owners about PCs, CIOs about servers, and many spaces in between. We need to redefine our brand at a time when brands no longer can just push out a message through mass media to gain recognition, but instead are expected to be part of highly nuanced, highly social dialogue in which consumers drive the conversation. And we need to do this while facing competitors born on the Internet with an entirely different business model.

To do this, we studied brands that are creating disruption in the marketplace. We found that such brands have a clear point of view and go to market with a distinct attitude and powerful energy. The good news is that this aligns well with our identity, our fundamental believe that life rewards those who never stand still. Lenovo is a team that works incredibly hard because we believe that a day is wasted if we don't move something forward. The reason this attitude is so important is that our customers share our "never stand still" approach. Millennials wake up each morning excited to make progress. And when you look at our professional customers, they share this same energy. It's all about showing progress. We believe – and our customers believe – that life rewards those who never stand still.

Lenovo's new brand starts with two important components. The first is the new logo, which has two elements. The word Lenovo now has a more contemporary design to make it easier to read and pronounce. More importantly, the word is housed in a shape that is meant to be a window into the world that surrounds us. It is designed to be incredibly flexible so that while the word Lenovo doesn't change, the images, colors and patterns around it do, making it dynamic and energetic. Second, the logo has a broad color palette. So in addition to red, black and grey we're also using blue, green, orange and pink.

Lenovo officially unveiled its new brand identity at the inaugural Lenovo Tech World in Beijing, and will roll it out during the upcoming year. This steady roll out will be part of our marketing, our events, our retail environment, our offices and our products. You'll start to see this more energetic attitude across everything we do as we continue our journey to becoming one of the world's leading, most respected and most recognized personal technology companies.

FINANCIAL HIGHLIGHT

For the year ended March 31	2015 US$'000	2014 US$'000
Revenue	46,295,593	38,707,129
Gross profit	6,681,813	5,063,649
Gross profit margin	14.4%	13.1%
Operating expenses	(5,573,299)	(4,011,594)
Operating profit	1,108,514	1,052,055
Other non-operating expenses – net	(137,547)	(37,860)
Profit before taxation	970,967	1,014,195
Profit for the year	836,603	817,470
Profit attributable to equity holders of the Company	828,715	817,228
Earnings per share (US cents)		
– Basic	7.77	7.88
– Diluted	7.69	7.78
EBITDA*	1,714,829	1,365,061
Profit before taxation before non-cash M&A-related accounting charges	1,138,727	1,014,195
Net income before non-cash M&A related accounting charges	996,475	817,228
Dividend per ordinary share (HK cents)		
– Interim dividend	6.0	6.0
– Proposed final dividend	20.5	18.0

* Excluding restructuring charges and other income, net

Results

For the year ended March 31, 2015, the Group achieved total sales of approximately US$46,296 million. Profit attributable to equity holders for the year was approximately US$829 million, representing an increase of US$12 million as compared with last year. Gross profit margin for the year was 1.3 point up from 13.1 percent reported last year. Basic earnings per share and diluted earnings per share were US7.77 cents and US7.69 cents, representing a decrease of US0.11 cents and US0.09 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.

	2015		2014	
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	**14,700,270**	**794,795**	14,725,659	788,130
AP	**6,549,339**	**302,183**	6,162,919	109,350
EMEA	**12,803,357**	**410,858**	9,580,700	187,482
AG	**12,242,627**	**7,999**	8,237,851	68,627
	46,295,593	**1,515,835**	38,707,129	1,153,589

Operating expenses analyzed by function for the year ended March 31, 2015 and 2014 are as follows:

For the year ended March 31	2015 US$'000	2014 US$'000
Other income – net	**1,490**	22,427
Selling and distribution expenses	**(2,302,182)**	(1,900,005)
Administrative expenses	**(1,883,114)**	(1,402,979)
Research and development expenses	**(1,220,919)**	(732,454)
Other operating (expenses)/income – net	**(168,574)**	1,417
	(5,573,299)	(4,011,594)

Operating expenses for the year increased by 39% as compared with last year. This is principally attributable to the operating expenses of US$1,433 million recorded by System X and Motorola following the completion of the respective acquisitions on October 1 and October 30, 2014. Key expenses by nature comprise:

For the year ended March 31	2015 US$'000	2014 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(127,516)	(74,472)
Amortization of intangible assets	(287,877)	(127,163)
Employee benefit costs, including	(2,997,614)	(2,332,675)
– *long-term incentive awards*	*(99,062)*	*(80,274)*
Rental expenses under operating leases	(88,774)	(75,922)
Net foreign exchange loss	(189,550)	(79,242)
Advertising and promotional expenses	(675,760)	(554,415)
Others	(1,206,208)	(767,705)
	(5,573,299)	(4,011,594)

Depreciation and amortization charges increased by US$214 million which is attributable to the increase in the business activities of the Group as well as the amounts brought in by System X and Motorola. Additional amortization of intangible assets in connection with the acquisition of System X and Motorola for the year totaled US$127 million. The increase in employee benefit costs is in line with the increased headcount as a result of the two acquisitions and the continuous expanding business operations of the Group. The impact of currency fluctuations during the year present a challenge, the Group recorded a net exchange loss of US$190 million (2014: US$79 million) for the year.

Other non-operating expenses (net) for the year ended March 31, 2015 and 2014 comprise:

For the year ended March 31	2015 US$'000	2014 US$'000
Finance income	30,902	33,893
Finance costs	(185,504)	(80,974)
Share of profits of associates and joint ventures	17,055	9,221
	(137,547)	(37,860)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 129 percent as compared with last year. This is mainly attributable to interest expense of US$65 million in relation to the 5-Year US$1.5 billion notes, issued in May 2014, bearing annual interest at 4.7% due in May 2019; an increase in factoring costs of US$30 million; and US$17 million interest expense in relation to promissory note issued to Google Inc.

Share of profits of associates and joint ventures represents operating income arising from principal business activities of respective associates and joint ventures.

FINANCIAL POSITION

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

Non-current assets (US$'000)	2015	2014
Property, plant and equipment	**1,496,474**	667,413
Prepaid lease payments	**225,111**	40,884
Construction-in-progress	**311,888**	351,934
Intangible assets	**8,929,713**	3,339,516
Interests in associates and joint ventures	**45,719**	20,753
Deferred income tax assets	**530,047**	389,330
Available-for-sale financial assets	**73,400**	35,157
Other non-current assets	**41,191**	111,558
	11,653,543	4,956,545

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 124 percent is mainly attributable to the amounts brought in from Motorola and System X totalling US$591 million and the completion of the manufacturing plants in China and the Group's further investments in the laboratory facilities.

Prepaid lease payments

Prepaid lease payments represent the land use right in respect of the manufacturing sites, staff quarters and headquarters in China. The increase of 451 percent is due to additions in the land use right in respect of the research and development sites in Shanghai and Wuhan, China, and staff quarters in Wuhan and Hefei, China

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. During the year, the Group completed two business combination activities. Goodwill and other intangible assets including trademarks and trade names, customer relationships and patent and technology of US$2,723 million and US$3,098 million were recognised respectively.

Interests in associates and joint ventures

Interests in associates and joint ventures increased by 120 percent over last year, mainly brought about by additional investments and share of profits from principal business activities of respective associates and joint ventures during the year.

Deferred income tax assets

Deferred income tax assets as at March 31, 2015 amounted to US$530 million, representing an increase of 36 percent over last year, which is partly attributable to the amounts brought in from Motorola and System X totalling US$82 million, and the 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 increased 109 percent over last year, mainly attributable to the additional investments and fair value gain during the year.

Other non-current assets

Other non-current assets amounted to US$41 million as at March 31, 2015. The decrease of 63 percent over last year is mainly attributable to the transfer of land use right in respect of staff quarters in China to prepaid lease payments upon receipt of land use right certificate from the authority concerned.

Current assets (US$'000)	2015	2014
Inventories	2,995,389	2,701,015
Trade receivables	5,177,840	3,171,354
Notes receivable	334,738	447,325
Derivative financial assets	184,534	61,184
Deposits, prepayments and other receivables	3,572,015	3,000,826
Income tax recoverable	136,857	65,715
Bank deposits	171,139	94,985
Cash and cash equivalents	2,855,223	3,858,144
	15,427,735	13,400,548

Inventories

Inventories of the Group increased by 11 percent, which is mainly due to the amounts brought in from Motorola and System X totalling US$499 million.

Trade receivables and Notes receivable

Trade receivables and notes receivable amounted to US$5,513 million as at March 31, 2015. The increase of 52 percent over last year is mainly attributable to the amounts brought in from Motorola and System X totalling US$2,319 million.

Derivative financial assets/liabilities

Derivatives relate to foreign currency forward contracts that are designated as hedges for the fair value of recognized assets or liabilities or a firm commitment, or of highly probable forecast transactions. Derivatives are initially recognized at fair value on the date 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 of US$581 million as at March 31, 2015 (2014: US$413 million) 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)	2015	2014
Share capital	2,689,882	1,650,101
Reserves	1,393,761	1,360,029
	4,083,643	3,010,130

Share capital

Share capital amounted to US$2,690 million as at March 31, 2015. The increase in share capital is due to the issuance of ordinary shares of the Company as part of the purchase consideration for the business combination of System X and Motorola totalling US$1,039 million.

Non-current liabilities (US$'000)	2015	2014
Borrowings	1,885,848	10,125
Warranty provision	338,700	277,231
Deferred revenue	548,300	438,385
Retirement benefit obligations	399,782	156,515
Deferred income tax liabilities	200,730	142,881
Other non-current liabilities	2,440,435	844,914
	5,813,795	1,870,051

Borrowings

Bank borrowings (classified as non-current) increased by US$1,876 million mainly due to the issuance of 5-year US$1.5 billion notes bearing annual interest at 4.7% due in May 2019 and the drawn down of a term loan of US$400 million due in December 2018. The proceeds would be used for general corporate purposes including working capital, and to fund any acquisition activities.

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 37 percent when compared with last year, which is mainly due to the amounts brought in from Motorola and System X totalling US$397 million. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Retirement benefit obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. The increase of 155 percent is mainly attributable to the amounts brought in from Motorola and System X totalling US$183 million.

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. The increase of 40 percent over last year is largely due to the amounts brought in from Motorola and System X totalling US$86 million.

Other non-current liabilities

Other non-current liabilities amounted to US$2,440 million as at March 31, 2015. The increase of 189 percent over last year is mainly due to the deferred consideration of US$1,393 million payable to Google Inc. in respect of the business combination activities of Motorola.

Current liabilities (US$'000)	2015	2014
Trade payables	4,662,411	4,751,345
Notes payable	171,049	108,559
Derivative financial liabilities	80,897	58,462
Other payables and accruals	9,066,487	6,658,254
Provisions	1,203,547	852,154
Deferred revenue	640,161	410,330
Income tax payable	168,536	177,741
Borrowings	1,168,274	445,477
	17,161,362	13,462,322

Trade payables and Notes payable

Trade payables and notes payable decreased by 1 percent, largely due to fewer purchases activities during the fourth quarter, which is in line with the business projections.

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. The increase of 36 percent over last year is mainly due to the amounts brought in from Motorola and System X totalling US$3,013 million.

Provisions

Provisions comprise warranty liabilities (due within one year) and environmental restorations. The amounts arising from the business combination activities of Motorola and System X contributed to an increase of US$373 million as at March 31, 2015.

Borrowings

Borrowings (classified as current) amounted to US$1,168 million as at March 31, 2015, representing an increase of 162 percent over last year, which is mainly attributable to the drawdown of loans of US$1,431 million offset by loan repayment of US$678 million during the year.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of US$972 million (2014: US$675 million) during the year ended March 31, 2015, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

LIQUIDITY AND FINANCIAL RESOURCES

At March 31, 2015, total assets of the Group amounted to US$27,081 million (2014: US$18,357 million), which were financed by equity attributable to owners of the Company of US$4,084 million (2014: US$3,010 million), non-controlling interests (net of put option written on non-controlling interest) of US$22 million (2014: US$15 million), and total liabilities of US$22,975 million (2014: US$15,332 million). At March 31, 2015, the current ratio of the Group was 0.90 (2014: 1.00).

The Group had a solid financial position. At March 31, 2015, bank deposits, cash and cash equivalents totaled US$3,026 million (2014: US$3,953 million), of which 53.2 (2014: 66.9) percent was denominated in US dollar, 35.6 (2014: 23.8) percent in Renminbi, 2.8 (2014: 4.1) percent in Euro, 0.7 (2014: 2.2) percent in Japanese Yen, and 7.7 (2014: 3.0) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2015, 75.4 (2014: 81.8) percent of cash are bank deposits, and 24.6 (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 5-Year revolving loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility was utilized to the extent of US$300 million as at March 31, 2015 (2014: Nil).

In addition, on December 18, 2013, the Group entered into another 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as short term. The facility was utilized to the extent of US$1,100 million, comprising US$700 million short-term, as at March 31, 2015 (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 March 31, 2015, the Group's total available credit facilities amounted to US$12,223 million (2014: US$7,890 million), of which US$1,353 million (2014: US$489 million) was in trade lines, US$339 million (2014: US$325 million) in short-term and revolving money market facilities and US$10,531 million (2014: US$7,076 million) in forward foreign exchange contracts. At March 31, 2015, the amounts drawn down were US$316 million (2014: US$214 million) in trade lines, US$9,822 million (2014: US$6,513 million) being used for the forward foreign exchange contracts, and US$177 million (2014: US$145 million) in short-term bank loans.

At March 31, 2015, the Group's outstanding borrowings represented by the term bank loan of US$395 million (2014: US$310 million), short-term bank loans of US$1,168 million (2014: US$145 million) and long term notes of US$1,491 million (2014: Nil). When compared with total equity of US$4,106 million (2014: US$3,025 million), the Group's gearing ratio was 0.74 (2014: 0.15). The net debt position of the Group at March 31, 2015 is US$28 million (2014 net cash position: 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.

At March 31	**2015 US$ million**	2014 US$ million
Bank deposits and cash and cash equivalents	**3,026**	3,953
Less: total borrowings	**(3,054)**	(455)
	(28)	3,498

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2015, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,822 million (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.

HUMAN RESOURCES

At March 31, 2015, the Group had a headcount of more than 60,000 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.

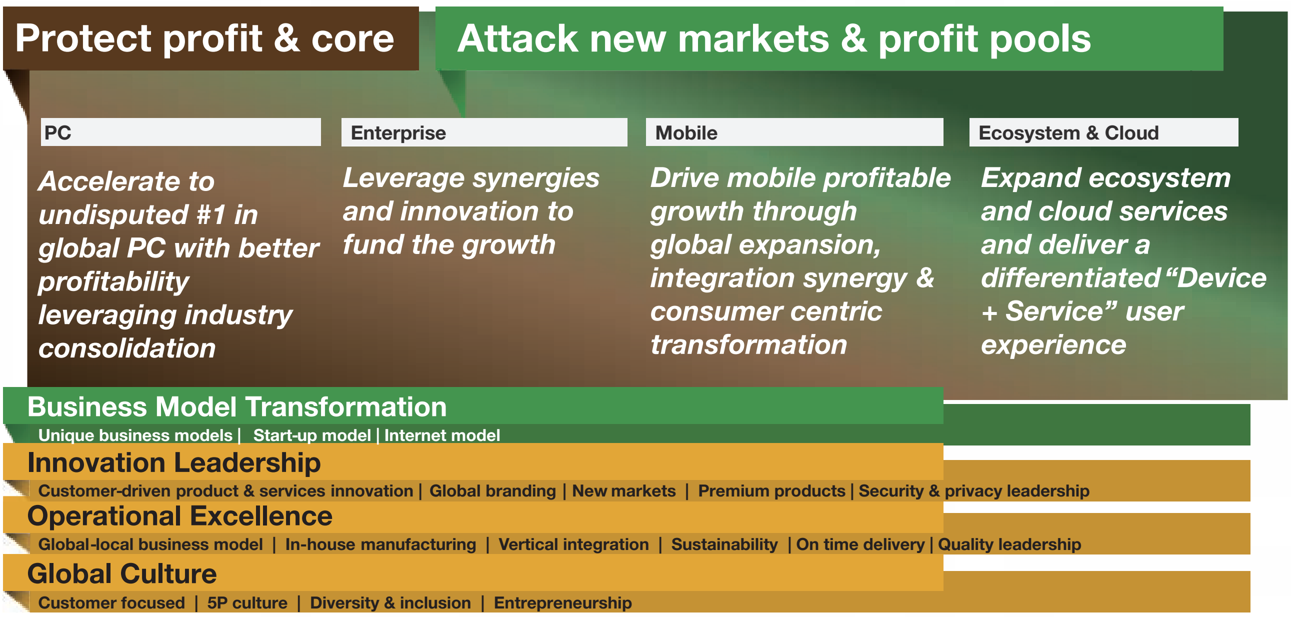
FUTURE PROSPECTS

LOOKING FORWARD, THE GROUP WILL CONTINUE TO FOCUS ON TRANSFORMING INTO A TRULY GLOBAL AND DIVERSIFIED COMPANY WITH IMPROVED OPERATING EFFICIENCY AND STRENGTHENED COMPETITIVENESS. THE GROUP IS CONFIDENT THAT MOTOROLA AND SYSTEM X ARE ON TRACK TO DELIVER THEIR TARGETS. THE GROUP WILL CONTINUE TO INVEST IN BUILDING ITS CORE COMPETENCIES, PRODUCT INNOVATION, AND END-TO-END EFFICIENCY ENHANCING ITS COMPETITIVENESS TO ENSURE FUTURE SUSTAINABLE PROFIT GROWTH.

Lenovo has demonstrated a consistent and solid track record in delivering results through strong execution of its clear strategy to balance short-term results and long-term objectives. The Group will continue to focus on protecting and driving profitability in the core PC business, while attacking in fast growing mobile, enterprise and ecosystem and cloud businesses. Lenovo believes its strong PC leadership remains a solid profit engine with plenty of further opportunities for profitable growth, particularly as the industry continues to consolidate.

Meanwhile, the rise of new technology and market trends, particularly the social mobile internet, has posed market opportunities and challenges as consumer behavior is changing. The Group is undergoing a transformation process, changing its focus from a product-centric to customer-centric company; from selling products to providing a distinctive experience and engaging customers. The Group will increase the number and quality of touch points with customers beyond purchase, establishing a stronger connection and engagement with customers. From the product perspective, the Group will broaden from hardware to end to end experiences beyond devices. This will include a focus on personalization and connectivity (to networks, device to device and cloud services). In addition, the Group will pursue innovations from its sales, manufacturing, services and marketing process, to further enhance its user experiences. The Group believes this transformation will position Lenovo well to capture the growth opportunities arising from this trend.

FY2015/16 Strategy



To facilitate the Group's strategy, effective from April 1, 2015, Lenovo has realigned its four business groups into two strategic business groups – PCG/EBG and MBG/ECS – to increase focus where synergies exist and align leadership strengths. PCG/EBG will continue to drive savings from the integration of its supply chain, procurement and R&D resources and provide the most comprehensive portfolio to its customers. MBG/ECS will prioritize growth and innovation by creating strong affinity between device and service in the mobile internet market to capture those growth opportunities from new trends such as the Internet of Things.

Lenovo's solid execution of its clear strategy continues to be the firm foundation upon which the Group's success is built. The Group's commitment to innovation across its entire product portfolio helps differentiate the Group worldwide. Lenovo has a clear strategy, great global scale, and proven operational excellence. With the integration of System X and Motorola, it will give the Group three growth engines – PC, Mobile and Enterprise. Looking forward, the Group will continue to focus on transforming into a truly global and diversified company with improved operating efficiency and strengthened competitiveness. The Group is confident that Motorola and System X are on track to deliver their targets. The Group will continue to invest in building its core competencies, product innovation, and end-to-end efficiency enhancing its competitiveness to ensure future sustainable profit growth.

B50 Touch

CORPORATE GOVERNANCE REPORT

2012

Citation for Corporate Governance Disclosure – Hong Kong Management Association's 2012 Best Annual Reports Awards

The Hong Kong Institute of Directors Corporate Governance Score-card 2012 – One of the Ten Best Performing Companies in Corporate Governance Score

2013

Platinum Award (H-share Companies and Other Mainland Enterprises Category) – Hong Kong Institute of Certified Public Accountants' 2013 Best Corporate Governance Disclosure Awards

Platinum Award – The Asset's Excellence in Management and Corporate Governance Awards 2013

2014

Corporate Governance Excellence Award – The Chamber of Hong Kong Listed Companies' Hong Kong Corporate Governance Excellence Awards 2014

Platinum Award (H-share Companies and Other Mainland Enterprises Category) – Hong Kong Institute of Certified Public Accountants' 2014 Best Corporate Governance Disclosure Awards

Platinum Award – The Asset's Excellence in Management and Corporate Governance Benchmarking Awards 2014

Corporate Governance Principles and Structure

Leadership

- Board Composition
- Division of Responsibilities
- Appointment and Election
- Directors' Securities Transactions
- Induction and Continuous Professional Development
- Remuneration of Directors and Senior Management
- Company Secretary

Effectiveness

- Board's Responsibilities and Delegation
- Board Process
- Board Activities
- Board Committees
- Board and Board Committees' Effectiveness Review

Accountability and Audit

- Financial Reporting
- Internal Control
- Enterprise Risk Management
- External Auditor

Investor Relations

Shareholders

- Communication with Shareholders
- Shareholders' Rights
- Shareholding Structure

Information for Investors

CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

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.

Throughout the year ended March 31, 2015, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), and where appropriate, met the recommended best practices in the CG Code, save for the exception which is explained below.

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

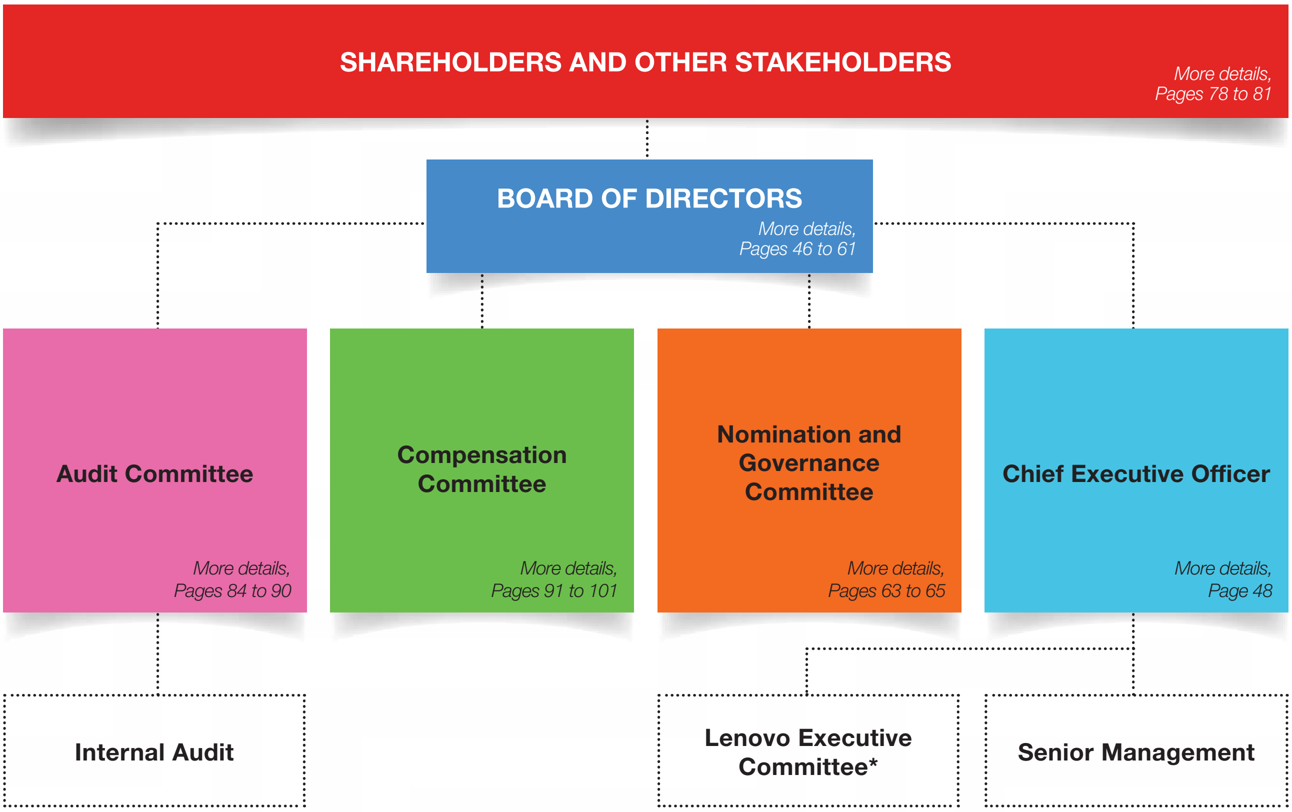
Since November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been performing both the roles as the chairman of the Board (the "**Chairman**") and chief executive officer of the Company (the "**CEO**"). The Board has recently reviewed the organization human resources planning of the Company and is of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

The Company's corporate governance structure and overall approach to corporate governance have also been designed to support and work within our organizational structure and to meet the challenges of the future.

CORPORATE GOVERNANCE STRUCTURE



* *a management committee comprising the CEO and certain members of the senior management*

LEADERSHIP

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 are eleven Board members consisting of one executive director, two non-executive directors and eight independent non-executive directors.

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 Board diversity mix is shown below while the detailed biographies and a snapshot of the Board's experience are set out on pages 125 to 127 of this annual report.

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.
- Mr. Grabe, an independent non-executive director of the Company was appointed as the Lead Independent Director for enhancing corporate governance of the Company. The roles and responsibilities of the Lead Independent Director are set out on page 48 of this report.
- The Company has maintained on its website and Hong Kong Exchanges and Clearing Limited's website (the "**HKEx's website**") an updated list of its directors identifying their roles and functions and whether they are independent non-executive directors.
- Independent non-executive directors are also identified as such in all corporate communications that disclose the names of directors of the Company.
- Mr. Zhu Linan and Mr. Zhao John Huan, non-executive directors of the Company, also serve on the board of directors of Legend Holdings Corporation, which company held approximately 30.60% of the total number of shares in issue of the Company as at March 31, 2015 according to the interest as recorded in the register maintained under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") (details are set out on page 81 of this report).
- To the best knowledge of the Board members, there are no other relationship among the members of the Board as of the date of this annual report except for the relationships (including financial, business, family, and other material and relevant relationships) as mentioned in this report and in the biographies of directors set out on pages 125 to 127 of this annual report.
- The Board adopted a Board diversity policy (the "**Board Diversity Policy**") which relates to the selection of candidates for the Board. A summary of the Board Diversity Policy including the views and measurable objectives is set out on page 49 of this report.

Division of Responsibilities

The Board has a coherent framework with clearly defined responsibilities and accountabilities designed to safeguard and enhance long-term shareholder value and provide a robust platform to realise the strategy of the Group. A summary of responsibilities of leadership of the Company and those of Lead Independent Director is given in the diagram below.

CHAIRMAN

Mr. Yang Yuanqing

- 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

NON-EXECUTIVE DIRECTORS

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 and Mr. Yang Chih-Yuan Jerry

Non-executive directors:

Mr. Zhu Linan and Mr. Zhao John Huan

- 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 department, 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

LEAD INDEPENDENT DIRECTOR

Mr. William O. Grabe

- chairs the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; (ii) 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 stakeholders 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 the Board may designate

CHIEF EXECUTIVE OFFICER

Mr. Yang Yuanqing

- 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

Appointment and Election

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.

The Board adopted a Board Diversity Policy which relates to the selection of candidates for the Board. The Board believes that a key success factor of an effective Board is that it comprises a range and balance of skills, experience, knowledge and independence, with individuals that work as a team. The Board 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 has been delegated with the responsibilities for the review of the Board Diversity Policy on an annually basis. During the fiscal year 2014/15, the Nomination and Governance Committee reviewed the below measurable objectives and the progress in achieving these objectives:

Measurable Objectives		Progress for Achieving 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	• Appointment of Mr. Yang Chih-Yuan Jerry as independent non-executive director • 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	FY2015/16 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	FY2015/16 and ongoing

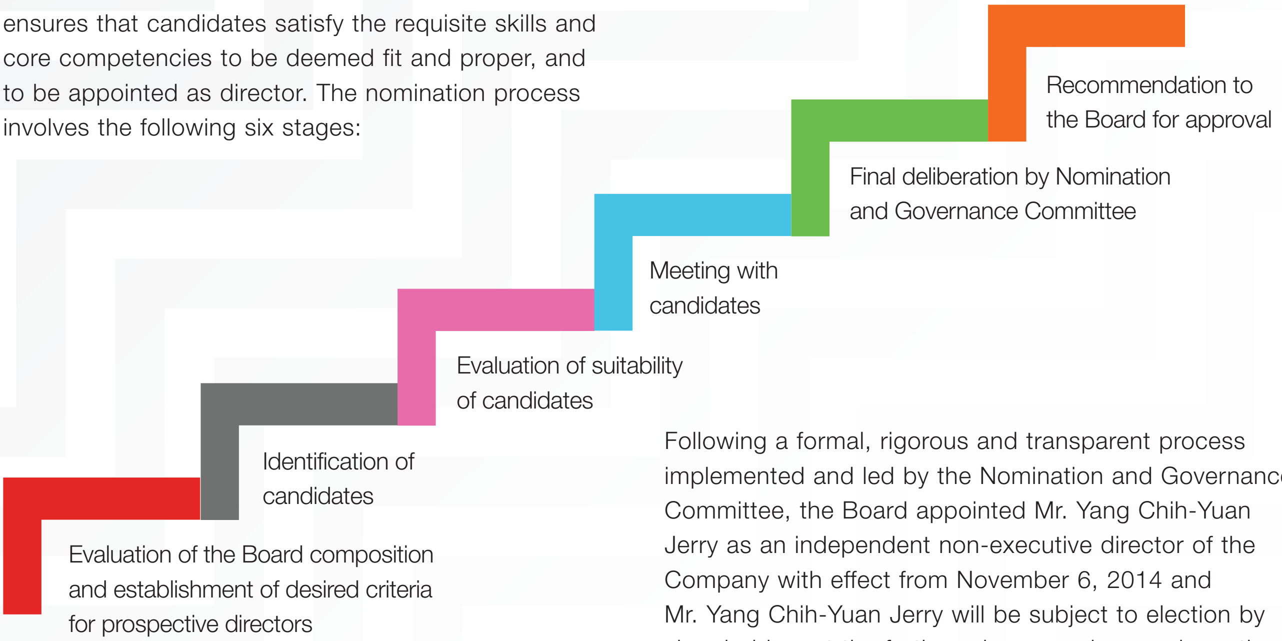
Appointment process

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 Group’s strategy.

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 Nomination and Governance Committee’s assessment of the candidates includes, but is not limited to, consideration of the relevant knowledge and diversity of backgrounds, skills, experience and perspectives that would complement the existing Board.

The 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:



Following a formal, rigorous and transparent process implemented and led by the Nomination and Governance Committee, the Board appointed Mr. Yang Chih-Yuan Jerry as an independent non-executive director of the Company with effect from November 6, 2014 and Mr. Yang Chih-Yuan Jerry will be subject to election by shareholders at the forthcoming annual general meeting.

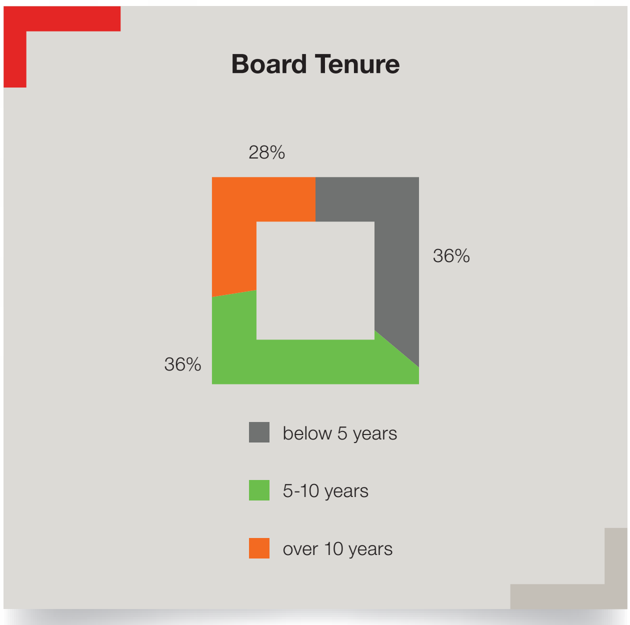
Succession

The Nomination and Governance Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board and makes recommendations to the Board as appropriate. The Board has satisfied itself that the committee has in place appropriate plans for orderly succession to the Board as well as procedures to ensure an appropriate balance of skills on the Board and its committees. The Board and the Nomination and Governance Committee have regularly discussed and reviewed Board composition and succession planning during the year and this will continue in the fiscal year 2015/16.

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. The Company will set out in the document accompanying the notice of the forthcoming 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 the 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 Company and its shareholders.

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, 2015, the Nomination and Governance Committee conducted an annual review of the independence of all independent non-executive directors of the Company for the year ended March 31, 2015. Having taken into account the factors as set out in rule 3.13 of the Listing Rules in assessing the independence of independent non-executive directors, the Nomination and Governance Committee (with the relevant committee member abstaining from voting on the resolution concerning his own independence) concluded that all of the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

In addition, the Nomination and Governance Committee affirmed that all independent non-executive directors of the Company provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended March 31, 2015.

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 and guidance 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 an 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.

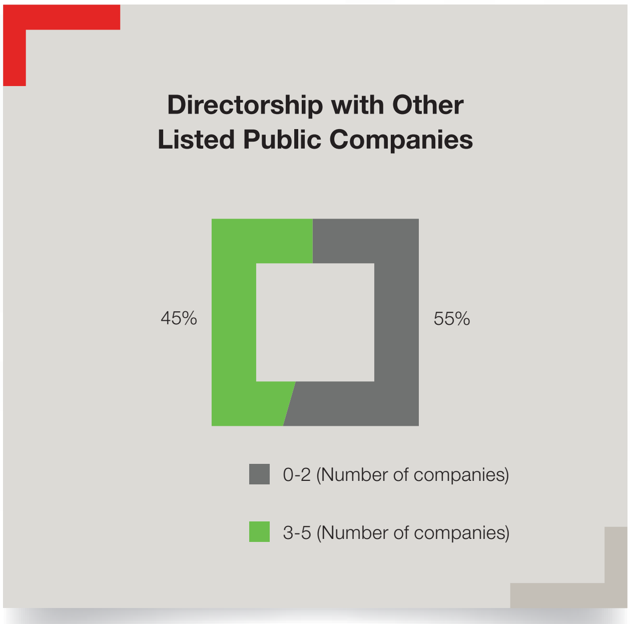
- Decisions regarding transactions with directors and their related parties are always dealt with by other directors, such as matter regarding the remuneration of executive director is handled by the Compensation Committee.

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.

Under the Articles of Association of the Company, directors are also required to declare their direct or indirect interests, if any, in any proposal, transaction, arrangement or contract that is significant in relation to the Company's business and the director's interest or his associate's interest or the interest of the entity connected with the director is material.

Commitments

All directors are committed to devote sufficient time and attention to the affairs of the Company. Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the directors in their letters of appointment. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner and bi-annually confirm to the Company of any changes of such information. With respect to those directors who stand for re-election at the forthcoming 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 forthcoming annual general meeting.



Share ownership

The Board has adopted stock ownership guidelines for non-employee director. 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

Continuous professional development program

DIRECTOR'S ROLES AND RESPONSIBILITIES

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 the director has a proper understanding of the operations, business and governance policies of the Company

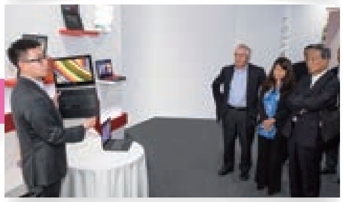
Attending Briefing / Training by External Lawyer

to ensure the director 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 the director 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 the director has a proper understanding of the operations of the Group and its development

Attending Continuous Professional Development Program

to ensure that the director keeps abreast of new laws, regulations or developments in business that are relevant to the roles as a director of the Company

During the year, Mr. Yang Chih-Yuan Jerry, who joined the Board in November, 2014, received a comprehensive induction program covering: (i) a directors' induction handbook; (ii) a briefing training by external lawyer; (iii) a visit to Lenovo manufacturing plant in Wuhan to enhance his understanding of the businesses and operations of the Group.

Continuous professional development program

As part of the continuous professional development program, the Board members from time to time receive presentations from senior executives in the business on matters of significance. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. The Company would arrange 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.

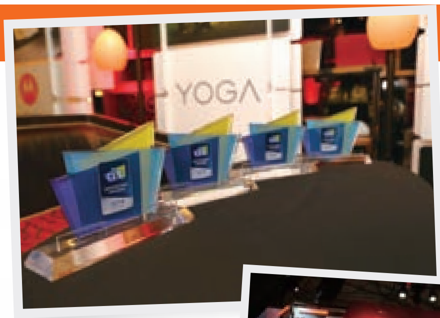
During the fiscal year 2014/15, the trainings and activities for the Board were set out below:

Site Visit

The Board had the opportunity to meet with senior management of Lenovo Mobile Business Group and to visit Lenovo Wuhan Experience Center and the manufacturing plant in Wuhan. These arrangements provided the Board a better understanding of the latest technology and products developments of the Group and an insight into the business operations and the strategic direction of the Group.

During the visit, directors were provided with updates and presentations from local management and had the chance to meet with senior management there and observe the actual operation of the plant.

Industry Congress



Lenovo operates in an industry which is rapidly changing in terms of market trends, consumer preferences and technologies. In order to keep directors updated with the latest technologies and products development in the industry, the Company has made arrangements for directors to attend the Consumer Electronics Show and the Mobile World Congress in Las Vegas and Barcelona respectively. During the visits, directors were given the best product reviews, product demos and displays that showcase the technologies of the Company and also those of other players in the market. These events provided excellent opportunities for directors not only to acquire the most advanced technological knowledge in the market, but also to meet with the senior management of the Company and other innovators, builders, technologists and customers there.

Experts Briefing and Seminar

The Company has arranged in-house seminars for directors to keep them abreast of the affairs relating to the Company. The directors are also encouraged to attend relevant external professional programs at the Company's expense to keep abreast of issues facing the changing business environment within which the Group operates.

The Company arranged experts briefing and seminar for directors on the topics of "China-US Diplomatic and Trade Relations" and "Risk Management and Internal Control".

Mr. Jeffrey Bader, previously the special assistant to the president of the United States for national affairs at the National Security Council and the principal advisor to President Obama on Asia, was a guest speaker of an in-house seminar on the current status of China-US diplomatic and trade relations

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. During the year, the regulatory updates covering the following topics:

– Recent amendments to the Listing Rules on connected transactions
– Directors' duties
– Consultation conclusions on risk management and internal control: review of the CG code and corporate governance report

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, 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
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	√	√	√
Mr. Yang Chih-Yuan Jerry *(Note)*	√	√	√

Note: Mr. Yang Chih-Yuan Jerry was appointed as an independent non-executive director of the Company with effect from November 6, 2014.

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 91 to 101.

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 year, the Company Secretary undertook appropriate professional training to update his skills and knowledge.

EFFECTIVENESS

Board's Responsibilities and Delegation

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 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 or entering into any commitments on behalf of the Group. 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. A list of senior management and their biographies are set out on pages 127 to 128 of this annual report.

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 transactions that requires disclosure under the Listing Rules**
- **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 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.

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

Meeting agenda and notice

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

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

- To review financial performance, strategy and operations

Regular Board Meeting

Meeting dates are set 2 years in advance

- To facilitate maximum attendance

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 any transaction, arrangement, contract or 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.

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

Convene Board Meeting

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

Other Board Meeting

- To consider ad hoc matters

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 Wuhan.
- 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 meets 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 (the "**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.
- As permitted by the Articles of Association, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision has been in force since the adoption of the new articles of association of the Company on July 2, 2014.
- 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.

Board Activities

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.

Business Awareness and Performance

- CEO report
- Operations updates
- Board Committees' reports

Business Strategy and Risks

- Discussion of main strategic issues relating to commercial, geographic and structural areas
- Review of processes and controls for strategic and operational risks

Financial Performance

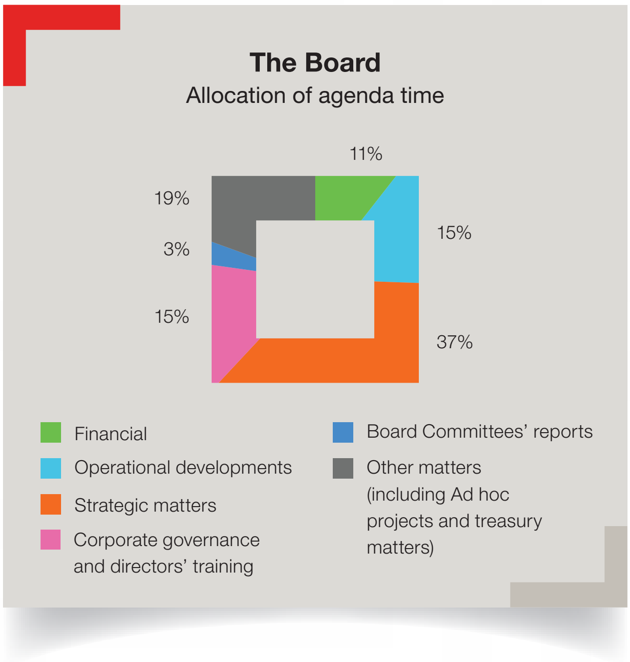
- Chief Financial Officer report
- Financial results
- Forecasts and budgets
- Treasury items

Corporate Governance, Social Responsibility, Diversity and Talent

- Review and discussion of practices of social responsibility
- Board and Board Committees' effectiveness review
- Board diversity and succession planning

Time allocation

During the fiscal year 2014/15, 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. Given the geographical spread of the Group's business, in addition to the meetings in Hong Kong and the United States, the Company also held meetings in Wuhan with a particular focus on reviewing the strategies and business of Lenovo Mobile Business Group which also provided an opportunity for directors to meet with the local management team. The chart beside this paragraph shows how the Board allocated its time during the year.



Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company to perform their duties. Where Directors are unable to attend meetings they receive papers for that meeting giving them the opportunity to raise any issues with the Chairman in advance of the meeting.

At each scheduled meeting the Board receives updates from the CEO and Chief Financial Officer on the financial and operational performance of the Group and any specific developments in their areas of the business for which they are directly responsible and of which the Board should be aware. Chairman of the respective Board committees would also report on matters discussed and/or approved at the relevant Board committees' meetings held prior to the Board meetings. Meetings are structured so as to allow for consideration and debate of all matters. In addition to these regular reports, the Board considered and/or resolved the following non-routine matters during the year:

- Appointment of Mr. William Tudor Brown as a member of Audit Committee
- Appointment of Mr. Yang Chih-Yuan Jerry as an independent non-executive director
- Adoption of the new articles of association of the Company
- Amendments to various agreements entered into with NEC Corporation or its subsidiaries
- Amendments to the delegation of authority policy of the Company
- Discussion on new businesses
- 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
Mr. Yang Chih-Yuan Jerry

AUDIT COMMITTEE

Chairman:
Mr. Nicholas C. Allen
Members:
Mr. Ting Lee Sen
Ms. Ma Xuezheng
Mr. William Tudor Brown

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

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, responsibilities and main activities during the fiscal year 2014/15, are summarized in the Audit Committee Report as stated on pages 84 to 90 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 2014/15, are summarized in the Compensation Committee Report as stated on pages 91 to 101 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 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

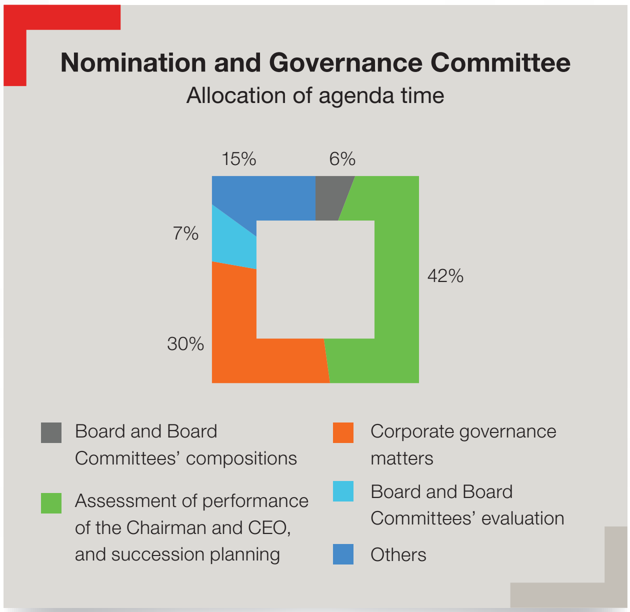
- The Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the Company's website and HKEx's website.
- The Committee is provided with sufficient resources to perform its duties.
- The Committee is authorised to obtain outside 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 the year ended March 31, 2015, 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. William Tudor Brown as a member of Audit Committee;

  (ii) appointment of Mr. Yang Chih-Yuan Jerry as an independent non-executive director.

- Reviewed and discussed the progress against Board diversity targets.

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

- Assessed the performance of the Chairman and CEO for the fiscal year 2013/14 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 role.

Corporate Governance matters

- Reviewed corporate governance disclosures in 2013/14 annual report and 2014/15 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 professional 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 the fiscal year 2014/15.

- Discussed and approved the proposed actions to be taken in response to the findings of 2013/14 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' review process can be found under "Board and Board Committees' Effectiveness Review" as set out in this report on pages 67 to 68.

Board and Board Committees Meetings and Attendance

Details of directors' attendance at the annual general meeting, Board and Board Committees meetings held during the year ended March 31, 2015 are set out below:

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

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 and three strategic meetings during the year.
(3) The Company held the annual general meeting on July 2, 2014.
(4) Representatives of the external auditor participated in every Audit Committee meeting and the annual general meeting held during the year.
(5) Mr. William Tudor Brown was appointed as a member of the Audit Committee with effect from May 22, 2014.
(6) Mr. Yang Chih-Yuan Jerry was appointed as an independent non-executive director of the Company with effect from November 6, 2014.
(7) For corporate governance reasons, Mr. Yang Yuanqing was required to excuse himself from the agenda item relating to assessment of the performance of the Chairman and CEO of the Nomination and Governance Committee meeting to avoid conflict of interest.

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

Review process

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 objectives of the evaluation were to build on the improvements made since the last evaluation, thereby improving the collective contribution of the Board as a whole and also the competence and effectiveness of each individual director.

Mr. Grabe, the Lead Independent Director, is delegated with authority to take a key role in the Board evaluation process. Mr. Grabe, in consultation with the Chairman and supported by the General Counsel and the Company Secretary, compiled and circulated a comprehensive questionnaire for completion by all directors, the aim of which was to evaluate the performance and effectiveness of the Board and its Committees.

The questionnaire considered:

- Board processes and their effectiveness
- Time management of Board meetings
- Board composition and dynamics
- Strategic and operational oversight
- Succession planning
- Board support

Following the completion of the questionnaire by each director, Mr. Grabe discussed the draft results report with the chairpersons of Audit Committee and Compensation Committee. The process took place between November 2014 and February 2015.

BOARD AND BOARD COMMITTEES' EFFECTIVENESS REVIEW PROCESS

DETERMINE THE SCOPE OF EVALUATION

- Board and Board Committees

EVALUATION APPROACH

- Conducted by completing a comprehensive questionnaire covering the following areas:
  - Roles 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

Review results

A consolidated report of the outputs from the evaluation was prepared by the Nomination and Governance Committee for review and consideration by the Board. The results of the evaluation were thoroughly discussed at a Board meeting on February 2, 2015.

Overall the review found 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.

Board action plan for FY2015/16

After a thorough discussion of the review, the Board has identified the following themes and areas of focus:

- Board process – Time spent on routine would be further managed to enable strategic or business discussions to take priority, whilst ensuring the critical areas of oversight would be maintained.

- Succession planning – Continue to develop our succession planning, insights into high potential individuals.

- Communication with senior management – Continue to encourage greater interaction between Board members and senior management to benefit from their experience.

Lenovo's Global Leadership Team Event

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 139 of this annual report.

The current practices of the Company on the timeline for publication of financial results and the related reports are set out below:

Annual Results FY2013/14
• Announced within 2 months • Published the annual report within 14 days following the annual results announcement
Interim Results FY2014/15
• Announced within 1.5 months • Published the interim report within 14 days following the interim results announcement
Quarterly Results FY2014/15 Q1 & Q3
• Announced within 45 days

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.

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.

Within this framework, management is responsible for setting the appropriate tone from the top, risk assessment, and the design, implementation and maintenance of internal controls, while the Board and its Audit Committee oversee the actions of management and monitor the effectiveness of the established controls. Other teams such as Finance, Legal, and Human Resources provide assistance and expertise to management to assist it in undertaking its responsibilities.

Management of internal controls

Essential to the internal control system are well defined policies and procedures that are properly documented and communicated to employees. The corporate policies form the basis of all our major guidelines and procedures and set forth the control standards required for the functioning of our business entities. 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, Lenovo has a strong corporate culture based on good business ethics and accountability. Lenovo's Code of Conduct (the "**Code**"), 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 Code, which is available in multiple languages and is accessible on the Company's website and internal intranet, and to participate in regular training to reinforce the Company's commitment to compliance and conducting business with integrity. Lenovo regards any violation of the Code as a serious matter and is committed to investigating all reported concerns. Furthermore, in keeping with best practices, Lenovo has developed and implemented an Anti-Bribery and Anti-Corruption Policy which reinforces the Code 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 to the extent possible. Most importantly, if employees seek advice, raise a concern relating to a potential compliance issue, or report suspected misconduct, Lenovo will not tolerate any form of retaliation or harassment.

The comprehensive controls framework established by the Company covers all activities and transactions. Management performs periodic enterprise wide risk assessments and continuously monitors and reports progress of action plans to address these key risks. Management also assesses business risks when formulating corporate strategies, and tracks and reports on the implementation of strategic initiatives, business plans, budgets and financial results regularly to the Board. Additionally, as part of our commitment to financial integrity, all relevant senior executives regularly verify the accuracy and completeness of the quarterly financial statements and confirm compliance with key internal controls.

Another feature of our internal control system is the execution of key control self-testing by management to reasonably assure that internal controls are working as intended and that necessary actions have been taken to address control weaknesses. Specific employees with controls knowledge and expertise have been embedded across the business functions to further assist management with designing, executing, and monitoring controls. The Group Controller oversees and coordinates the activities of these individuals who in turn help to clearly communicate control requirements across all organizations and process owners.

To assist the Board's Audit Committee in its oversight and monitoring activities, the Company maintains an independent, worldwide Internal Audit function. Internal Audit provides objective assurance to the Audit Committee that the system of internal controls is effective and operating as intended. The mission of Internal Audit is to provide the Board and Lenovo management with:

- Independent and objective assessment of Lenovo's system of internal controls;
- Guidance to Lenovo stakeholders for improving risk management;
- Proactive support to improve Lenovo's control posture; and
- Independent investigations regarding certain allegations of fraud and violations of the Code 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, the Audit Committee Chair and other Board members as deemed necessary. 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 performs a risk assessment using information collected from process owners, the enterprise risk management team, senior executives, the external auditor and the Board along with an analysis of prior audit issues and other data. Internal Audit develops an audit plan that prioritizes areas with significant risks or deemed to be strategic in nature to the business. The audit plan is reviewed by the Audit Committee, which is also given quarterly updates on the performance of the plan and key findings. As necessary throughout the year, the audit plan will be modified to reflect emerging risks or changes to business plans. 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. In keeping with best practices, Internal Audit regularly monitors the status of management action plans resulting from audit findings to ensure completion and reports progress each quarter to the Audit Committee. Audit Committee reporting also includes identified key control issues to provide the Audit Committee full visibility to the status of Lenovo's control environment.

Furthermore, Internal Audit is responsible for investigating certain allegations of potential violations of the Code, or any other company policies as appropriate. Internal Audit partners with Legal, Ethics and Compliance, Human Resources, and other subject matter experts where necessary to ensure the appropriate expertise when performing these investigations. Management and the Audit Committee are informed of the results of these investigations, any resulting required actions, and status updates on actions.

Inside information

Regarding procedures and internal controls for the handling and dissemination of inside information, the Company:

(i) is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately if it is the subject of a decision;

(ii) conducts its affairs with close regard to the applicable laws and regulations prevailing in Hong Kong;

(iii) has included in the Code a strict prohibition on the unauthorized use of non-public or inside information;

(iv) has established a Continuous Disclosures Policy and implemented guidelines for monitoring, reporting and disseminating inside information to our shareholders, investors, analysts and media. These policies and guidelines also identify who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders; and

(v) has communicated to all relevant staff regarding the implementation of the Continuous Disclosures Policy and the relevant trainings are also provided.

Control effectiveness

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

Enterprise Risk Management

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

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

- The ERM team, who is responsible to design, implement, review, and update Lenovo ERM framework.
- All Lenovo major functions, where risk ownership is established via the appointment of ERM Champions in each function.

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

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 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, 2015 and the comparative figures for the financial year ended March 31, 2014 are as follows:

	2015 **US$mn**	2014 US$mn
Audit	**7.4**	4.5
Non-audit	**1.9**	0.7
Total	**9.3**	5.2

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 2014/15, 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 strategy, the Company also cooperated with different securities houses in organizing trips to the Company's innovation center and manufacturing plants 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 FY2014/15

Date	Conference	Location
May 2014	Nomura Pan-Asia Tech Forum	Hong Kong
June 2014	J.P. Morgan Global China Summit 2014	Beijing
June 2014	UBS Taiwan Conference	Taipei
September 2014	J.P. Morgan 18th Annual Asia Pacific Equity Conference	Boston
September 2014	Credit Suisse Asian Technology Conference	Taipei
September 2014	CLSA Investor's Forum 2014	Hong Kong
November 2014	Morgan Stanley Asia Pacific Summit	Singapore
November 2014	J.P. Morgan Global TMT Conference	Hong Kong
November 2014	Daiwa Investment Conference	Hong Kong
December 2014	Barclays Asia TMT Conference	Hong Kong
March 2015	Bank of America Merrill Lynch "Taiwan, Technology & Beyond" Conference	Taipei
March 2015	Credit Suisse Asian Investment Conference	Hong Kong

Market Recognitions

The Company's continuous effort in investor relations has been well-recognized by the investment community. Lenovo was honored the "**Best CFO**", "**Best IR Company**", "**Best IR Professionals**" and "**Best Company (Ranked #2 over 145 companies)**" under the technology industry of The 2014 All-Asia Executive Team by **Institutional Investor**.

In the **IR Magazine Awards 2014**, Lenovo was named to the **Global Top 50 Investor Relations Award**, and has also been shortlisted for the **Global Top Mid-Cap Investor Relations Award**. At the **IR Magazine's Greater China Awards 2014**, Lenovo was also ranked as one of the Top 3 best performing company in **"Grand Prix for Best Overall Investor Relations – Large Cap"**, **"Best Investor Relations by a Mainland Chinese Company"**, **"Best Investor Relations by Senior Management in Greater China: Mr. Wong Wai Ming"** and **"Best in Sector for Technology"**.

Besides, Lenovo was honored the **FinanceAsia Achievement Awards – The Best China Deal (Lenovo's US$2.3 bn acquisition of IBM's x 86 server business)** by **FinanceAsia**.

Lenovo's fiscal year 2013/14 annual report which themed as "The Lenovo Experience Building a Better Way" has also won a number of awards fully demonstrates our leading international best practices of our annual report is being highly recognized.

The report has also won the **Bronze Award of "Annual Reports – Overall Presentation: Electronics"** in **Mercury Excellence Awards 2014/15** and **Honors Winner of "Design: Covers – Annual Reports: Artistic/ Illustrations"** in **Galaxy Awards 2014**.

Bronze Award of " Annual Reports - Overall Presentation: Electronics"

Honors Winner of "Design: Covers - Annual Reports: Artistic/Illustrations"

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 Composite Index, Hang Seng Commerce & Industry Index, Hang Seng China-Affiliated Corporations Index, Hang Seng Corporate Sustainability Index, Global Compact 100 and FTSE China 50 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. 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, 2015, the market capitalization of listed shares of the Company was approximately HK$125.7 billion based on the total number of 11,108,654,724 issued shares of the Company and the closing price of HK$11.32 per share.

The daily average number of traded shares was approximately 39.05 million shares over an approximate free float of 6,320 million shares in the fiscal year 2014/15. The highest closing price for the share was HK$12.62 per share on September 8, 2014 and the lowest was HK$8.34 per share on May 8, 2014.

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, 2015 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 (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.

The Company arranged 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.

2014 Annual General Meeting

The annual general meeting of the Company held on July 2, 2014 (the "**2014 Annual General Meeting**") was attended by, among others, the CEO, Chief Financial Officer, chairpersons of the Audit Committee and Compensation Committee, the Lead Independent Director, and representatives of the external auditor PwC and other professional consultant to answer questions raised by shareholders at the meeting.

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

Matters Being Voted Upon	Percentage of Affirmative Votes
Received the audited financial statements for the year ended March 31, 2014 together with the directors' report and independent auditor's report	99.99%
Declaration of a final dividend for the issued shares for the year ended March 31, 2014	99.85%
Re-election of retiring directors and authorization of the Board to fix directors' fees	98.35% to 99.91% with respect to each individual resolution
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.69%
Approval of granting the general mandate to the directors to allot, issue and deal with the additional Company's shares	67.49%
Approval of granting the general mandate to the directors to buy back the Company's shares	99.99%
Approval of authorisation to directors to extend the general mandate to issue new shares by adding the number of shares repurchased	70.89%
Approval of the adoption of new articles of association of the Company	91.05%

All of the resolutions proposed at the 2014 Annual General Meeting were decided by way of poll voting. Procedures for conducting the poll were explained by the Chairman at the commencement of this meeting. The poll was conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the details of poll voting results were posted on the Company's website (www.lenovo.com/hk/publication) and HKEx's website (www.hkex.com.hk) on July 2, 2014.

2015 Annual General Meeting

All shareholders are encouraged to attend and participate in the Company's 2015 annual general meeting. Details of the proposed resolutions for the 2015 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**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 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.

Constitutional documents

Rights of the shareholders are also provided under the Articles of Association. During the year, the Company has adopted 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 which came into effect on March 3, 2014, the Listing Rules and current corporate practices. An up to date consolidated version of the Articles of Association of the Company is available on the Company's website and the HKEx's website.

Shareholding Structure

Shareholding as recorded in the register of members of the Company as of March 31, 2015

According to the register of members of the Company as of March 31, 2015, there were 864 registered shareholders of whom 97.22% had their registered addresses in Hong Kong. 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.

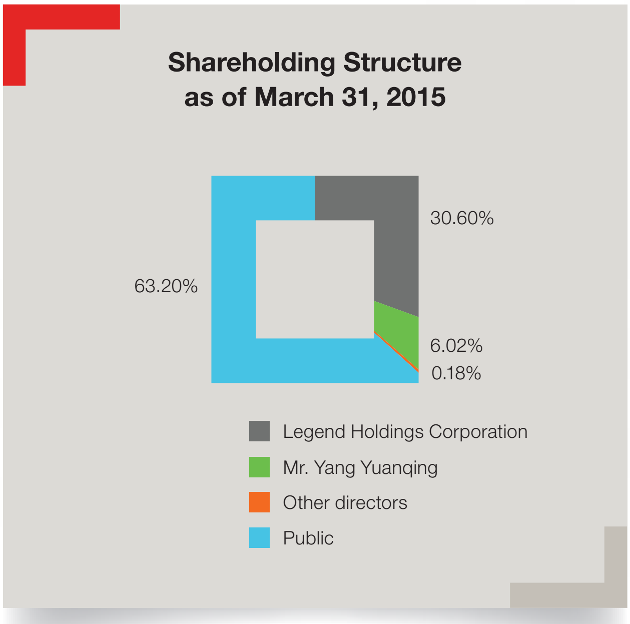
Details of shareholders by size of shareholding as of March 31, 2015 are as follows:

Size of shareholding	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
1-2,000	262	30.32%	373,792	0.00%
2,001-10,000	395	45.72%	2,714,000	0.03%
10,001-100,000	182	21.07%	5,693,745	0.05%
100,001-1,000,000	18	2.08%	6,542,000	0.06%
1,000,001 and above	7	0.81%	11,093,331,187	99.86%
Total	**864**	**100.00%**	**11,108,654,724**	**100.00%**

Remarks:

(i) A board lot size comprises 2,000 Shares.
(ii) 68.63% of all the issued Shares were held through HKSCC Nominees Limited.

Shareholding structure according to the interest disclosed under the Securities and Futures Ordinance as of March 31, 2015



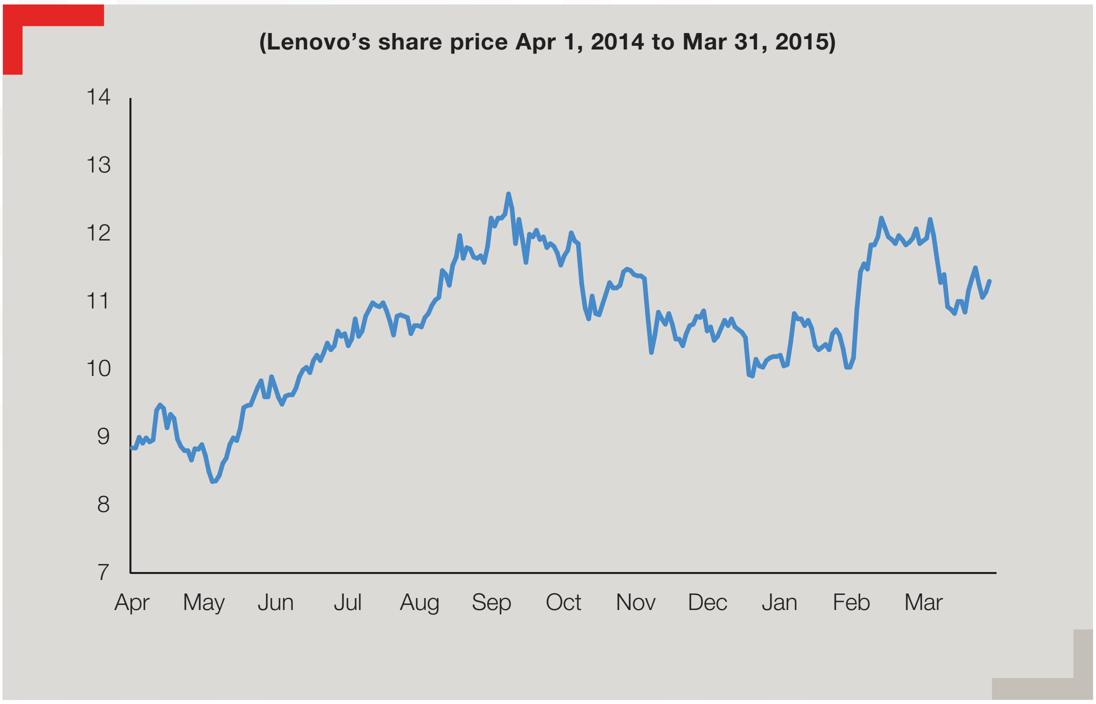
Remarks:

(i) The approximate percentage of shareholding is calculated based on the aggregate long positions held in the total number of shares in issue 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 11,108,654,724 Shares of the Company in issue as of March 31, 2015.

INFORMATION FOR INVESTORS

Ordinary Shares (as of 31 March 2015)

Listing	Hong Kong Stock Exchange
Stock code	992
Board lot size	2,000 shares
Ordinary shares outstanding as of March 31, 2015	11,108,654,724 shares
Free float	6,320 million shares
Market capitalization as of March 31, 2015	HK$125.7 billion (Approx. US$16.1 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, 2015	2.77 U.S. cents

Dividend per Share	
Dividend per ordinary share for the year ended March 31, 2015	
– Interim	6.0 HK cent
– Final[1]	20.5 HK cents

Financial Calendar 2014/2015 (Hong Kong Time)	
First Quarter Results Announcement	August 14, 2014
Initial Closing of the Acquisition of IBMx86	October 1, 2014
Completed Acquisition of Motorola Mobility from Google	October 30, 2014
Interim Results Announcement	November 6, 2014
Third Quarter Results Announcement	February 3, 2015
Final Closing of Acquisition of IBMx86	March 31, 2015
Annual Results Announcement	May 21, 2015
Annual General Meeting	July 2, 2015

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.

Note:
1 Subject to Shareholders' approval at the forthcoming annual general meeting.

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 four 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	
Member	Mr. William Tudor Brown	Independent non-executive director	(appointed as a member on May 22, 2014)

The chairman, Mr. Allen has appropriate professional qualifications being a member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants, and experience in accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). More information on the skills and experience of the members of Audit Committee may be found in the directors' biographies set out on pages 125 to 127 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:

AUDIT COMMITTEE
Main areas of oversight

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

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

External Audit, Engagement and Policies
- Appointment and remuneration
- Scope of the audit work
- Independence requirements
- Significant audit points
- Assessment of performance of external auditor

Others
- Tax and treasury matters
- Key litigation and legal exposure
- Compliance with ethical rules and concerns

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 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 FY2014/15

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 the fiscal year 2014/15 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:**
  - approval of 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 controls issues

Review of external audit:

- scope of the audit work
- significant audit points

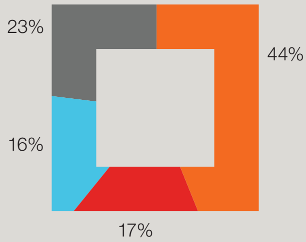
Review of follow-up items:

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

In the fiscal year ended March 31, 2015, 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 66 and the chart below shows how the Audit Committee allocated its time during the fiscal year 2014/15.

Audit Committee

Allocation of agenda time



	FY2014/15	FY2013/14
Financial reporting	**44%**	44%
Internal audit and controls	**17%**	17%
External audit matters and engagement	**16%**	16%
Others (including compliance, tax and treasury matters)	**23%**	23%

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, 2014 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, 2014 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, 2014 and for the nine months ended December 31, 2014 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 acquisitions; (c) the accounting treatment on the Group's goodwill and (d) the accounting provisions and treatments for warranty provision, 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 risk management status and the action plans for the fiscal year 2014/15; 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 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 and results 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, 2014;

- Reviewed and considered the external auditor's audit plan and scope for the fiscal year 2014/15;

- 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, 2015, 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 of the re-appointment PwC as external auditor of the Group for the year ended March 31, 2015;

OTHERS

During the fiscal year 2014/15, the Audit Committee also:

- Received and reviewed the reports from General Counsel regarding legal matters of the 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 and discussed with the management on the major contemplated and completed transactions of the Company;

- Reviewed the IT recovery plan and cybersecurity of the Group;

- Reviewed the tax update for the Group;

- Reviewed and approved the Audit Committee report for the fiscal year 2013/14;

- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2014/15.

At the meeting held on May 20, 2015, 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, 2015 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, 2015, 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 69 to 74. The Audit Committee also confirmed that the Group had, in the fiscal year 2014/15, 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 74. 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, 2015 and thereafter to the date of this annual report, they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

Based on the review and discussions referred to above, the Audit Committee was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2016 for shareholders' approval at the forthcoming annual general meeting to be held on July 2, 2015.

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' review process can be found under "Board and Board Committees' Effectiveness Review" as set out in the Corporate Governance Report on pages 67 to 68.

PRIORITIES FOR FY2015/16

Looking ahead, the priorities of the Audit Committee for the fiscal year 2015/16 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

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
Member	Mr. Ting Lee Sen	Independent Non-executive Director
Member	Mr. William Tudor Brown	Independent Non-executive Director
Member	Mr. William O. Grabe	Independent Non-executive Director and Lead Independent Director
Member	Mr. Zhu Linan	Non-executive Director

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, 2015, the Committee held four meetings. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 66.

During the year, the Committee:

Review of Company and Market Information

- Reviewed the analysis and the recommendations of its independent consultant on the FY2014/15 Non-executive Directors' compensation package and submitted the same to the Board for approval
- 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 updates on long-term incentives ("LTI") spend versus budget
- Reviewed the holding power and share ownership positions of both executives and Non-executive Directors
- Reviewed degree of alignment between CEO pay and performance
- Analysed Lenovo performance versus peer companies on a range of relevant financial metrics

Compensation Program

- Reviewed and approved the FY2013/14 bonus payments and FY2014/15 compensation for senior management
- Reviewed and approved the FY2013/14 bonus payments and FY2014/15 compensation for Chairman of the Board and CEO
- Provided input as to actions for integration of compensation programs for newly acquired businesses
- Discussed the design of the performance bonus and LTI programs, including potential enhancements
- Reviewed and approved the FY2015/16 LTI budget

Others

- Reviewed and approved the compensation disclosure in the FY2013/14 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 serves 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

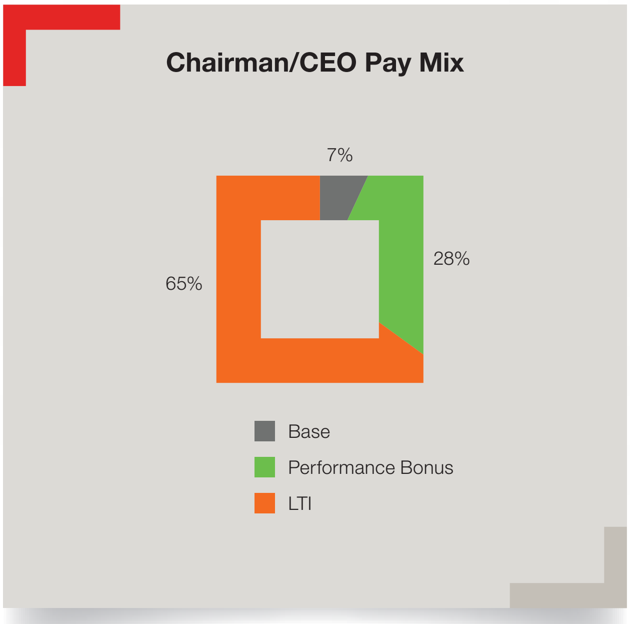
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of the current package and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

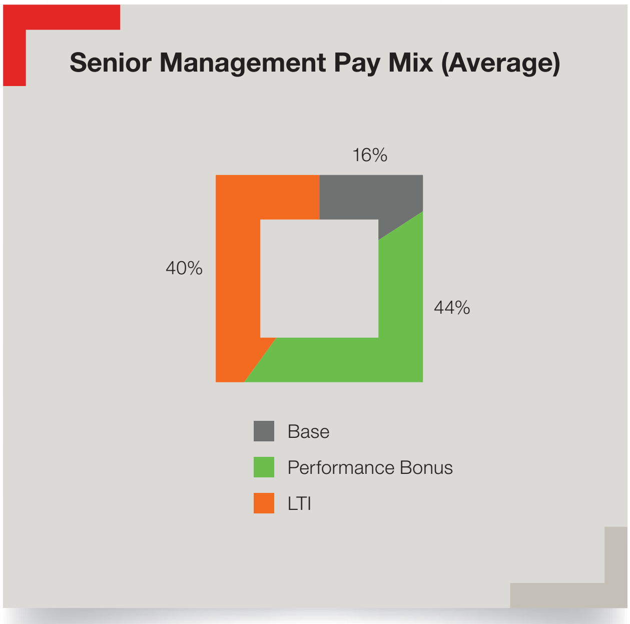
Chairman/CEO and Senior Management

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 FY2014/15 emoluments disclosed in note 11. The Senior Management Pay Mix chart reflects average FY2014/15 emoluments including LTI that were awarded in June 2014.





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 using select financial and non-financial metrics, 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")
RSU is equivalent to the value of one ordinary share of the Company. Once vested, RSU is 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, shares are due after exercise by the recipient. In the case of RSUs, shares 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, role, 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 130 to 131 of 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 132 to 135.

General Employees

As at March 31, 2015, the Group had a headcount of more than 60,000 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 2014-15 Non-executive Directors Review

In May 2014, 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. Overall, the cash retainer and annual LTI award remained constant at US$87,500 and US$200,000* respectively. 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	2014/15	2013/14
Cash Retainer	$87,500 USD	$87,500 USD
LTI Award	$200,000 USD	$200,000 USD
Total Remuneration	$287,500 USD	$287,500 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 above.

Consistent with prior practice, the Chairman of the Audit Committee received an additional cash payment equal to US$27,500 (approximately HK$214,500). The fee for the Chairman of the Compensation Committee was reviewed in light of changing market dynamics and increased responsibilities for this role. The final recommendation, as subsequently approved by the Board (comprising executive director of the Company only) based on the delegation from shareholders of the Company, was to increase from US$10,500 (approximately HK$81,900) to US$20,000 (approximately HK$156,000). In addition, the Lead Independent Director received an additional cash payment equal to US$35,000 (approximately HK$273,000) 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, 2015 under this scheme are presented in the "Long-Term Incentive Schemes" section of this report.

Fiscal Year 2014-15 Chairman/CEO and Senior Management Review

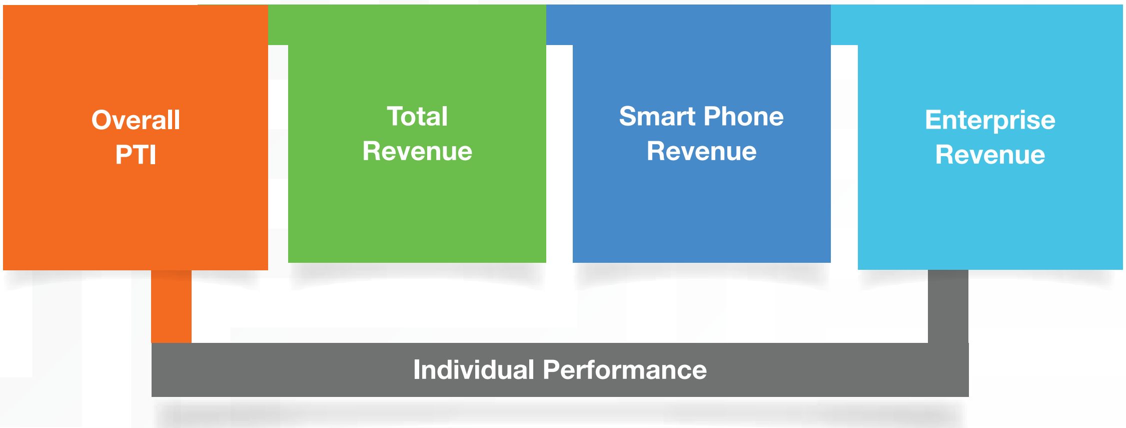
Fixed Compensation

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 2014, effective July 1, 2014.

To ensure the Chairman/CEO's compensation package remains competitive with the market, base salary for the Chairman/CEO was increased by 5% to RMB8,389,348 (approximately US$1,353,201) (Note: the translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.1613 as at March 31, 2015 for information purposes only) (actual pay delivered in local currency). Base salaries for senior management were increased by 0% to 53% 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 2014/15 performance bonus payouts were approved in the May 2015 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on overall pre-tax income, total revenue, smart phone revenue, enterprise revenue as well as individual performance.



Approved performance bonus payments for the fiscal year 2014/15 will be delivered in June 2015.

LTI Program

The most recent full cycle of LTI awards including both SARs and RSUs was made in June of 2014. 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 2015.

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2015:

Remuneration bands	Number of senior management
US$3,194,626 to US$3,259,075	1
US$3,259,392 to US$3,323,841	1
US$3,786,739 to US$3,851,188	1
US$4,823,850 to US$4,888,299	1
US$5,478,250 to US$5,542,699	1
US$5,838,587 to US$5,903,036	1
US$10,311,711 to US$10,376,160	1

Fiscal Year 2014-15 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, 2014.

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 2014/15, there were a total of approximately 34 different Performance Groups within the Company each with their unique performance metrics and targets. For the fiscal year 2014/15 performance bonus, mid-year progress payment was made in December 2014, and full payment based on annual business outcomes will be trued-up in June 2015 based on approved final bonus funding.

Bonus Target x **Performance Group Score** x **Individual Performance Modifier** = **FINAL BONUS PAYOUT**

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

For fiscal year 2014/15,18% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in June of 2014.

Emoluments of Directors for FY2014/15 and Five Highest Paid Individuals

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

LONG-TERM INCENTIVE SCHEMES

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

Share Option Scheme

At an extraordinary general meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "**New Option Scheme**") and termination of the share option scheme that was adopted on January 18, 1994.

Pursuant to the terms of New Option Scheme, the New Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date and expiring on the tenth anniversary of the adoption date. Accordingly, the New Option Scheme had been expired on April 26, 2012, and no further options could thereafter be granted under the New Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the New Option Scheme prior to its expiration. Further details of the New Option Scheme are set out in the Directors' Report on pages 130 to 131.

Details of the movement of the share options of the Company during the year ended March 31, 2015 were as follows:

	Number of share options						
Category of participants	Held at April 1, 2014	Exercised during the year	Lapsed during the year	Held at March 31, 2015	Exercise price (HK$)	Grant date (mm.dd.yyyy)	Exercise period (mm.dd.yyyy)
Continuous contract employees	31,487,601	1,172,000	30,315,601	–	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$9.032.

(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 29(b) to the financial statements.

Long-Term Incentive Program

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

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2014 (unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2015 (unvested)	Total outstanding as at March 31, 2015	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	08/09	5.88	–	–	–	3,939,855	1,901,999	–	–	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	–	–	–	22,800,000	5,933,991	–	–	05.25.2010 – 05.25.2013
	SAR	09/10	5.23	–	–	–	–	–	–	6,596,156	02.08.2011 – 02.08.2014
	SAR	10/11	4.92	2,757,554	–	2,757,554	–	–	–	11,030,219	02.21.2012 – 02.21.2015
	SAR	11/12	6.80	5,566,178	–	2,783,090	–	–	2,783,088	11,132,358	02.13.2013 – 02.13.2016
	SAR	12/13	8.22	10,544,680	–	3,514,893	–	–	7,029,787	14,059,573	02.04.2014 – 02.04.2017
	SAR	13/14	9.815	–	14,520,062	–	–	–	14,520,062	14,520,062	06.03.2015 – 06.03.2018
	RSU	10/11	4.92	1,969,682	–	1,969,682	–	–	–	–	02.21.2012 – 02.21.2015
	RSU	11/12	6.80	3,339,707	–	1,669,854	–	–	1,669,853	1,669,853	02.13.2013 – 02.13.2016
	RSU	12/13	8.22	4,274,870	–	1,424,957	–	–	2,849,913	2,849,913	02.04.2014 – 02.04.2017
	RSU	12/13	7.82	2,164,779	–	2,164,779	–	–	–	–	06.03.2014
	RSU	12/13	7.82	3,216,329	–	1,072,110	–	–	2,144,219	2,144,219	06.03.2014 – 06.03.2016
	RSU	13/14	9.815	–	5,329,589	–	–	–	5,329,589	5,329,589	06.03.2015 – 06.03.2018
	RSU	13/14	9.815	–	1,423,663	–	–	–	1,423,663	1,423,663	06.03.2015
Mr. Zhu Linan	SAR	11/12	4.56	107,666	–	107,666	107,666	40,676	–	–	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	182,878	96,363	91,438	91,438	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	121,361	79,232	242,723	242,723	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Mr. Zhao John Huan	SAR	11/12	5.78	34,637	–	34,637	–	–	–	103,913	11.03.2012 – 11.03.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	5.78	16,494	–	16,494	–	–	–	–	11.03.2012 – 11.03.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Mr. Ting Lee Sen	SAR	08/09	5.88	–	–	–	195,980	104,571	–	–	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	–	–	–	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	107,666	–	107,666	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Dr. Tian Suning	SAR	08/09	5.88	–	–	–	195,980	96,111	–	–	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	–	–	–	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	107,666	–	107,666	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2014 (unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at March 31, 2015 (unvested)	Total outstanding as at March 31, 2015	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	–	–	–	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	107,667	–	107,667	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Mr. Nobuyuki Idei	SAR	11/12	5.23	48,029	–	48,029	–	–	–	144,085	09.28.2012 – 09.28.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	5.23	22,872	–	22,872	–	–	–	–	09.28.2012 – 09.28.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Mr. William O. Grabe	SAR	08/09	5.88	–	–	–	195,980	100,908	–	–	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	–	–	–	–	–	–	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	107,667	–	107,667	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
	RSU (Deferral)	13/14	8.67	–	28,333	28,333	–	–	–	–	Note 1
	RSU (Deferral)	13/14	9.185	–	24,188	24,188	–	–	–	–	Note 1
	RSU (Deferral)	14/15	11.48	–	20,680	20,680	–	–	–	–	Note 1
	RSU (Deferral)	14/15	10.29	–	23,071	–	–	–	23,071	23,071	Note 1
	RSU (Deferral)	14/15	11.36	–	20,898	–	–	–	20,898	20,898	Note 1
Mr. William Tudor Brown	SAR	12/13	8.07	35,651	–	17,825	–	–	17,826	53,476	01.31.2014 – 01.31.2016
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	12/13	8.07	9,636	–	4,818	–	–	4,818	4,818	01.31.2014 – 01.31.2016
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Ms. Ma Xuezheng	SAR	11/12	4.56	107,666	–	107,666	–	–	–	107,666	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	182,877	–	91,439	–	–	91,438	182,877	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	364,084	–	121,361	–	–	242,723	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	275,884	–	–	–	275,884	275,884	08.15.2015 – 08.15.2017
	RSU	11/12	4.56	51,270	–	51,270	–	–	–	–	08.19.2012 – 08.19.2014
	RSU	12/13	6.36	73,153	–	36,576	–	–	36,577	36,577	07.03.2013 – 07.03.2015
	RSU	13/14	7.88	98,401	–	32,800	–	–	65,601	65,601	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	67,509	–	–	–	67,509	67,509	08.15.2015 – 08.15.2017
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	16,395	–	8,198	–	–	8,197	24,593	02.20.2014 – 20.02.2016
	SAR	13/14	7.88	245,757	–	81,919	–	–	163,838	245,757	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	–	186,221	–	–	–	–	186,221	08.15.2015 – 08.15.2017
	RSU	12/13	8.63	4,432	–	2,216	–	–	2,216	2,216	02.20.2014 – 20.02.2016
	RSU	13/14	7.88	66,421	–	22,140	–	–	44,281	44,281	08.16.2014 – 08.16.2016
	RSU	14/15	11.48	–	45,568	–	–	–	45,568	45,568	08.15.2015 – 08.15.2017

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. As of fiscal year end, 100% of executives covered by the guidelines have achieved the targeted level of ownership. Additionally, the Non-executive Directors are subject to similar guidelines and are in full compliance.

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 67 to 68.

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 maintain our leadership in the PC industry and expand our position in the Enterprise and Mobile areas.

Despite a difficult worldwide PC market over the past several years, in FY 2014/15 Lenovo achieved record revenue and record profits. The company also reached a number of significant milestones – including the acquisition of the IBM x86 server business and Motorola Mobility. As a result, not only did we maintain our position as the world's number one PC company and increase our market share in this space, we also became the third largest manufacturer of x86 servers and the number three smartphone player in the world.

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 greater expectations for social responsibility and, in particular, increases the investment that will be required to meet our aggressive environmental and 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 continually strive to improve the world not only through our innovations and business advancements, but also through the way we conduct our business and 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 three distinct business groups – PC & Enterprise, Mobile, and Ecosystem & Cloud Services. This new structure will support the seamless integration of our recent acquisitions as well as provide greater consistency across the business groups in how we fulfill our sustainability commitments. We will focus 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 FY 2014/15 with sustainability and social responsibility programs that have been recognized by the global community, including:

- Lenovo was selected as a constituent stock of the 2014 Hang Seng Corporate Sustainability Index for the fifth year in a row, acknowledging Lenovo's ongoing commitment to sustainability. In addition, Lenovo was the top-rated company in the index's Information Technology sector.

- Lenovo was selected for inclusion in the second United Nations Global Compact 100 (GC 100) – a 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 was selected for inclusion in the Corporate Knights 2015 Global 100 Most Sustainable Corporations in the World (Global 100) Index.

- Lenovo was honored in December 2014 with the Corporate Governance Excellence Award (Hang Seng Index Constituent Companies Category) and Sustainability Excellence Award, jointly conferred by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy at Hong Kong Baptist University.

- 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.

- Lenovo achieved a 2014 CDP disclosure score of 98 (out of a possible 100) and a ranking of performance band B. Lenovo received honors from CDP over the past year, including being listed in the Climate Disclosure Leadership Index as one of the highest-ranked companies as well as being awarded a "Sustainability Leadership Model Enterprise Award" in China. For further details on these accomplishments and Lenovo's climate change initiatives, please see www.lenovo.com/climate.

- In January 2015, Lenovo was again listed on the U.S Environmental Protection Agency's Top 30 Tech & Telecom list of the largest green power purchasers.

- Lenovo continues to be recognized in the area of occupational health and safety management. In June 2014, the Lenovo Information Products Company (LIPC) Shenzhen location received its fourth consecutive "Work Safety Management Outstanding Contribution Unit" award from the Futian District, Shenzhen, China. Lenovo's United States Fulfillment Center (USFC) in Whitsett, North Carolina, received its sixth consecutive "Gold Award" in May 2014 and Lenovo's Morrisville, North Carolina, headquarters received its ninth "Gold Award" in June 2014 from the North Carolina Department of Labor.

- Lenovo continues to make investments in our supply chain and is actively engaged in due diligence efforts to track the use of materials sourced from conflict regions – known as conflict minerals – and challenge our suppliers to set and meet climate change reduction targets, in addition to meeting our extensive auditing and reporting requirements.

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 FY 2014/15 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. The Code describes our commitment to conduct business with integrity and establishes clear expectations regarding compliance and holding 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 our 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. In locations where it is legal to do so, 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.

On October 29, 2014, Lenovo finalized its purchase of Motorola Mobility from Google, accelerating its established strategy to become a global leader across the full spectrum of smartphones and connected devices and welcoming nearly 3,500 new colleagues around the world. Lenovo operates Motorola Mobility as a wholly-owned subsidiary within the Lenovo Group of companies. For a transitional period, Motorola Mobility will continue to administer its own ethics and compliance programs, including its own reporting line and its own Code of Conduct, available online at motorolamobility.ethicspoint.com. During calendar year 2015, however, the entities intend to coordinate and consolidate their Codes of Conduct, consistent with the principles described above.

Employee Health and Welfare

Lenovo's Occupational Health and Safety (OHS) 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.

We believe that workplace injuries and illnesses are preventable, and as a result our incident rate continues to be consistently below the industry average. Lenovo's standardized occupational health and safety programs are designed to meet or exceed regulatory compliance. Our efforts have resulted in a significant decline in our global manufacturing incident rates over the past several years. Also notable, during this reporting period, there were no significant accidents involving Lenovo employees, fires, property damage or regulatory violation at any of our locations in the over 60 countries in which we do business.

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. All manufacturing locations in China are certified to meet requirements of the national Work Safety Standardization law. Lastly, we continue to monitor the performance of our key worldwide contract manufacturing locations to ensure a high level of regulatory compliance and standard of care.

Lenovo is proud of our occupational health and safety performance which has been recognized with annual awards received at the local and national governmental levels. Here are just a few examples:

- 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.

- In May 2014, all Lenovo manufacturing locations in China attained the "Work Safety Standardization" certification by their respective local governments.

- In May and June 2014, respectively, the Lenovo United States Fulfillment Center (USFC) in Whitsett, NC, received its sixth consecutive "Gold Award" and Lenovo's Morrisville, NC, headquarters received its ninth consecutive "Gold Award" from the North Carolina Department of Labor for low incident rates reported.

- In June 2014, Lenovo LIPC received its fourth consecutive "Work Safety Management Outstanding Contribution Unit" award from the Futian Free Trade Zone located in Shenzhen, China.

- In March 2015, Lenovo Pondicherry, India manufacturing received the Environmental Health and Safety (EHS) "3-Star" Award after participating in the EHS 2014 competition among various industries in the Southern region organized by the Confederation of Indian Industry (CII).

Diversity

Lenovo views diversity as a key competitive advantage for the company and believes that leveraging our cultural, national and regional differences enables us to better understand our customers and address their needs. We believe that our diversity sets us apart and differentiates us from our competitors. Having a workforce composed of people from various backgrounds and cultures enables us to capitalize on diverse perspectives in the development, manufacturing, and marketing 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 to grow their careers. We are uniquely positioned to help our company successfully maneuver this new global reality because we have a strong foundation for advocating for and advancing inclusion in our workplace. Learning to harness diversity as a strength is an essential competency and skill that our current and future leaders can develop and leverage to help make our business more successful on a global scale.

We passionately believe that by leveraging both the similarities and differences of our diverse workforce we are uniquely able to meet the needs of our diverse customer set, attract, develop and retain top talent, and create a workplace where employees are inspired to achieve their greatest potential.

In 2010 Lenovo launched "The Lenovo Way." It is embodied in the statement: "We do what we say and we own what we do." It unites our diverse workforce by aligning around the same goals and strategy to keep us winning in the marketplace.

In the spirit of the Lenovo Way culture, we have implemented a number of successful programs and initiatives, such as our global Women in Lenovo Leadership (WILL) program, which focuses on establishing programs and initiatives to meet the development needs of women. Lenovo has also established a scholarship in honor of one of our first female senior vice presidents. This scholarship is given to a young woman entering a U.S. college or university and majoring in engineering or computer science studies. In addition, globally Lenovo offers a scholarship program for children of employees, thus investing in our workforce and future.

Lenovo also sees mutual value in promoting diversity in our business relationships. To read more about our Supplier Diversity program, please see the Global Supply Chain section.

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 our customers.

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, voluntary safety requirements to which we subscribe, and best practices in ergonomics 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 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 Qisan 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
Rua Matrinxã, 300-A, Manaus, AM, Brazil	Manufacturing
Rua Matrinxã, 180-B, Manaus, AM, Brazil	Manufacturing
Am Zehnthof 77, Essen, Germany, 45307	Development

The Lenovo Environmental Affairs Policy (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 FY 2014/15 growth and change continued apace as Lenovo maintained its position as the world's largest PC company and expanded its market share in the server and mobile device markets with the purchase of IBM's x86 server business and Motorola Mobility.

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

Environmental compliance management during rapid growth can also be a challenge. FY 2014/15 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 organizations whose services potentially present significant environmental risks. We also require that our suppliers comply with the Electronics Industry Code of Conduct (EICC) and verify this compliance through third-party audits. During FY 2014/15 Lenovo Tier 1 suppliers performed about 70 self-audits, covering 60 percent of Lenovo's procurement spend. In FY 2014/15 Lenovo acquired IBM's x86 server business and the Motorola Mobility business, and we will work this coming fiscal year to integrate supply chain programs and operations. Both companies have robust incoming supplier sustainability programs in place and approximately 50 percent of their respective procurement spend was common with Lenovo suppliers already in our programs.

Environmental and sustainability risks are included in Lenovo's official risk management process. The 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's Climate Change Policy (2010) states that Lenovo is committed to reducing the global carbon footprint of all of its business activities and accepts the findings of current climate science. The policy was updated in February 2015 to support the conclusions as presented by the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change (IPCC) – "Climate Change 2014." Lenovo concurs with the findings and agrees that specific actions are needed to stabilize atmospheric GHG levels and hold global average temperatures to acceptable increases. The actions supported by Lenovo include reducing global emissions by 40-to-70 percent between 2010 and 2050 and attaining zero emissions by 2100. These actions align with the global scientific community's generally accepted recommendations for maintaining global warming below two degrees Celsius over the 21st century relative to pre-industrial levels.

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

Our second milestone to reduce Scope 2 emissions by 13 percent relative to FY 2009/10 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 FY 2014/15, Lenovo continued our progress in reducing our greenhouse gas emissions. We achieved a 1 percent reduction in global Scope 2 GHG emissions relative to the previous fiscal year and carbon balanced 100 percent of Scope 1 GHG emissions. We implemented several energy efficiency projects (lighting improvements in Beijing, Shanghai, Wuhan, Huiyang, Chengdu and Hefei China; AC upgrades and improvements in Chengdu, Hefei and Shanghai, China; low energy lighting in Medion, Germany; light sensor installation in Morrisville, NC, USA; and equipment efficiency improvements in Huiyang and Shenzhen, China); 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 (80,000 MT CO_2e) from carbon offsets projects located in China and RECs from renewable projects in the United States (15,000 MWh).

Since October 2013, Lenovo's Beijing sites have been participating in an emissions trading system in Beijing, China. Lenovo is closely monitoring other provinces where this trading 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 its Beijing sites to minimize the amount of carbon emissions allowances we must purchase.

Detailed performance relative to FY 2014/15 energy and GHG emissions targets will be available in the Sustainability Report later this year.

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

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 teams continue to work to identify and implement energy reduction, renewable energy and carbon offset opportunities that provide the most cost-effective path to meeting our targets.

In May 2014, Lenovo's Board of Directors and Executive Committee (LEC) acted to increase Lenovo's climate change reduction targets from a 20 percent reduction goal relative to FY 2009/10 to a 40 percent reduction goal by FY 2020/21. Since then we have been evaluating this increased reduction goal and investigating combinations of investment in onsite renewable generation, energy efficiency and renewable energy credits or offsets that will align with Lenovo's business strategy and goals.

Lenovo continued efforts to improve its ability to quantify, track, and mitigate the impacts of its supply chain and products. During FY 2014/15 we drove efforts on supplier environmental data transparency, reduction and reporting in EICC tools. Lenovo's suppliers have achieved overall greenhouse gas emissions reductions even though Lenovo's business volumes are growing significantly annually, and we have a very high level of suppliers with public reduction goals and third-party verification. Lenovo will establish formal GHG quantitative reduction goals for suppliers in FY 2015/16. For water usage and waste generation, we have established baselines on quantities and public reduction goals.

Lenovo established a product transportation carbon emissions baseline for FY 2011/12 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 (GFA) for promoting sustainable logistics practices. GFA was officially launched in August 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:

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

Due to its strong local presence in China, Lenovo is leading its advocacy efforts in China Energy and Carbon Standard and policy in the IT products field, and is active in the following energy efficiency and carbon-related workgroups, associations, and initiatives: China PCF (PCR) Standard Working Group, China Energy Label Standard and Technical Committee, China Energy Saving Work Association of Chinese Institute of Electronics, China ePCF Platform Union and China Energy Conservation Program.

Lenovo worked with HP, Seagate, Cisco and MIT on a new method for calculating product carbon footprint (PCF). The goal of the project was to develop a product-specific allocation methodology that links facility-wide environmental data to the specific product types being made within that particular facility. Please read the results of this project in the paper Standardizing Methods for Performing Allocation of Supplier Carbon Data for IT Products.

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 also participated in the next phase of the PAIA project, which extended the PAIA methodology to two additional product classes: mobile computer devices (e.g., tablets) and all-in-one computers.

Lenovo is committed to disclosing its climate change management practices, results of the evaluation of our climate change risks and opportunities and our GHG emissions inventory through the CDP public reporting system. Lenovo's response to the 2014 CDP Climate Change and Supply Chain Questionnaires achieved a disclosure score of 98 and performance score of band B. Lenovo was included in the leaders' category for disclosure and is listed in the Climate Disclosure Leadership Index (CDLI) as one of the highest ranked companies. Lenovo's CDP reports are publicly available at http://www.cdproject.net.

Lenovo participated in the CDP China Report launch event in Beijing in October 2014 where Lenovo received a Sustainability Leadership Model Enterprise Award.

Lenovo's efforts in addressing climate change have been featured in several reports:

- Global Corporate Use of Carbon Pricing – Disclosures to Investors – Sep 2014
- ICT Sector's Role in Climate Change Mitigation – Sep 2014
- CDP China 100 Climate Change Report 2014 – Policy Push and Market Pull Promoting Low-Carbon Development – Oct 2014
- Hong Kong and SE Climate Change Report 2014 – Asia ex-Japan Report – Nov 2014
- We Mean Business – The Climate Has Changed – Nov 2014

For further details on these accomplishments and Lenovo's climate change initiatives, please see www.lenovo.com/climate.

Lenovo is committed to reducing and recycling waste and conserving water. Lenovo tracks waste intensity and works to identify and implement opportunities to reduce waste quantities. Non-hazardous waste generation increased over the past five years due to organic growth in production and employee population and structural changes in terms of forming joint ventures and acquiring other businesses. However, our targeted recycling rate has been achieved each year. Lenovo generates only minimal amounts of hazardous waste and strives to reduce this amount year-to-year. From FY 2014/15 we started monitoring and reporting global landfill avoidance rates. 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.

Performance relative to FY 2014/15 waste and water targets will be available in the Sustainability Report later in the year.

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 five years (beginning with the baseline year FY 2009/10) was third-party verified by Bureau Veritas. In addition, Lenovo's waste and water data for FY 2013/14 was third-party verified. Please see verification statements at http://www.lenovo.com/climate and http://www.lenovo.com/waterandwaste. Lenovo plans to verify FY 2014/15 GHG, waste and water data to a reasonable level of assurance.

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

Lenovo's Environmentally Conscious Products program focused in FY 2014/15 on the following key areas:

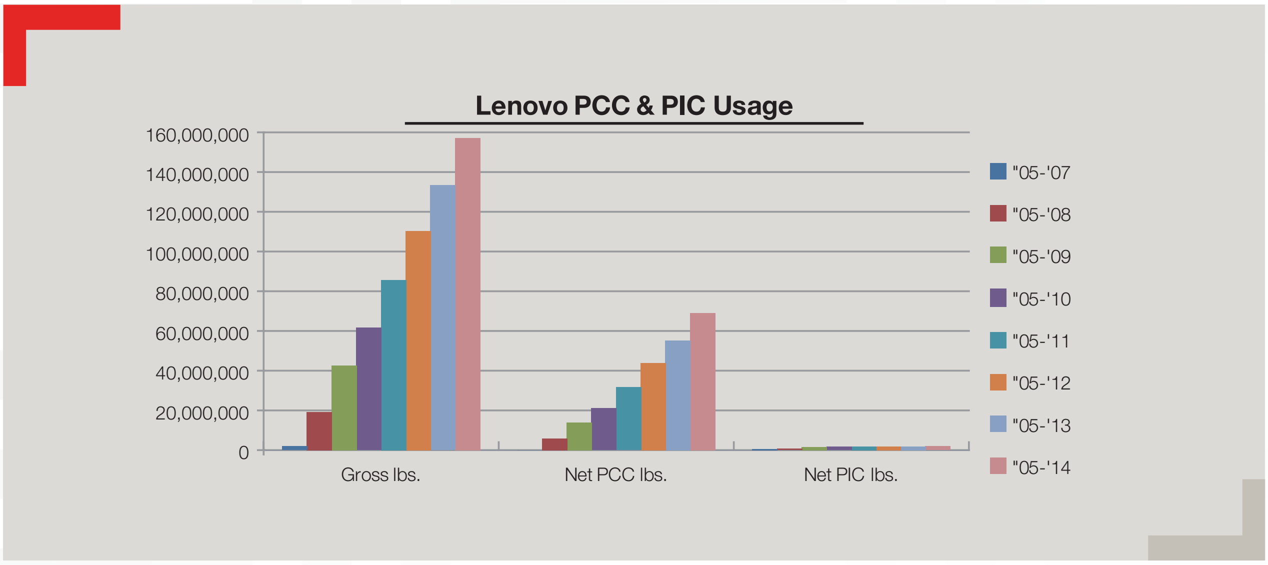
- Product Materials, including the use of post-consumer recycled content

- 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 continuous 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 157 million pounds of recycled content plastics with over 69 million net PCC plastics since beginning these efforts.

Lenovo Post Consumer Content & Post Industrial Content 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 106 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 2014, ENERGY STAR® availability within Lenovo's current offerings included:

- Approximately 98 percent of all notebook platforms[1]
- Approximately 82 percent of all desktop platforms[1]
- Approximately 71 percent of all workstation platforms[1,2]
- Approximately 94 percent of all server platforms[2]
- Approximately 97 percent of all monitors[1,3]

[1] Product platforms include Think and Lenovo product lines.
[2] For pre-configured systems.
[3] Note: Only one monitor of the 29 Lenovo sells is not ENERGY STAR qualified.

In addition, many available notebook and desktop configurations and qualified monitors exceed the current ENERGY STAR® energy efficiency criteria by 10 percent to more than 25 percent.

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 committed to driving sustainable activities through its internal operations as well as in its supply chain. As a long standing member of the Electronics Industry Citizenship Coalition (EICC), Lenovo is contributing to the development and execution of global policies and programs to improve supplier compliance across a broad range of sustainability and social responsibility criteria.

Lenovo's supply chain organization implements its own set of programs in support of corporate-wide sustainability initiatives. These include efforts to proactively address concerns about labor, environmental impacts, greenhouse gases, water usage, generation of waste and conflict minerals.

First and foremost, suppliers are contractually required through purchase order terms and conditions and other formal agreements to comply with all legal, regulatory and various additional sustainability requirements. They are required to implement and maintain documented quality and environmental management systems that meet ISO 9001/14001 requirements, to follow all laws regarding environmental and workplace conditions, to comply with restricted materials requirements and to provide the necessary declarations.

However to strengthen and to extend those requirements, most suppliers are also contractually required, via a specific and separate formal agreement, to comply with the EICC Code of Conduct, to reduce environmental impacts and to conduct specific due diligence activities for responsible sourcing. To address and focus resources on the greatest risks, Lenovo strives to ensure at least 95 percent of its procurement spend is covered by these contracts and activities. Approximately 77 percent of Lenovo procurement spend is from suppliers who are EICC members, and many of the suppliers also have formal certifications for Occupational Health & Safety (OHS 18001) and Social Accountability (SA8000) standards.

The contract stipulates that suppliers not just comply with the code, but that they:

- Conduct annual self-assessments with EICC questionnaires and reporting tools
- Receive comprehensive and detailed 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
- Have active and continual improvement programs to quantify greenhouse gas emissions, water usage and waste generation and drive reductions
- Have public policies and programs to reasonably assure that their products do not contain conflict minerals

In FY 2014/15, about 70 suppliers representing approximately 60 percent of our overall procurement spend received EICC audits. Performance in the audits driven by Lenovo averaged better that 90 percent overall compliance. Due to our efforts there have been very limited occurrences of negative public reporting. However, labor issues continue to be the main problem area for supplier compliance and Lenovo intends to implement initiatives that will provide greater transparency and drive continual improvement.

Lenovo also requires suppliers to report environmental data relating to greenhouse gas (GHG) emissions, water usage and waste generation. In FY 2014/15, suppliers representing over 90 percent of our procurement spend reported their emissions. Through focus on reduction goals, supplier total emissions were down 4.5 percent over the past three years while Lenovo's business volumes have grown over 50 percent. We also improved supplier third party verification so that 93 percent of our procurement spend is covered. Finally, we established water and waste baselines and 91 percent and 77 percent of our procurement spend suppliers, respectively, had public reduction goals.

Lenovo made significant progress in FY 2014/15 with our conflict minerals program. To comply with the U.S. SEC Dodd-Frank ruling in the first reporting year, Lenovo signed the Specialized Disclosure. We have publicly disclosed our Conflict Minerals Report and included the list of smelters in our supply chain. We also improved our conflict minerals policy to go beyond EICC Code of Conduct requirements and comply with key stakeholder concerns. While Lenovo and many of its suppliers are not traded on a U.S. stock exchange and therefore not subject to the Dodd-Frank ruling, we are nevertheless conducting and requiring due diligence activities system-wide. Please see the EICC Conflict Free Sourcing Initiative for further information http://www.conflictfreesourcing.org/.

For our FY 2014/15 due diligence cycle, we conducted a full country-of-origin inquiry utilizing the EICC Conflict Minerals Reporting Template (CMRT) and employed the EICC Conflict-Free Smelter Program and other initiatives to validate identified smelters as conflict-free compliant. We determined that 80 percent of surveyed suppliers have conflict minerals policies and require their own suppliers to conduct CMRT reporting. Also, 72 percent of suppliers indicated they have identified all smelters in their supply chain. We confirmed that 54 percent of reported smelters have been certified as conflict free by the EICC or by EICC-approved alliance programs, and approximately 21 percent of the remaining smelters are formally in the process of becoming conflict free compliant. Over 96 percent of the smelters used by Lenovo suppliers are Tantalum-conflict free. We anticipate significant improvement annually towards becoming fully conflict free.

In FY 2014/15, Lenovo acquired the IBM x86 server and Motorola Mobility businesses and we will be actively working this coming fiscal year to integrate programs and operations. Both companies have robust incoming supplier sustainability programs and approximately 50 percent of their respective procurement spend was common with Lenovo suppliers already in our programs.

Lenovo sees mutual value in promoting diversity in our business relationships. It is a natural part of our business strategy to create a diverse and competitive supplier base and to strengthen economic development in historically underutilized communities. Through its Supplier Diversity Program, Lenovo is committed to maximizing the inclusion of diverse suppliers through identifying opportunities, developing and incubating relationships, creating processes that encourage diverse supplier integration, and building on our already strong culture of inclusion – The Lenovo Way.

Lenovo identifies diverse suppliers as those that are at least 51 percent owned and controlled by women, minorities, veterans, service-disabled veterans, and persons with a disability. Lenovo also includes suppliers that are defined by the U.S. Federal Government as a Small Disadvantaged Business, HUB Zone business, or small business.

Lenovo partners with a variety of national and regional organizations, such as National Minority Supplier Development Council (NMSDC), Women's Business Enterprise National Council (WBENC), and the North Carolina Institute of Minority Economic Development (NCIMED), to facilitate supplier identification and program development. Lenovo is also active in local and regional events aimed at promoting, creating opportunities for, and celebrating diverse suppliers. Our Supplier Diversity Program has grown significantly over the last year and we currently conduct more than US$135 million in business annually with small and/or certified diverse suppliers.

For more information, please visit our Supplier Diversity website at www.lenovo.com/supplierdiversity.

As an extension of our Occupational Health and Safety (OHS) process, we continue to monitor the performance of our key worldwide contract manufacturing locations to ensure a high level of regulatory compliance and standard of care. Rigorous compliance reviews are conducted on an annual basis to validate compliance and overall OHS related performance. Identified action items are tracked to closure with a focus on high risk and systemic findings or exposures.

In addition, key contract manufacturing locations are required to have Lenovo-specific Business Continuity Plans and robust Pandemic Response Plans to further mitigate risk and support employee well-being. Validation checks are also completed on a periodic basis.

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 FY 2013/14 were verified by Bureau Veritas North America in June of 2014. Global Logistics will expand the baseline and measurement to domestic transportation and distribution centers across all Lenovo operations. In 2014, Global Logistics has added China domestic transportation into the Product Transportation GHG Emission scope and plan.

In Asia Pacific, Lenovo Global Logistics is committed to support the incorporation of Green Freight Asia (GFA) programs. GFA is a network of private companies working to increase the fuel efficiency of and reduce the carbon impact and air pollution from freight transport in the Asia Pacific region. GFA was incorporated in August 2013 in Singapore. Lenovo is one of the founding members of GFA and worked closely with the organization to launch GFA Green Freight Label in 2014.

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. This social investment program targets education, entrepreneurship, disaster relief and regional community outreach. Lenovo provides assistance through financial contributions, equipment donations, and employee volunteer hours. 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 invests in causes that support K-12 disadvantaged youth with a focus on science, technology, engineering and math (STEM) education. In 2014, Lenovo launched a partnership with the National Academy Foundation (NAF) and created The Lenovo Scholar Network, a mobile application development curriculum at ten NAF academies in public high schools across the U.S. Almost 500 students are now learning how to code and create apps that serve a community need. The students may earn a Lenovo App Scholar badge by competing in local and national competitions that culminate in the announcement of the Lenovo Scholar Network finalists at the NAF Next 2015 annual gathering.

In support of U.S. military and veterans, Lenovo announced a partnership with the United Services Organization (USO) and became the laptop technology partner of the newest USO Warrior and Family Center located on base at Walter Reed National Military Medical Center in Bethesda, Maryland.

In FY 2014/15, Lenovo employees in the U.S. and Canada more than doubled their reported employee volunteerism year-to-year, with 16,000 volunteer hours donated to numerous causes and charities.

In China, Lenovo has been a corporate sponsor of Enactus World Cup. This project encourages university students to leave the comfort of the classroom to help improve lives in communities around the world. Enactus promotes an entrepreneurial approach to development that empowers people to be a part of their own success.

In cooperation with the YouChange China Social Entrepreneur Foundation, Lenovo initiated the Lenovo Flipped Classroom project to expand school tools and resources in remote areas of China. Lenovo has provided digital devices to six schools and plans to roll out the project to more schools next year.

Lenovo also worked with the YouChange China Social Entrepreneur Foundation to organize the "Educational Informationization Competition," an event aimed at raising awareness of informationization in poor and remote areas. Lenovo provided expertise to schools entering the competition and also sponsored prizes to competition winners.

In FY 2014/15, Lenovo Asia-Pacific continued its partnership with Room to Read, which focuses on raising the literacy rate of girls, with further donations to support the program in Laos. Since the partnership began in 2012, 250 ThinkPad laptops have been deployed across India, Laos, Sri Lanka and Vietnam, helping Room to Read's operations staff and volunteers provide more than 16,000 at-risk girls with a basic education and a strong foundation for future studies. This deployment will extend to Cambodia, Nepal and Bangladesh in 2015.

The donated Lenovo PCs have had a significant impact on improving Room to Read's operational efficiency in numerous areas including communications, program administration and monitoring and documenting the progress of at-risk girls. For girls nearing the end of their secondary studies, the laptops have also been used for university research and to assist in tertiary education applications. Lenovo's technology contribution establishes a starting point for future education opportunities, giving the girls career options that they otherwise would have lacked due to poor information accessibility.

In Indonesia, Lenovo partnered with Relawan TIK, a non-profit organization, to leverage donated Yoga tablets in furthering education in east Indonesia, where computer literacy is still low. The Yoga tablets were used in the classrooms for presentations, teaching and to provide hands-on experience to the students.

In India, Lenovo announced two distinct initiatives in Pondicherry and Bangalore together with Guru-G and Agastya International Foundation, respectively. Guru-G and Agastya International Foundation are two non-profit educational trusts that seek to transform education in semi-urban and rural schools. While the initiative in Pondicherry seeks to empower the teacher, the Bangalore initiative, called Lab-On-a-Tab, aims to provide students with self-paced, high quality, hands-on education to supplement the existing teaching and learning methods at government schools.

These initiatives will be implemented by using technology from Lenovo to convert physical experiments into e-experiments for the students. In both cases, government schools will be provided with Lenovo A-1000 tablets. Based on the results from these two pilot projects, the program will be expanded to reach more schools in subsequent phases of implementation. The tablets are pre-loaded with applications to enable teachers to engage students through interactive learning.

Lenovo has signed a contract with United Way in Europe to support the organization on important projects designed to provide children and young adults with greater access to education. The agreement enables us to support specific projects in France, Israel, Romania and the United Kingdom with cash donations and Lenovo products. Through cooperation with an array of community organizations, our support will give disadvantaged youth access to our technology with the aim of enabling them to enter school ready to learn as well as preparing them for future careers.

United Way is in many ways a perfect partner for Lenovo. It is the world's largest privately-supported non-profit organization, established more than 125 years ago. Its focus is on creating opportunities and building stronger communities around the world by improving education, financial stability and health. It recruits volunteers, donors and organizations to create a large body of people able to make significant positive changes. Our intention is to become United Way's technology partner and support their development in Europe.

For nine years running, Lenovo has been the official technological partner for the Women's Forum, an international platform looking at major social and economic issues from women's perspectives. In October 2014, the Women's Forum addressed fundamental questions under the theme 'Leading for a More Equitable World.' This year was the 10th edition of the Women's Forum Global Meeting, which was held in Deauville, France with an audience of talented leaders in business, media, politics, economics and academics.

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

DIRECTORS' REPORT

The directors of Lenovo Group Limited (the "Company") submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended March 31, 2015.

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 37 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 140 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2015 is set out in the consolidated balance sheet on pages 142 to 143 of this annual report and the company balance sheet in note 30(a) to the financial statements respectively.

The consolidated cash flows of the Group for the year are set out in the statement on page 144 of this annual report.

An interim dividend of HK6.0 cents (2014: HK6.0 cents) per share, amounting to a total of approximately HK$666.5 million (approximately US$86.0 million) (2014: approximately HK$623.6 million (approximately US$80.4 million)), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2015 (2014: HK18.0 cents). Subject to shareholders' approval at the forthcoming annual general meeting ("AGM"), the proposed final dividend will be payable on Tuesday, July 14, 2015 to the shareholders whose names appear on the register of members of the Company on Wednesday, July 8, 2015.

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 Tuesday, June 30, 2015
Closure of register of members	Thursday, July 2, 2015
Record date	Thursday, July 2, 2015

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Tuesday, July 7, 2015
Closure of register of members	Wednesday, July 8, 2015
Record date	Wednesday, July 8, 2015

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 no later than the aforementioned latest times.

BUSINESS REVIEW

The business review of the Group for the year ended March 31, 2015 are provided in the Chairman and CEO Statement, Management's Discussion and Analysis and the Corporate Social Responsibility Report of this annual report.

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, 2015 and for the last four financial years are set out on page 211 of this annual report.

DISTRIBUTABLE RESERVES

At March 31, 2015, the distributable reserves of the Company amounted to US$814,506,000 (2014: US$375,324,000).

BANK BORROWINGS

Particulars of bank borrowings as at March 31, 2015 are set out in note 27 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$1,535,000 (2014: US$1,006,000).

SHARES ISSUED

During the year, the Company has issued shares as follows:–

(i) On October 1, 2014, 182,000,000 shares of the Company were issued to International Business Machines Corporation ("IBM") in satisfaction of the consideration in the sum of HK$2,103,920,000, representing part of the total consideration payable by the Company to IBM in accordance with the terms and conditions under the Master Asset Purchase Agreement entered into between the Company and IBM on January 23, 2014.

(ii) On October 30, 2014, 519,107,215 shares of the Company were issued to Google Inc. ("Google") as consideration of US$750,000,000, representing part of the total consideration payable by the Company to Google for the acquisition of all the issued and outstanding equity interests of Motorola Mobility Holdings LLC pursuant to the acquisition agreement dated January 29, 2014 (US Eastern time) entered into between the Company and Google.

(iii) As a result of the exercise of share options under the Company's share option scheme, 1,172,000 shares (2014: 18,277,450 shares), fully paid, were issued for the total consideration of HK$2,982,740 (2014: HK$46,121,910).

Details of the shares issued by the Company during the year are set out in note 29 to the financial statements.

DEBENTURES ISSUED

The Company has issued the US$1,500,000,000 4.7% Notes due 2019 which was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 9, 2014. The net proceed of US$1,488,979,933 from the Notes will be used to fund any acquisition activities, working capital and other general corporate purposes of the Company. Subject to the terms thereof, the Notes will constitute direct, general, unsecured and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves.

Details of the debentures issued by the Company during the year are set out in note 27 to the financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year, save for the share options which were outstanding under the Share Option Scheme and the Long-Term Incentive Program described in this report.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at March 31, 2015 are set out in notes 37 and 18 to the financial statements respectively.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 15% of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	18%
Five largest suppliers combined	35%

None of the directors of the Company, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had an interest in the major suppliers noted above.

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

During the year ended March 31, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the long-term incentive program of the Company purchased 89,467,450 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 93 to 94 of this annual report.

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

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
Mr. Yang Chih-Yuan Jerry (appointed on November 6, 2014)

In accordance with article 107 of the Company's articles of association, Mr. Yang Yuanqing, Mr. Zhao John Huan, Mr. Ting Lee Sen and Mr. Nicholas C. Allen will retire by rotation at the AGM. Mr. Yang Chih-Yuan Jerry who was appointed as a director during the year will retire pursuant to article 95 of the Company's articles of association. Mr. Ting Lee Sen will not stand for re-election at the AGM after having served as an independent non-executive director of the Company for 12 years, being the maximum term for an independent non-executive director according to the corporate governance principle adopted by the Board of the Company. The other four retiring directors will offer themselves for re-election/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.

The list of names of all directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website (http://www.lenovo.com/ww/lenovo/subsidiaries.html).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Honorary Chairman

Mr. Liu Chuanzhi, 71, 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 the board of Legend Holdings Corporation, a company holding substantial interests in the issued shares of the Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 50, 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 27 years of experience in the field of computers. Under his leadership, Lenovo has been China's best-selling PC brand since 1997 and is currently the world's No. 1 PC vendor and the third-largest company in smartphone, tablet and x86 server markets. 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, 52, 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 and president and member of executive committee of Legend Holdings Corporation, a company holding substantial interests in issued shares of the Company and he also serve as director of its various members. He is a non-executive director of CAR Inc. (HKSE listed). He was previously a non-executive director of Peak Sport Products Co., Limited (HKSE listed) and a director of Foshan Saturday Shoes Co., Ltd. (Shenzhen Stock Exchange listed).

Mr. Zhao John Huan, 52, 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 an executive 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; an executive director of CSPC Pharmaceutical Group Limited and non-executive director and the chairman of China Glass Holdings Limited (all HKSE listed) and the deputy chairman of Shanghai Chengtou Holding Co., Ltd. (Shanghai Stock Exchange listed) and a director of Simcere Pharmaceutical Group (formerly listed on NYSE).

Mr. Zhao was previously a director of Jiangsu Phoenix Publishing & Media Corporation Limited (Shanghai Stock Exchange listed), an independent director of Fiat Industrial S.P.A. (MTA Italian Stock Exchange listed), the non-executive director of Wumart Stores, Inc., New China Life Insurance Company Ltd. and Chinasoft International Limited (all HKSE listed).

Independent non-executive directors

Mr. Ting Lee Sen, 72, 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, 51, 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) 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.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Nicholas C. Allen, 60, has been an independent non-executive director of the Company since November 6, 2009. Mr. Allen received a bachelor of arts degree in economics/social studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Allen has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers until his retirement in June 2007. Mr. Allen is also an independent non-executive director of CLP Holdings Limited, Hysan Development Company Limited (both HKSE listed) and VinaLand Limited (London Stock Exchange AIM listed) and Texon International Group Limited.

Mr. Nobuyuki Idei, 77, 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, an executive advisory company. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions at Sony Corporation (Tokyo Stock Exchange, Osaka Securities Exchange, NYSE and London Stock Exchange listed), including chairman and group chief executive officer. He was also the chairman of Sony's advisory board from June 2005 to June 2012.

Mr. Idei currently serves on the boards of directors of 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, General Motors Company and Accenture plc 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, 77, 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), Covisint Corporation (NASDAQ listed) and QTS Realty Trust, Inc. (NYSE listed). He was previously an independent director of Compuware Corporation. 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 a corporate vice president and officer of IBM.

Mr. William Tudor Brown, 56, 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 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.

Ms. Ma Xuezheng, 62, 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. In addition, she is also a non-executive director of 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 a non-executive director of Wumart Stores, Inc. (HKSE listed) and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited. Ms. Ma holds a bachelor of arts degree from Capital Normal University.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Yang Chih-Yuan Jerry, 46, has been an independent non-executive director of the Company since November 6, 2014. Prior to that, he was the board observer of the Company since February 20, 2013. He holds a master's degree and a bachelor's degree of science in electrical engineering from Stanford University and currently serves on the board of trustees of Stanford University.

Mr. Yang co-founded Yahoo! Inc. (NASDAQ listed) and served as its chief executive officer from June 2007 to January 2009. He also served as a member of the board of directors of Yahoo! Inc. until January 17, 2012. During such appointment, Mr. Yang focused on corporate strategy and technology vision. Mr. Yang was also instrumental in building strategic business partnerships, international joint ventures and recruiting key talent.

Mr. Yang also served as a director of Yahoo! Japan Corporation (Tokyo Stock Exchange listed) from January 1996 to January 2012, an independent director of Cisco Systems, Inc. (NASDAQ listed) from July 2000 to November 2012 and a director of Alibaba Group Holding Limited from October 2005 to January 2012. Mr. Yang is currently an independent director of Workday Inc. and Alibaba Group Holding Limited (all NYSE listed).

Biography of senior management

Mr. Gianfranco Lanci, 60, joined the Group in April, 2012 and is currently the Corporate President and Chief Operating Officer of the Company. He is the leader of all of the Group's five geographies, the PC and Enterprise Business Groups, with end-to-end responsibility for the Group's performance and business management system in these areas. Prior to that, Mr. Lanci was COO and Executive Vice President of the Company and President of PC Group, EMEA and AP. 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.

Mr. He Zhiqiang, 52, 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 customer relationship through cloud services, as well as exploring and driving growth in the broader personal and enterprise Internet services. Prior to that, 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, 54, 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.

Prior to that, 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. Liu Jun, 46, 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. Prior to that, 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.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Ms. Qiao Jian, 47, 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, 51, joined the Group in August, 2006 and is currently the Executive Vice President of the Company and Chief Operating Officer of the PC and Enterprise Business Groups. In this capacity, Mr. Smith leads Lenovo's PC and Enterprise Business Groups, including the Global Operations organization that supports these businesses. Prior to that, Mr. Smith was senior vice president of the Company and president of the Americas Group, senior vice president of Global Operations and 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, 57, 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. He was an independent non-executive director of the Company from March 30, 1999 until his appointment to the position of Chief Financial Officer on May 23, 2007. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in management sciences from the Victoria University of Manchester 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' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or its subsidiaries, its holding company or any subsidiary of its holding company was a party and in which a director of the Company or its connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision has been in force since the adoption of the new articles of association of the Company on July 2, 2014 and is currently in force at the time of approval of this report.

The Company has also taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

DIRECTORS' INTERESTS

As at March 31, 2015, 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 (the "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	62,248,626	–	606,804,000 *(Note 3)*	669,052,626	
	Share awards	70,755,605	–	–	70,755,605	
					739,808,231	6.66%
Mr. Zhu Linan	Ordinary shares	2,599,999	–	–	2,599,999	
	Share awards	779,732	–	–	779,732	
					3,379,731	0.03%
Mr. Zhao John Huan	Ordinary shares	155,434	–	–	155,434	
	Share awards	1,187,884	–	–	1,187,884	
					1,343,318	0.01%
Mr. Ting Lee Sen	Ordinary shares	704,686	–	–	704,686	
	Share awards	1,945,931	–	–	1,945,931	
					2,650,617	0.02%
Dr. Tian Suning	Ordinary shares	608,730	–	–	608,730	
	Share awards	1,945,931	–	–	1,945,931	
					2,554,661	0.02%
Mr. Nicholas C. Allen	Ordinary shares	443,794	–	–	443,794	
	Share awards	1,751,315	–	–	1,751,315	
					2,195,109	0.02%
Mr. Nobuyuki Idei	Ordinary shares	177,671	–	–	177,671	
	Share awards	1,228,056	–	–	1,228,056	
					1,405,727	0.01%
Mr. William O. Grabe	Ordinary shares	2,116,844	–	–	2,116,844	
	Share awards	1,989,900	–	–	1,989,900	
					4,106,744	0.04%
Mr. William Tudor Brown	Ordinary shares	92,730	–	–	92,730	
	Share awards	831,372	–	–	831,372	
					924,102	0.01%
Ms. Ma Xuezheng	Ordinary shares	10,656,282	–	2,240,000	12,896,282	
	Share awards	1,100,198	–	–	1,100,198	
					13,996,480	0.13%
Mr. Yang Chih-Yuan Jerry	Ordinary shares	26,746	–	–	26,746	
	Share awards	548,636	–	–	548,636	
					575,382	0.01%

DIRECTORS' INTERESTS *(continued)*

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

Notes:

1. Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section "Long-Term Incentive Program".
2. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue 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 voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 606,804,000 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, 2015, 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 to its expiration.

As at March 31, 2015, no share options were outstanding under the New Option Scheme.

1. New Option Scheme

(a) *Purpose*

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

(b) *Qualified participants*

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

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

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

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

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

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

(c) *Maximum number of shares*

The total number of 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 shares in issue on the date of approval of the New Option Scheme. The maximum number of 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 shares in issue from time to time.

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

Share Option Scheme *(continued)*

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

(d) *Maximum entitlement of each qualified participant*

The maximum number of 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 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 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 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 shares.

(h) *Life of the scheme*

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

2. *Valuation of share options*

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

Long-Term Incentive Program

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

Details of the movements in the share options and the share awards for the year ended March 31, 2015 are set out under the section headed "Long-Term Incentive Schemes" in the Compensation Committee Report and in the notes 29(b) and 29(a) to the financial statements.

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, 2015 was the Company or a specified undertaking of the Company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at March 31, 2015, the following persons (other than the directors and chief executive of the Company as disclosed above) had an interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Long position/ short position	Capacity and number of shares/underlying shares held: Beneficial owner	Capacity and number of shares/underlying shares held: Corporate interests	Aggregate long and short positions	Approximate percentage of interests *(Note 1)*
Legend Holdings Corporation	Long position	2,867,636,724	532,519,317 *(Note 2)*	3,400,156,041	30.60%
	Short position	–	89,900,000	89,900,000 *(Note 3)*	0.80%
Sureinvest Holdings Limited	Long position	606,804,000	–	606,804,000 *(Note 4)*	5.46%

Notes:

1. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue 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 532,519,317 shares, 477,819,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 54,700,000 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 voting power at general meetings of Sureinvest Holdings Limited ("SHL"). Accordingly, Mr. Yang is deemed to have interests in those 606,804,000 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".

Save as disclosed above, as at March 31, 2015, 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.

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.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

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

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, 2015, an amount of US$6,729,364 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, 2015 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: 2.75%
  - Expected return on plan assets: 2.75%
  - Future salary increases: 3.00%
- The qualified plan was 56% funded at the actuarial valuation date.
- There was a net liability of US$49,852,072 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, 2015, an amount of Yen 1,046,238,599 was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2015 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: 1.00%
  - Expected return on plan assets: 1.00%
  - Future salary increases: Age-group based
- The plan was 64% funded at the actuarial valuation date.
- There was a net liability of Yen 8,779,310,134 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).

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

Germany – Pension Plan *(continued)*

For the year ended March 31, 2015, an amount of EUROS 1,274,421 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, 2015 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: 1.00%
  - Future salary increases: Age-group based
  - Future pension increases: 2.00%
- The plan was 34% funded at the actuarial valuation date.
- There was a net liability of EUROS 71,404,837 under this plan at the actuarial valuation date.

Defined Contribution Plans

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

U.S. regular, full-time and part-time employees of Lenovo (United States) Inc. 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, 2014 to March 31, 2015, the amount of forfeitures accumulated was US$295,442 while an amount of US$431,432 had been used to reduce Company contributions, leaving US$189,829 at March 31, 2015 to be used to reduce Company contributions in the future.

US Motorola Mobility 401(k) Plan

U.S. regular, full-time and part-time employees of Motorola Mobility LLC are eligible to participate in the Motorola Mobility 401(k) Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. Motorola Mobility LLC matches 100% of the employee's contribution up to the first 4% of the employee's eligible compensation. Employee contributions are voluntary. All contributions, including the match, are made in cash, in accordance with the participants' investment elections.

The Motorola Mobility match is subject to a one-year vesting schedule. Forfeitures of matching contributions arising from employees who leave before they are fully vested are used to pay eligible plan expenses.

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 than 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.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Contribution Plans *(continued)*

Canada – Defined Contribution Pension Plan

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

Hong Kong – Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme for all qualified employees employed in Hong Kong. They are required to contribute 5% 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 Corporation (formerly known as 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. The continuing connected transactions under the NEC Mobiling Agreement ceased subsequently in June 2013 following NEC's disposal of the shares in NEC Mobiling, Ltd..

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.

On October 7, 2014, the relevant parties entered into various amendment agreements to the Business Combination Agreement, the relevant shareholders' agreement and certain agreements governing the existing continuing connected transactions to reflect the extension of the term of the joint venture beyond 5 years. Details are set out in the announcement dated October 7, 2014.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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)

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)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

NEC Fielding Agreement

Date:	January 15, 2004
Parties:	NEC Fielding Ltd., a subsidiary of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	NEC Fielding Ltd. agreed to provide maintenance and other ancillary services for certain equipments sold by the JVCo Group following the Closing Date.
Term:	The initial term ended on March 31, 2004 and is automatically renewed for additional one-year term unless either party gives prior termination notice.
Annual cap(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)

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)

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)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

NEC Newco Brand Licence Agreement

Date:	The Closing Date
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant NECPC a licence to use certain rights in connection with the letters and the mark "NEC" at royalty payable to NEC by NECPC.
Revised Term:	Commence on the Closing Date to June 30, 2018 and shall automatically extend for an additional term of one year to a date no later than June 30, 2026 pursuant to the amendment agreement dated October 7, 2014.
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)

In accordance with rule 14A.55 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) on normal commercial terms or better; and

(iii) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

Pursuant to rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" Issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with rule 14A.56 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.

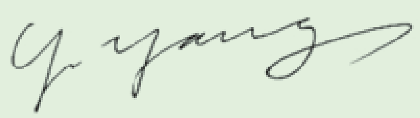
AUDITOR

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 total number of issued shares as required under the Listing Rules.

On behalf of the Board



Yang Yuanqing
Chairman and Chief Executive Officer

May 21, 2015

INDEPENDENT AUDITOR'S REPORT

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

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries set out on pages 140 to 210, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at March 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 21, 2015

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2015

	Note	2015 US$'000	2014 US$'000
Revenue	5	**46,295,593**	38,707,129
Cost of sales		**(39,613,780)**	(33,643,480)
Gross profit		**6,681,813**	5,063,649
Other income – net	6	**1,490**	22,427
Selling and distribution expenses		**(2,302,182)**	(1,900,005)
Administrative expenses		**(1,883,114)**	(1,402,979)
Research and development expenses		**(1,220,919)**	(732,454)
Other operating (expenses)/income – net		**(168,574)**	1,417
Operating profit	7	**1,108,514**	1,052,055
Finance income	8(a)	**30,902**	33,893
Finance costs	8(b)	**(185,504)**	(80,974)
Share of profits of associates and joint ventures	18	**17,055**	9,221
Profit before taxation		**970,967**	1,014,195
Taxation	9	**(134,364)**	(196,725)
Profit for the year		**836,603**	817,470
Profit attributable to:			
Equity holders of the Company		**828,715**	817,228
Non-controlling interests		**7,888**	242
		836,603	817,470
Earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US7.77 cents**	US7.88 cents
Diluted	12(b)	**US7.69 cents**	US7.78 cents
Dividends	13	**379,646**	321,875

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2015

	Note	2015 US$'000	2014 US$'000
Profit for the year		**836,603**	817,470
Other comprehensive (loss)/income:			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	9, 35	**(68,973)**	4,177
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	21	**7,326**	(2,288)
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 gain/(loss), net of taxes		**421,138**	(49,106)
Reclassified to consolidated income statement		**(299,847)**	10,818
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary		**–**	1,250
Currency translation differences		**(598,733)**	(69,781)
		(539,089)	(125,456)
Total comprehensive income for the year		**297,514**	692,014
Total comprehensive income attributable to:			
Equity holders of the Company		**289,626**	691,772
Non-controlling interests		**7,888**	242
		297,514	692,014

CONSOLIDATED BALANCE SHEET

At March 31, 2015

	Note	2015 US$'000	2014 US$'000
Non-current assets			
Property, plant and equipment	14	**1,496,474**	667,413
Prepaid lease payments	15	**225,111**	40,884
Construction-in-progress	16	**311,888**	351,934
Intangible assets	17	**8,929,713**	3,339,516
Interests in associates and joint ventures	18	**45,719**	20,753
Deferred income tax assets	20	**530,047**	389,330
Available-for-sale financial assets	21	**73,400**	35,157
Other non-current assets		**41,191**	111,558
		11,653,543	4,956,545
Current assets			
Inventories	22	**2,995,389**	2,701,015
Trade receivables	23(a)	**5,177,840**	3,171,354
Notes receivable	23(b)	**334,738**	447,325
Derivative financial assets		**184,534**	61,184
Deposits, prepayments and other receivables	23(c)	**3,572,015**	3,000,826
Income tax recoverable		**136,857**	65,715
Bank deposits	24	**171,139**	94,985
Cash and cash equivalents	24	**2,855,223**	3,858,144
		15,427,735	13,400,548
Total assets		**27,081,278**	18,357,093

CONSOLIDATED BALANCE SHEET

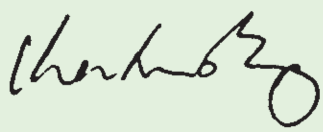
At March 31, 2015

	Note	2015 US$'000	2014 US$'000
Share capital	29	**2,689,882**	1,650,101
Reserves		**1,393,761**	1,360,029
Equity attributable to owners of the Company		**4,083,643**	3,010,130
Non-controlling interests		**235,378**	227,490
Put option written on non-controlling interest	28(iii)	**(212,900)**	(212,900)
Total equity		**4,106,121**	3,024,720
Non-current liabilities			
Borrowings	27	**1,885,848**	10,125
Warranty provision	26(b)	**338,700**	277,231
Deferred revenue		**548,300**	438,385
Retirement benefit obligations	35	**399,782**	156,515
Deferred income tax liabilities	20	**200,730**	142,881
Other non-current liabilities	28	**2,440,435**	844,914
		5,813,795	1,870,051
Current liabilities			
Trade payables	25(a)	**4,662,411**	4,751,345
Notes payable	25(b)	**171,049**	108,559
Derivative financial liabilities		**80,897**	58,462
Other payables and accruals	26(a)	**9,066,487**	6,658,254
Provisions	26(b)	**1,203,547**	852,154
Deferred revenue		**640,161**	410,330
Income tax payable		**168,536**	177,741
Borrowings	27	**1,168,274**	445,477
		17,161,362	13,462,322
Total liabilities		**22,975,157**	15,332,373
Total equity and liabilities		**27,081,278**	18,357,093
Net current liabilities		**(1,733,627)**	(61,774)
Total assets less current liabilities		**9,919,916**	4,894,771

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, 2015

	Note	2015 US$'000	2014 US$'000
Cash flows from operating activities			
Net cash generated from operations	34	**669,020**	1,640,386
Interest paid		**(133,547)**	(71,199)
Tax paid		**(296,981)**	(137,129)
Net cash generated from operating activities		**238,492**	1,432,058
Cash flows from investing activities			
Purchase of property, plant and equipment		**(258,599)**	(177,562)
Purchase of prepaid lease payments		**(69,903)**	–
Sale of property, plant and equipment		**9,181**	9,106
Acquisition of businesses, net of cash acquired		**(2,325,726)**	–
Interests acquired in associates and a joint venture		**(7,911)**	(8,769)
Payment for construction-in-progress		**(347,506)**	(388,238)
Payment for intangible assets		**(296,689)**	(109,544)
Purchase of available-for-sale financial assets		**(32,596)**	(8,550)
Net proceeds from disposal of an available-for-sale financial asset		**–**	41,348
Decrease in bank deposits		**16,645**	24,070
Dividends received		**305**	547
Interest received		**30,902**	33,893
Net cash used in investing activities		**(3,281,897)**	(583,699)
Cash flows from financing activities			
Exercise of share options		**385**	5,946
Repurchase of shares		**–**	(45,304)
Contribution to employee share trusts		**(129,365)**	(100,688)
Dividends paid		**(326,930)**	(266,692)
Proceeds from borrowings		**1,803,420**	119,292
Repayments of borrowings		**(693,880)**	(142,661)
Issue of long term notes		**1,488,980**	–
Net cash generated from/(used in) financing activities		**2,142,610**	(430,107)
(Decrease)/increase in cash and cash equivalents		**(900,795)**	418,252
Effect of foreign exchange rate changes		**(102,126)**	(14,190)
Cash and cash equivalents at the beginning of the year		**3,858,144**	3,454,082
Cash and cash equivalents at the end of the year	24	**2,855,223**	3,858,144

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2015

	Attributable to equity holders of the Company												
	Share capital	Share premium	Investment revaluation reserve	Share redemption reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Non-controlling interests	Put option written on non-controlling interest	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
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 trusts	–	–	–	–	(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 29, 30)	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
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 year	-	-	-	-	-	-	-	-	-	828,715	7,888	-	836,603
Other comprehensive income/(loss)	-	-	7,326	-	-	-	121,291	(598,733)	-	(68,973)	-	-	(539,089)
Total comprehensive income/ (loss) for the year	-	-	7,326	-	-	-	121,291	(598,733)	-	759,742	7,888	-	297,514
Acquisition of businesses	-	-	-	-	-	121,252	-	-	-	-	-	-	121,252
Transfer to statutory reserve	-	-	-	-	-	-	-	-	3,832	(3,832)	-	-	-
Issue of ordinary shares	1,039,396	-	-	-	-	-	-	-	-	-	-	-	1,039,396
Exercise of share options	385	-	-	-	-	-	-	-	-	-	-	-	385
Vesting of shares under long-term incentive program	-	-	-	-	166,927	(237,448)	-	-	-	-	-	-	(70,521)
Deferred tax credit in relation to long-term incentive program	-	-	-	-	-	9,693	-	-	-	-	-	-	9,693
Share-based compensation	-	-	-	-	-	139,977	-	-	-	-	-	-	139,977
Contribution to employee share trusts	-	-	-	-	(129,365)	-	-	-	-	-	-	-	(129,365)
Dividends paid	-	-	-	-	-	-	-	-	-	(326,930)	-	-	(326,930)
At March 31, 2015	2,689,882	-	592	-	(11,441)	9,852	118,082	(834,114)	75,712	2,035,078	235,378	(212,900)	4,106,121

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

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

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

Changes in accounting policies and disclosures

The Group has adopted the following new interpretation and amendments to existing standards that are mandatory for the year ended 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.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) came into operation during the financial year; and as a result, there are changes to presentation and disclosure of certain information in the consolidated financial statements.

At the date of approval of these financial statements, 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 ended March 31, 2015 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 15, Revenue from contracts with customers	January 1, 2017
HKFRS 9, Financial instruments	January 1, 2018
Amendments to HKAS 1, Presentation of financial statements	January 1, 2016
Amendments to HKAS 19 (2011), Employee benefits	July 1, 2014
Amendments to HKAS 16, Property, plant and equipment	January 1, 2016
Amendments to HKAS 27 (2011), Separate financial statements	January 1, 2016
Amendments to HKAS 28 (2011), Investments in associates and joint ventures	January 1, 2016
Amendments to HKAS 38, Intangible assets	January 1, 2016
Amendments to HKFRS 10, Consolidated financial statements	January 1, 2016
Amendments to HKFRS 11, Joint arrangements	January 1, 2016
Amendments to HKFRS 12, Disclosure of interest in other entities	January 1, 2016

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

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 structured 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, 2014 and 2015 have been used for the preparation of the Group's consolidated financial statements.

(ii) Business combinations

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Subsidiaries (continued)

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

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

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

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Associates and joint ventures (continued)

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, 2014 and 2015 have been used for the preparation of the Group's consolidated financial statements.

(c) Segment reporting

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

(d) Translation of foreign currencies

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

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

All foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the income statement within "Other operating income/(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Translation of foreign currencies (continued)

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/expense 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 and are not depreciated. Depreciation of buildings, buildings related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group ranging from 10 to 50 years whichever is shorter.

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

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

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

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

(f) Construction-in-progress

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

(i) Goodwill

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

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (continued)

(v) Patents, technology and marketing rights

Expenditure on acquired patents, technology and marketing rights is capitalized at historical cost upon acquisition and amortized using the straight-line method over their estimated useful lives of not more than 10 years.

(h) Impairment of non-financial assets

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

(i) Financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

Recognition and measurement

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Recognition and measurement (continued)

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty

(j) Impairment of financial assets

(i) Assets carried at amortized cost

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

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

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

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

(ii) Assets classified as available-for-sale

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Derivative financial instruments and hedging activities

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

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial guarantee contracts (continued)

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.

(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 and borrowing costs

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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Trade and other payables (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

(i) Pension obligations (continued)

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

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.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

(ii) Post-employment medical benefits

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

(iii) Long-term incentive program

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

(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).

(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 exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong dollar given the two currencies are under the linked exchange rate system. For presentation purposes, the amounts of the exposure are shown in United States 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.

	2015			2014		
	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	262,319	14	167,002	237,972	868	134,557
Bank deposits and cash and cash equivalents	112,198	38,411	10,286	94,725	942	23,513
Trade and other payables	(1,224,378)	(22,997)	(14,541)	(1,288,099)	(2,739)	(167,550)
Intercompany balances before elimination	(1,683,160)	388,212	(172,687)	(1,784,195)	43,639	(305,352)
Gross exposure	(2,533,021)	403,640	(9,940)	(2,739,597)	42,710	(314,832)
Notional amounts of forward exchange contracts used as economic hedges	2,775,878	–	128,162	2,480,232	–	230,954
Net exposure	242,857	403,640	118,222	(259,365)	42,710	(83,878)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from short-term and 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 27) 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$744,233,000 (2014: US$719,704,000) (Note 24).

The tables below analyze the Group'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)

	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, 2015						
Borrowings	1,055,770	121,384	–	1,900,000	–	3,077,154
Trade, notes and other payables and accruals	10,084,163	3,899,707	–	–	–	13,983,870
Contingent considerations	–	43,251	275,000	–	–	318,251
Deferred considerations	–	–	1,502,172	–	–	1,502,172
Guaranteed dividend to non-controlling shareholders of a subsidiary	–	5,318	9,749	–	–	15,067
Written put option liability	–	–	224,790	–	–	224,790
Others	–	–	133,400	109,106	–	242,506
Derivatives settled in net:						
Forward foreign exchange contracts	1,297	–	–	–	–	1,297
Derivatives settled in gross:						
Forward foreign exchange contracts						
– outflow	6,117,803	1,006,623	–	–	–	7,124,426
– inflow	(7,112,439)	(1,024,005)	–	–	–	(8,136,444)
At March 31, 2014						
Borrowings	47,282	398,195	10,125	–	–	455,602
Trade, notes and other payables and accruals	10,473,838	1,065,166	–	–	–	11,539,004
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)

3 FINANCIAL RISK MANAGEMENT (continued)

(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, 2015, 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$2.7 million higher/lower (2014: US$2.2 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, 2015, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$1.5 million (2014: US$0.9 million) lower/higher.

At March 31, 2015, 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$2.8 million (2014: US$2.2 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.

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 (debt)/cash position of the Group as at March 31, 2015 and 2014 are as follows:

	2015 **US$ million**	2014 US$ million
Bank deposits and cash and cash equivalents	**3,026**	3,953
Less: total borrowings	**(3,054)**	(455)
Net (debt)/cash position	**(28)**	3,498
Total equity	**4,106**	3,025
Gearing ratio	**0.74**	0.15

3 FINANCIAL RISK MANAGEMENT (continued)

(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:

– 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.

The following table presents the assets and liabilities that are measured at fair value at March 31, 2015 and 2014.

	2015				2014			
	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	39,292	–	–	39,292	10,455	–	–	10,455
Unlisted equity investments	–	–	34,108	34,108	–	–	24,702	24,702
Derivative financial assets	–	184,534	–	184,534	–	61,184	–	61,184
	39,292	184,534	34,108	257,934	10,455	61,184	24,702	96,341
Liabilities								
Derivative financial liabilities	–	80,897	–	80,897	–	58,462	–	58,462
Contingent considerations	–	–	312,083	312,083	–	–	307,183	307,183
Written put option liability	–	–	219,317	219,317	–	–	217,157	217,157
	–	80,897	531,400	612,297	–	58,462	524,340	582,802

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2015 and 2014.

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, 2015 and 2014 are as follows:

Available-for-sale financial assets

	2015 US$'000	2014 US$'000
At the beginning of the year	24,702	16,162
Exchange adjustment	(459)	(10)
Additions	9,865	8,550
At the end of the year	34,108	24,702

Contingent considerations and written put option liability

	2015 US$'000	2014 US$'000
At the beginning of the year	524,340	517,385
Exchange adjustment	(8)	(235)
Recognized in consolidated income statement	7,068	7,190
At the end of the year	531,400	524,340
Total losses for the year included in profit or loss under "finance costs"	7,060	6,955
Changes in unrealized losses for the year included in profit or loss	7,060	6,955

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 28.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Revenue recognition (continued)

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.

(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

	2015		2014	
	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	14,700,270	794,795	14,725,659	788,130
AP	6,549,339	302,183	6,162,919	109,350
EMEA	12,803,357	410,858	9,580,700	187,482
AG	12,242,627	7,999	8,237,851	68,627
Segment total	46,295,593	1,515,835	38,707,129	1,153,589
Unallocated:				
Headquarters and corporate expenses		(449,142)		(156,502)
Restructuring costs		–		(26)
Finance income		14,825		19,240
Finance costs		(129,096)		(33,754)
Net gain on disposal of available-for-sale financial assets		1,185		21,880
Dividend income from an available-for-sale financial asset		305		547
Share of profits of associates and joint ventures		17,055		9,221
Consolidated profit before taxation		970,967		1,014,195

(b) Segment assets for reportable segments

	2015 US$'000	2014 US$'000
China	6,157,774	5,157,241
AP	2,179,482	1,993,624
EMEA	2,808,546	2,341,114
AG	5,059,385	2,559,869
Segment assets for reportable segments	16,205,187	12,051,848
Unallocated:		
Deferred income tax assets	530,047	389,330
Derivative financial assets	184,534	61,184
Available-for-sale financial assets	73,400	35,157
Interests in associates and joint ventures	45,719	20,753
Unallocated bank deposits and cash and cash equivalents	1,259,658	2,521,366
Unallocated inventories	1,131,779	757,648
Unallocated deposits, prepayments and other receivables	1,508,524	2,214,124
Income tax recoverable	136,857	65,715
Intangible assets pending allocation	5,706,000	–
Other unallocated assets	299,573	239,968
Total assets per consolidated balance sheet	27,081,278	18,357,093

5 SEGMENT INFORMATION (continued)

(c) Segment liabilities for reportable segments

	2015 US$'000	2014 US$'000
China	4,250,546	3,965,295
AP	1,697,066	1,671,669
EMEA	1,589,515	1,407,530
AG	5,005,649	1,636,349
Segment liabilities for reportable segments	12,542,776	8,680,843
Unallocated:		
Income tax payable	168,536	177,741
Deferred income tax liabilities	200,730	142,881
Derivative financial liabilities	80,897	58,462
Unallocated borrowings	2,924,352	300,000
Unallocated trade payables	2,631,917	2,862,851
Unallocated other payables and accruals	2,499,007	2,687,703
Unallocated provisions	11,655	16,522
Unallocated other non-current liabilities	1,806,831	308,889
Other unallocated liabilities	108,456	96,481
Total liabilities per consolidated balance sheet	22,975,157	15,332,373

(d) Analysis of revenue by significant category

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

	2015 US$'000	2014 US$'000
PC Business Group	33,346,120	31,632,868
Mobile Business Group	9,142,211	5,353,635
Enterprise Business Group	2,627,408	505,307
Others	1,179,854	1,215,319
	46,295,593	38,707,129

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
China	148,274	79,970	4,197	3,966	2,255	788	249,117	99,190
AP	86,248	55,481	3,254	1,251	9,457	6,318	35,840	14,822
EMEA	118,273	50,234	463	697	24,788	10,206	17,098	7,978
AG	155,948	69,448	8,163	8,739	19,908	29,908	61,681	52,071
Total	508,743	255,133	16,077	14,653	56,408	47,220	363,736	174,061

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$2,639,744,000 (2014: US$2,305,752,000) and US$8,410,352,000 (2014: US$2,226,306,000) respectively.

6 OTHER INCOME – NET

	2015 US$'000	2014 US$'000
Net gain on disposal of available-for-sale financial assets	1,185	21,880
Dividend income from an available-for-sale financial asset	305	547
	1,490	22,427

7 OPERATING PROFIT

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

	2015 US$'000	2014 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	208,363	109,689
Amortization of intangible assets	300,380	145,444
Employee benefit costs (Note 10)	3,524,219	2,745,853
Cost of inventories sold	37,067,180	31,763,864
Inventory write-down	125,284	57,031
Auditor's remuneration	9,002	4,543
Rental expenses under operating leases	113,264	99,024
Government grant (Note 28(iv))	(154,571)	(143,755)
Net foreign exchange loss	189,550	79,242
Net (gain)/loss on foreign exchange forward contracts for cash flow hedge reclassified from equity	(299,847)	10,818
Ineffectiveness on cash flow hedges	(9,279)	(4,265)

8 FINANCE INCOME AND COSTS

(a) Finance income

	2015 US$'000	2014 US$'000
Interest on bank deposits	28,793	26,852
Interest on money market funds	2,092	2,126
Others	17	4,915
	30,902	33,893

(b) Finance costs

	2015 US$'000	2014 US$'000
Interest on bank loans and overdrafts	28,658	39,811
Interest on long term notes	64,925	–
Interest on promissory note	16,599	–
Factoring costs	54,075	23,866
Commitment fee	10,787	5,878
Interest on contingent considerations and put option liability	7,068	7,190
Others	3,392	4,229
	185,504	80,974

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2015 US$'000	2014 US$'000
Current tax		
– Hong Kong profits tax	26,041	13,024
– Taxation outside Hong Kong	193,810	201,175
Deferred tax (Note 20)	(85,487)	(17,474)
	134,364	196,725

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

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

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

	2015 US$'000	2014 US$'000
Profit before taxation	970,967	1,014,195
Tax calculated at domestic rates applicable in countries concerned	228,660	231,160
Income not subject to taxation	(393,290)	(427,986)
Expenses not deductible for taxation purposes	205,207	192,706
Utilization of previously unrecognized tax losses	(31,669)	(3,841)
Effect on opening deferred income tax assets due to change in tax rates	10,269	359
Deferred income tax assets not recognized	78,976	151,136
Under-provision in prior years	36,211	53,191
	134,364	196,725

The weighted average applicable tax rate for the year was 23.5% (2014: 22.8%).The increase is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating.

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

	2015			2014		
	Before tax US$'000	Tax (credit)/ charge US$'000	After tax US$'000	Before tax US$'000	Tax charge US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	7,326	–	7,326	(2,288)	–	(2,288)
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	125,856	(4,565)	121,291	(41,389)	3,101	(38,288)
Remeasurements of post employment benefit obligations	(70,087)	1,114	(68,973)	3,988	189	4,177
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary	–	–	–	1,250	–	1,250
Currency translation differences	(598,733)	–	(598,733)	(69,781)	–	(69,781)
Other comprehensive (loss)/income	(535,638)	(3,451)	(539,089)	(128,746)	3,290	(125,456)
Current tax		–			–	
Deferred tax (Note 20)		(3,451)			3,290	
		(3,451)			3,290	

10 EMPLOYEE BENEFIT COSTS

	2015 US$'000	2014 US$'000
Wages and salaries	2,627,764	1,868,018
Social security costs	206,436	152,371
Long-term incentive awards granted (Note 29(a))	99,062	80,274
Pension costs		
– Defined contribution plans	158,236	129,813
– Defined benefit plans (Note 35)	22,630	21,799
Others	410,091	493,578
	3,524,219	2,745,853

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 35.

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, 2015 and 2014 is set out below:

	2015							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	–	1,338	5,740	11,921	134	286	22	19,441
Non-executive directors								
Mr. Zhu Linan	88	–	–	193	–	–	–	281
Mr. Zhao John Huan	88	–	–	190	–	–	–	278
Independent non-executive directors								
Mr. William O. Grabe	123	–	–	193	–	–	–	316
Mr. Ting Lee Sen	88	–	–	193	–	–	–	281
Dr. Tian Suning	88	–	–	193	–	–	–	281
Mr. Nicholas C. Allen	115	–	–	193	–	–	–	308
Ms. Ma Xuezheng	108	–	–	193	–	–	–	301
Mr. Nobuyuki Idei	88	–	–	191	–	–	–	279
Mr. William Tudor Brown	88	–	–	163	–	–	–	251
Mr. Yang Chih-Yuan Jerry	72	–	–	108	–	–	–	180
	946	1,338	5,740	13,731	134	286	22	22,197

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (continued)

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

	2014							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	–	1,283	7,159	12,647	128	281	17	21,515
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	281	17	24,179

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2015 and 2014 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2014 and 2013 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 29(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, 2015 and 2014.

(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 29(a)) for the two years ended March 31, 2015 and 2014.

(iv) During the year ended March 31, 2015 and 2014, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

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

(vi) Mr. Yang Chih-Yuan Jerry was appointed as an independent non-executive director on November 6, 2014.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2014: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2014: four) individuals during the year are as follows:

	2015 US$'000	2014 US$'000
Basic salaries, allowances, and other benefits-in-kind	4,093	3,873
Discretionary bonuses	10,865	14,199
Retirement payments and employer's contribution to pension schemes	625	285
Long-term incentive awards	10,630	9,262
Others	575	260
	26,788	27,879

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands		
US$5,287,557 – US$5,352,038	1	–
US$5,481,004 – US$5,545,485	1	1
US$5,609,969 – US$5,674,450	–	1
US$5,674,451 – US$5,738,933	1	–
US$6,319,275 – US$6,383,757	–	1
US$10,188,219 – US$10,252,701	1	–
US$10,381,667 – US$10,446,148	–	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.

	2015	2014
Weighted average number of ordinary shares in issue	10,714,763,044	10,408,747,622
Adjustment for shares held by employee share trusts	(44,369,898)	(38,861,785)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	10,670,393,146	10,369,885,837

	US$'000	US$'000
Profit attributable to equity holders of the Company	828,715	817,228

12 EARNINGS PER SHARE (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, namely share options and long-term incentive awards.

	2015	2014
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	10,670,393,146	10,369,885,837
Adjustments for share options and long-term incentive awards	101,511,837	131,031,863
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	10,771,904,983	10,500,917,700

	US$'000	US$'000
Profit attributable to equity holders of the Company used to determine diluted earnings per share	828,715	817,228

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

	2015 US$'000	2014 US$'000
Interim dividend of HK6.0 cents (2014: HK6.0 cents) per ordinary share, paid on December 1, 2014	85,978	80,426
Proposed final dividend – HK20.5 cents (2014: HK18.0 cents) per ordinary share	293,668	241,449
	379,646	321,875

14 PROPERTY, PLANT AND EQUIPMENT

	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, 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
Year ended March 31, 2015							
Opening net book amount	321,997	61,733	165,054	17,097	98,618	2,914	667,413
Exchange adjustment	(30,185)	(4,691)	(14,711)	(774)	(4,979)	(653)	(55,993)
Reclassification	(2)	37	(233)	(95)	293	–	–
Additions	21,272	43,495	111,362	7,606	73,231	1,633	258,599
Transfer from construction-in-progress	71,668	163,265	8,020	8,227	721	–	251,901
Disposals	(3,877)	(523)	(799)	(822)	(2,993)	(329)	(9,343)
Depreciation	(14,877)	(41,784)	(68,367)	(7,603)	(72,968)	(1,365)	(206,964)
Acquisition of businesses	91,653	191,759	82,358	6,202	216,854	2,035	590,861
Closing net book amount	457,649	413,291	282,684	29,838	308,777	4,235	1,496,474
At March 31, 2015							
Cost	529,592	542,699	563,106	64,860	563,012	7,609	2,270,878
Accumulated depreciation and impairment losses	71,943	129,408	280,422	35,022	254,235	3,374	774,404
Net book amount	457,649	413,291	282,684	29,838	308,777	4,235	1,496,474

15 PREPAID LEASE PAYMENTS

	2015 US$'000	2014 US$'000
At the beginning of the year	40,884	36,522
Exchange adjustment	(18)	(17)
Additions	69,903	–
Transfer from construction-in-progress	115,741	5,198
Amortization	(1,399)	(819)
At the end of the year	225,111	40,884

16 CONSTRUCTION-IN-PROGRESS

	Buildings under construction		Internal use software		Others		Total	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
At the beginning of the year	337,386	155,474	11,753	20,177	2,795	8,400	351,934	184,051
Exchange adjustment	(1,348)	(1,665)	(96)	(132)	–	(269)	(1,444)	(2,066)
Reclassification	–	3,499	–	(4,215)	–	716	–	–
Additions	120,980	286,493	35,967	64,515	190,559	37,230	347,506	388,238
Acquisition of businesses	–	–	–	–	12,930	–	12,930	–
Transfer to property, plant and equipment	(73,304)	(101,217)	–	–	(178,597)	(39,185)	(251,901)	(140,402)
Transfer to intangible assets	–	–	(31,052)	(67,373)	(144)	(4,097)	(31,196)	(71,470)
Transfer to prepaid lease payments	(115,741)	(5,198)	–	–	–	–	(115,741)	(5,198)
Disposals	(114)	–	(14)	(1,219)	(72)	–	(200)	(1,219)
At the end of the year	267,859	337,386	16,558	11,753	27,471	2,795	311,888	351,934

During the year, the Group has capitalised borrowing costs amounting to US$4.5 million (2014: nil) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.28%.

17 INTANGIBLE ASSETS

(a)

	Goodwill (Note (b)) US$'000	Trademarks and trade names (Note (b)) US$'000	Internal use software US$'000	Customer relation-ships US$'000	Patent and technology (Note (c)) US$'000	Total US$'000
At April 1, 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
Year ended March 31, 2015						
Opening net book amount	**2,389,822**	**461,529**	**226,856**	**133,150**	**128,159**	**3,339,516**
Exchange adjustment	**(188,879)**	**(17,990)**	**–**	**(48,283)**	**(472)**	**(255,624)**
Reclassification	**–**	**–**	**173**	**–**	**(173)**	**–**
Additions	**–**	**–**	**36,936**	**–**	**259,753**	**296,689**
Transfer from construction-in-progress	**–**	**–**	**31,052**	**–**	**144**	**31,196**
Disposals	**–**	**–**	**(1,999)**	**–**	**(657)**	**(2,656)**
Amortization	**–**	**(19,964)**	**(90,046)**	**(65,847)**	**(124,523)**	**(300,380)**
Acquisition of businesses	**2,723,254**	**860,000**	**–**	**1,289,999**	**947,719**	**5,820,972**
Closing net book amount	**4,924,197**	**1,283,575**	**202,972**	**1,309,019**	**1,209,950**	**8,929,713**
At March 31, 2015						
Cost	**4,924,197**	**1,435,461**	**767,962**	**1,416,282**	**1,505,808**	**10,049,710**
Accumulated amortization and impairment losses	**–**	**151,886**	**564,990**	**107,263**	**295,858**	**1,119,997**
Net book amount	**4,924,197**	**1,283,575**	**202,972**	**1,309,019**	**1,209,950**	**8,929,713**

Amortization of US$12,503,000 (2014: US$18,281,000), US$8,562,000 (2014: US$8,263,000), US$221,967,000 (2014: US$91,312,000) and US$57,348,000 (2014: US$27,588,000) 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) Impairment tests for goodwill and intangible assets with indefinite useful lives

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	Amounts pending allocation US$ million	Total US$ million
At March 31, 2015						
Goodwill	**1,128**	**521**	**216**	**336**	**2,723**	**4,924**
Trademarks and trade names	**209**	**59**	**102**	**67**	**830**	**1,267**

	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

Goodwill pending allocation represents the amount attributable to the acquisition of Motorola Mobility Group ("Motorola") and X86 server hardware and related maintenance services business of IBM ("System X"), details of which are set out in Note 36. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the development of mobile devices and X86 server businesses, respectively. Management is in the process of determining the allocation of goodwill and other intangible assets to the appropriate cash generating units of the Group.

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.

Future cash flows are discounted at the rate of 9% (2014: 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:

	2015	2014
China	**2%**	2%
EMEA	**-2%**	-2%
AP	**-2%**	-1%
AG	**-2%**	0%

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

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2015 arising from the review (2014: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. Except for AG in 2015 and 2014, 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, 2015, the recoverable amount for AG calculated based on value in use exceeded carrying value by US$1,101 million (2014: US$774 million). Had AG's forecasted operating margin been 1.50 (2014: 1.30) percentage point lower than management's estimates, the AG's remaining headroom would be removed.

(c) At March 31, 2015, included in the patent and technology is a construction-in-progress balance of US$24,452,000 (2014: US$58,880,000).

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2015 US$'000	2014 US$'000
Share of net assets		
– Associates	**9,277**	5,401
– Joint ventures	**36,442**	15,352
	45,719	20,753

The following is a list of the principal associates and joint ventures as at March 31, 2015:

Company name	Place of establishment	Interest held indirectly 2015	2014	Principal activities
Associates				
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (Note ii)	Chinese Mainland	**23.1%**	23.1%	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) (Note ii)	Chinese Mainland	**23.7%**	23.7%	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) (Note ii)	Chinese Mainland	**49%**	49%	Property development
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (Note ii)	Chinese Mainland	**48.1%**	49%	Distribution and development of IT technology and software
Lenovo NNL HK Limited	Hong Kong	**51%**	–	Provision of IT services and distribution of IT products

As at March 31, 2014, the Group had a capital commitment of US$4,021,000 to Shanghai Shiyun Network Technology Limited.

Notes:
(i) The associates and joint ventures operate principally in their respective places of establishment.
(ii) The English name of the 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:

	2015 US$'000	2014 US$'000
Share of losses of associates	**(2,148)**	(679)
Share of profits of joint ventures	**19,203**	9,900
	17,055	9,221

19 FINANCIAL INSTRUMENTS BY CATEGORY

	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, 2015					
Available-for-sale financial assets	–	–	–	73,400	73,400
Derivative financial assets	–	60,459	124,075	–	184,534
Trade receivables	5,177,840	–	–	–	5,177,840
Notes receivable	334,738	–	–	–	334,738
Deposits and other receivables	2,325,836	–	–	–	2,325,836
Bank deposits	171,139	–	–	–	171,139
Cash and cash equivalents	2,855,223	–	–	–	2,855,223
	10,864,776	60,459	124,075	73,400	11,122,710
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 receivable	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

19 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Liabilities at fair value through income statement US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2015				
Trade payables	–	–	4,662,411	4,662,411
Notes payable	–	–	171,049	171,049
Derivative financial liabilities	74,904	5,993	–	80,897
Other payables and accruals	–	–	9,066,487	9,066,487
Other non-current liabilities	–	–	242,506	242,506
Borrowings	–	–	3,054,122	3,054,122
Deferred considerations and guaranteed dividend under other non-current liabilities	–	–	1,404,546	1,404,546
Contingent considerations and written put option liability	531,400	–	–	531,400
	606,304	5,993	18,601,121	19,213,418
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	–	–	6,658,254	6,658,254
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	524,340	–	–	524,340
	567,870	14,932	11,994,833	12,577,635

20 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:

	2015 US$'000	2014 US$'000
Deferred income tax assets:		
Recoverable within 12 months	327,817	324,837
Recoverable after 12 months	202,230	64,493
	530,047	389,330
Deferred income tax liabilities:		
Recoverable after 12 months	(200,730)	(142,881)
Net deferred income tax assets	329,317	246,449

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

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

	2015 US$'000	2014 US$'000
At the beginning of the year	246,449	235,397
Reclassification and exchange adjustment	(4,814)	(9,496)
Credited to consolidated income statement (Note 9)	85,487	17,474
(Charged)/credited to other comprehensive income (Note 9)	(3,451)	3,290
Acquisition of businesses/subsidiaries	(4,047)	(216)
Credited to share-based compensation reserve	9,693	–
At the end of the year	329,317	246,449

(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	Share-based payment US$'000	Others US$'000	Total US$'000
At 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 and April 1, 2014	259,621	50,582	2,207	74,350	–	5,818	392,578
Reclassification and exchange adjustments	(18,604)	(747)	(1,017)	(5,408)	–	(505)	(26,281)
(Charged)/credited to consolidated income statement	(33,101)	64,699	5,059	27,703	16,646	(320)	80,686
Credited to other comprehensive income	–	–	–	–	–	1,012	1,012
Acquisition of businesses	15,876	3,101	1,294	8,626	43,380	9,767	82,044
Credited to share-based compensation reserve	–	–	–	–	9,693	–	9,693
At March 31, 2015	223,792	117,635	7,543	105,271	69,719	15,772	539,732

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.

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(a) (continued)

At March 31, 2015, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$2,373,130,000 (2014: US$2,188,939,000) and tax losses of approximately US$1,726,640,000 (2014: US$1,687,310,000) that can be carried forward against future taxable income, of which, tax losses of US$1,311,799,000 (2014: US$1,181,408,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2015 US$'000	2014 US$'000
Expiring in		
– 2015	–	20,832
– 2016	–	1,900
– 2017	26,874	33,309
– 2018	202,272	10,704
– 2019	71,536	294,209
– 2020	36,261	9,786
– 2021	9,816	8,548
– 2022	48,977	125,812
– 2023	13,556	802
– 2024	5,549	–
	414,841	505,902

20 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, 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 and April 1, 2014	**67,927**	**47,498**	**4,594**	**24,594**	**1,516**	**146,129**
Reclassification and exchange adjustments	**(17,912)**	**774**	**(821)**	**(3,285)**	**(223)**	**(21,467)**
(Credited)/charged to consolidated income statement	**(6,358)**	**3,498**	**(631)**	**(2,124)**	**814**	**(4,801)**
Charged to other comprehensive income	**–**	**–**	**–**	**–**	**4,463**	**4,463**
Acquisition of businesses	**85,973**	**–**	**–**	**118**	**–**	**86,091**
At March 31, 2015	**129,630**	**51,770**	**3,142**	**19,303**	**6,570**	**210,415**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 US$'000	2014 US$'000
At the beginning of the year	**35,157**	69,962
Exchange adjustment	**(1,442)**	(1,073)
Fair value change recognized in other comprehensive income	**7,326**	(2,288)
Additions	**32,596**	8,550
Disposals	**(237)**	(39,994)
At the end of the year	**73,400**	35,157
Equity securities, at fair value		
Listed in Hong Kong	**20,692**	722
Listed outside Hong Kong	**18,600**	9,733
Unlisted	**34,108**	24,702
	73,400	35,157

22 INVENTORIES

	2015 US$'000	2014 US$'000
Raw materials and work-in-progress	**1,387,082**	1,222,589
Finished goods	**1,212,009**	1,263,341
Service parts	**396,298**	215,085
	2,995,389	2,701,015

23 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:

	2015 US$'000	2014 US$'000
0 – 30 days	**3,669,635**	2,206,799
31 – 60 days	**881,449**	601,499
61 – 90 days	**320,591**	181,916
Over 90 days	**426,267**	220,754
	5,297,942	3,210,968
Less: provision for impairment	**(120,102)**	(39,614)
Trade receivables – net	**5,177,840**	3,171,354

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

At March 31, 2015, trade receivables, net of impairment, of US$841,001,000 (2014: US$371,549,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2015 US$'000	2014 US$'000
Within 30 days	**465,918**	186,913
31 – 60 days	**192,276**	82,652
61 – 90 days	**68,599**	45,306
Over 90 days	**114,208**	56,678
	841,001	371,549

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

	2015 US$'000	2014 US$'000
At beginning of the year	**39,614**	36,920
Exchange adjustment	**777**	342
Provisions made	**37,359**	22,000
Uncollectible receivables written off	**(7,475)**	(244)
Unused amounts reversed	**(18,668)**	(20,675)
Acquisition of businesses/subsidiaries	**68,495**	1,271
At the end of the year	**120,102**	39,614

(b) Notes receivable of the Group are bank accepted notes mainly with maturity dates of within six months.

23 RECEIVABLES (continued)

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

	2015 US$'000	2014 US$'000
Deposits	3,481	1,635
Other receivables (i)	2,322,355	1,937,679
Prepayments (ii)	1,246,179	1,061,512
	3,572,015	3,000,826

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$581 million as at March 31, 2015 (2014: US$413 million) are included in prepayments.

(d) The carrying amounts of trade, notes, deposits and other receivables 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's receivables in the amount of US$54 million (2014: US$14 million) are held as collateral for short-term loans obtained.

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2015 US$'000	2014 US$'000
Bank deposits		
– matured between three to twelve months	100,828	94,165
– restricted bank balances	70,311	820
	171,139	94,985
Cash and cash equivalents		
– cash at bank and in hand	2,110,990	3,138,440
– money market funds	744,233	719,704
	2,855,223	3,858,144
	3,026,362	3,953,129
Maximum exposure to credit risk	3,026,362	3,953,129
Effective annual interest rates	0%-11.60%	0%-12.36%

25 PAYABLES

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

	2015 US$'000	2014 US$'000
0 – 30 days	3,764,369	2,761,170
31 – 60 days	358,296	1,217,547
61 – 90 days	218,299	586,145
Over 90 days	321,447	186,483
	4,662,411	4,751,345

(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.

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2015 US$'000	2014 US$'000
Accruals	**2,120,381**	1,359,002
Allowance for billing adjustments (i)	**2,169,767**	1,785,022
Other payables (ii)	**4,776,339**	3,514,230
	9,066,487	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 values.

(b) The components of provisions of the Group are as follows:

	Warranty US$'000	**Environmental restoration** US$'000	**Total** US$'000
Year ended March 31, 2015			
At the beginning of the year	**1,127,260**	**19,684**	**1,146,944**
Exchange adjustment	**(69,142)**	**(2,919)**	**(72,061)**
Provisions made	**1,153,855**	**10,378**	**1,164,233**
Amounts utilized	**(1,049,291)**	**(6,919)**	**(1,056,210)**
Unused amounts reversed	**(19,391)**	**(3,749)**	**(23,140)**
Acquisition of businesses	**396,563**	**–**	**396,563**
	1,539,854	**16,475**	**1,556,329**
Long-term portion classified as non-current liabilities	**(338,700)**	**(14,082)**	**(352,782)**
At the end of the year	**1,201,154**	**2,393**	**1,203,547**
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

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.

27 BORROWINGS

	2015 US$'000	2014 US$'000
Current liabilities		
Short-term loans (i)	1,168,274	145,477
Term loans (ii)	–	300,000
	1,168,274	445,477
Non-current liabilities		
Term loans (ii)	395,043	10,125
Long term notes (iii)	1,490,805	–
	1,885,848	10,125
	3,054,122	455,602

Notes:

(i) Short-term loans primarily comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013 and has been utilized to the extent of US$700 million as at March 31, 2015; and a US$500 million revolving loan facility entered into on February 2, 2011 which has been utilized to the extent of US$300 million as at March 31, 2015. The majority of the short-term bank loans are denominated in United States dollar.

(ii) Term loans comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013, and has been drawn down to the extent of US$400 million as at March 31, 2015.

(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.

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

	2015 US$'000	2014 US$'000
Within 1 year	1,168,274	445,477
Over 1 to 3 years	–	10,125
Over 3 to 5 years	1,885,848	–
	3,054,122	455,602

The carrying amounts of 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	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Revolving loans	1,300,000	1,300,000	1,000,000	–
Term loans	400,000	711,045	400,000	310,125
Short-term loans	339,111	324,643	177,154	145,477
Foreign exchange contracts	10,530,679	7,076,019	9,821,769	6,513,326
Other trade finance facilities	1,353,244	489,054	315,562	213,745
	13,923,034	9,900,761	11,714,485	7,182,673

27 BORROWINGS (continued)

Except for short-term loans of US$54 million with collateral at the same amount recorded as trade receivables, all the borrowings are unsecured and the effective annual interest rates at March 31, 2015 are as follows:

	United States dollar		Other currencies	
	2015	2014	**2015**	2014
Term loans	**1.73%**	2.24%	**N/A**	8%
Short-term loans	**0%-3%**	0%-5.0%	**0%-15.17%**	0%-12.87%

28 OTHER NON-CURRENT LIABILITIES

	2015 US$'000	2014 US$'000
Contingent considerations (i)	**270,196**	307,183
Deferred considerations (i)	**1,394,941**	2,151
Guaranteed dividend to non-controlling shareholders of a subsidiary (ii)	**9,605**	18,922
Environmental restoration (Note 26(b))	**14,082**	17,559
Written put option liability (iii)	**219,317**	217,157
Government incentives and grants received in advance (iv)	**118,371**	143,778
Deferred rent liabilities	**127,954**	–
Others	**285,969**	138,164
	2,440,435	844,914

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, 2015, 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/sellers under the arrangements are as follows:

Joint venture with NEC Corporation	Nil – US$325 million
Joint venture with EMC Corporation	US$39 – US$59 million
Stoneware	Nil – US$48 million
CCE	Nil – BRL400 million
Google Inc.	US$1,500 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.

28 OTHER NON-CURRENT LIABILITIES (continued)

Notes: (continued)

(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.

29 SHARE CAPITAL

	2015		2014	
	Number of shares	**US$'000**	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**10,406,375,509**	**1,650,101**	10,439,152,059	33,465
Issue of ordinary shares	**701,107,215**	**1,039,396**	–	–
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 (Note 30)	**–**	**–**	–	1,615,984
At the end of the year	**11,108,654,724**	**2,689,882**	10,406,375,509	1,650,101

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 share redemption reserve, in respect of the share capital of Hong Kong companies. As a result, the amounts of share premium and share redemption reserve of the Company were transferred to the share capital.

29 SHARE CAPITAL (continued)

(a) Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

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, 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
Outstanding at April 1, 2014	**103,228,268**	**137,503,393**
Shares awarded upon acquisition of businesses	**–**	**146,594,218**
Granted during the year	**84,979,487**	**90,514,143**
Vested during the year	**(47,499,634)**	**(134,431,685)**
Lapsed/cancelled during the year	**(6,600,459)**	**(17,684,353)**
Outstanding at March 31, 2015	**134,107,662**	**222,495,716**
Average fair value per unit (HK$)		
– At March 31, 2014	2.15	7.34
– At March 31, 2015	**2.39**	**9.73**

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, 2015, 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 34.48 percent (2014: 36.62 percent), expected dividends during the vesting periods of 2.23 percent (2014: 2.71 percent), contractual life of 4.75 years (2014: 4.75 years), and a risk-free interest rate of 0.64 percent (2014: 0.67 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2015 ranged from 0.08 to 3.92 years (2014: 0.08 to 3.92 years).

29 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.

	2015 Number of outstanding share options	2014 Number of outstanding share options
At the beginning of the year	31,487,601	63,939,051
Exercised during the year (ii)	(1,172,000)	(18,277,450)
Lapsed during the year (iii)	(30,315,601)	(14,174,000)
At the end of the year (iv)	–	31,487,601

(i) No share options were granted or cancelled by the Company during the years ended March 31, 2014 and 2015.

(ii) Details of share options exercised during the year ended March 31, 2015 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$
04.01.2014 to 04.25.2014	2.545	8.80-9.48	1,172,000	2,982,740
			1,172,000	2,982,740
				US$385,000

29 SHARE CAPITAL (continued)

(b) Share options (continued)

(ii) (continued)

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

(iii) Details of share options lapsed during the years ended March 31, 2015 and 2014 are as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2015 Number of share options lapsed**	2014 Number of share options lapsed
New Option Scheme			
04.26.2003 to 04.25.2013	2.245	**–**	14,174,000
04.27.2004 to 04.26.2014	2.545	**30,315,601**	–
		30,315,601	14,174,000

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

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2015 Number of outstanding share options**	2014 Number of outstanding share options
New Option Scheme			
04.27.2004 to 04.26.2014	2.545	**–**	31,487,601
		–	31,487,601

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31 2015 US$'000	2014 US$'000
Non-current assets		
Property, plant and equipment	3,049	2,478
Construction-in-progress	296	174
Intangible assets	141,325	39,269
Interest in an associate	1,887	–
Investments in subsidiaries	8,100,648	2,888,712
Available-for-sale financial assets	31,801	8,500
Other non-current assets	–	11,690
	8,279,006	2,950,823
Current assets		
Deposits, prepayments and other receivables	54,252	4,999
Amounts due from subsidiaries	3,183,046	227,859
Cash and cash equivalents	15,440	5,414
	3,252,738	238,272
Total assets	11,531,744	3,189,095
Share capital	2,689,882	1,650,101
Reserves (Note 30(b))	830,504	370,520
Total equity	3,520,386	2,020,621
Non-current liabilities		
Borrowings	1,885,848	–
Deferred revenue	4,806	–
Other non-current liabilities	1,662,691	306,236
	3,553,345	306,236
Current liabilities		
Derivative financial liabilities	131	–
Other payables and accruals	90,671	36,685
Borrowings	991,121	300,000
Deferred revenue	35,393	–
Amounts due to subsidiaries	3,340,697	525,553
	4,458,013	862,238
Total liabilities	8,011,358	1,168,474
Total equity and liabilities	11,531,744	3,189,095
Net current liabilities	(1,205,275)	(623,966)
Total assets less current liabilities	7,073,731	2,326,857

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY (continued)

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2015 and 2014 are as follows:

	Share premium US$'000	Investment revaluation reserve US$'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, 2014	–	–	–	(23,622)	10,204	8,614	375,324	370,520
Profit for the year	–	–	–	–	–	–	766,855	766,855
Other comprehensive loss	–	(2,979)	–	–	–	–	–	(2,979)
Total comprehensive (loss)/income for the year	–	(2,979)	–	–	–	–	766,855	763,876
Acquisition of businesses	–	–	–	121,252	–	–	–	121,252
Vesting of shares under long-term incentive program	–	–	–	(237,448)	–	–	–	(237,448)
Share-based compensation	–	–	–	139,977	–	–	–	139,977
Dividends paid	–	–	–	–	–	–	(327,673)	(327,673)
At March 31, 2015	–	(2,979)	–	159	10,204	8,614	814,506	830,504
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 29)	(1,614,632)	–	(1,352)	–	–	–	–	(1,615,984)
At March 31, 2014	–	–	–	(23,622)	10,204	8,614	375,324	370,520

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	2015 US$'000	2014 US$'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
上海視雲網絡科技有限公司		
(Shanghai Shiyun Network Technology Limited) (a joint venture)		
– Purchase of goods	4,522	–

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.

32 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2015, the Group had the following other capital commitments:

	2015 US$'000	2014 US$'000
Contracted but not provided for:		
– Property, plant and equipment	261,663	153,621
– Patent and technology	–	122,500
– IT consulting services	6,738	830
	268,401	276,951
Authorized but not contracted for:		
– Property, plant and equipment	1,027,710	890,701
– IT consulting services	251	–
– Prepaid lease payments	–	65,692
	1,027,961	956,393

(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:

	2015 US$'000	2014 US$'000
Not later than one year	107,222	63,798
Later than one year but not later than five years	428,706	162,487
Later than five years	311,278	61,784
	847,206	288,069

33 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.

34 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATIONS

	2015 US$'000	2014 US$'000
Profit before taxation	970,967	1,014,195
Share of profits of associates and joint ventures	(17,055)	(9,221)
Finance income	(30,902)	(33,893)
Finance costs	185,504	80,974
Depreciation of property, plant and equipment and amortization of prepaid lease payments	208,363	109,689
Amortization of intangible assets and share-based compensation	399,442	225,718
Loss/(gain) on disposal of property, plant and equipment	162	(356)
Net gain on disposal of available-for-sale financial assets	(1,185)	(21,880)
Loss on disposal of construction-in-progress	200	1,219
Loss on disposal of intangible assets	2,656	12,673
Dividend income	(305)	(547)
Fair value change on financial instruments	20,376	(10,572)
Release of escrow shares for settlement of acquisition consideration	–	(6,913)
Decrease/(increase) in inventories	120,263	(739,964)
(Increase)/decrease in trade receivables, notes receivable, deposits, prepayments and other receivables	(526,439)	1,474
(Decrease)/increase in trade payables, notes payable, provisions, other payables and accruals	(491,457)	1,011,546
Effect of foreign exchange rate changes	(171,570)	6,244
Net cash generated from operations	669,020	1,640,386

35 RETIREMENT BENEFIT OBLIGATIONS

	2015 US$'000	2014 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	377,228	142,482
Post-employment medical benefits	22,554	14,033
	399,782	156,515
Expensed in income statement		
Pension benefits (Note 10)	22,630	21,799
Post-employment medical benefits	(885)	492
	21,745	22,291
Remeasurements for:		
Defined pension benefits	70,267	(3,060)
Post-employment medical benefits	(180)	(928)

In Germany, the Group operates a sectionalised 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. Following the acquisition of System X and Motorola Mobility in 2014, the Group assumed approximately US$239,419,000 of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 20 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Germany.

The Group continues to maintain significant pension liabilities in Japan, where a cash balance benefit is provided for substantially all employees.

In the United States, the defined benefit plan is closed to new entrants, and now covers only 2% of employees. There is also a supplemental defined benefit plan that covers certain executives.

The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisitions.

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 in which they arise.

(a) Pension benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2015 US$'000	2014 US$'000
Present value of funded obligations	574,901	389,172
Fair value of plan assets	(284,229)	(266,875)
Deficit of funded plans	290,672	122,297
Present value of unfunded obligations	86,556	20,185
Liability in the balance sheet	377,228	142,482
Representing:		
Pension benefits obligation	377,228	142,482
Pension plan assets	–	–
	377,228	142,482

35 RETIREMENT BENEFIT OBLIGATIONS (continued)

(a) Pension benefits (continued)

The principal actuarial assumptions used are as follows:

	2015	2014
Discount rate	1%-2.75%	1.75%-3.75%
Future salary increases	0%-3%	0%-3%
Future pension increases	0%-1.75%	0%-1.75%
Life expectancy for male aged 60	24	23
Life expectancy for female aged 60	27	29

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

		Impact on defined benefit obligation	
2015	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 8.1%	Increase by 9.1%
Salary growth rate	0.5%	Increase by 0.8%	Decrease by 0.7%
Pension growth rate	0.5%	Increase by 3.0%	Decrease by 2.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 2.4%	Decrease by 2.1%

		Impact on defined benefit obligation	
2014	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%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 1.7%	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.

(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.

35 RETIREMENT BENEFIT OBLIGATIONS (continued)

(b) Post-employment medical benefits (continued)

The amounts recognized in the consolidated balance sheet are determined as follows:

	2015 US$'000	2014 US$'000
Present value of funded obligations	26,545	18,287
Fair value of plan assets	(5,333)	(5,545)
	21,212	12,742
Present value of unfunded obligations	1,342	1,291
Liability in the balance sheet	22,554	14,033

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

Plan assets of the Group comprise:

	2015			2014		
	Quoted US$'000	Unquoted US$'000	Total US$'000	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	556	–	556	860	–	860
Energy	284	–	284	298	–	298
Manufacturing	530	–	530	1,216	–	1,216
Others	7,518	9	7,527	11,239	–	11,239
	8,888	9	8,897	13,613	–	13,613
Debt instruments						
Government	27,209	37	27,246	26,775	42,898	69,673
Corporate bonds (investment grade)	45,446	2	45,448	39,673	7,105	46,778
Corporate bonds (Non-investment grade)	12	2	14	–	472	472
	72,667	41	72,708	66,448	50,475	116,923
Others						
Property	–	3,770	3,770	–	18,877	18,877
Qualifying insurance policies	–	56,132	56,132	845	41,555	42,400
Cash and cash equivalents	14,800	–	14,800	8,135	–	8,135
Investment funds	89	126,401	126,490	437	–	437
Structured bonds	–	–	–	–	48,503	48,503
Others	675	757	1,432	158	17,829	17,987
	15,564	187,060	202,624	9,575	126,764	136,339
	97,119	187,110	284,229	89,636	177,239	266,875
Medical plan						
Cash and cash equivalents	5,333	–	5,333	5,545	–	5,545

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.

35 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, 2015	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	13,286	13,709	47,909	799,171	874,075
Post-employment medical benefits	4,512	4,878	2,800	29,341	41,531
Total	17,798	18,587	50,709	828,512	915,606

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2014: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Opening fair value	266,875	275,422	5,545	5,878
Exchange adjustment	(33,710)	(12,285)	(1)	(1)
Interest income	6,150	5,965	146	160
Remeasurements:				
Return on plan assets excluding interest income	–	1,015	–	–
Experience gain/(loss)	29,210	(281)	(140)	(146)
Contributions by the employer	13,906	19,698	30	27
Contributions by plan participants	408	415	–	–
Benefits paid	(15,677)	(23,074)	(247)	(373)
Acquisition of businesses	17,067	–	–	–
Closing fair value	284,229	266,875	5,333	5,545
Actual return on plan assets	35,360	6,699	6	14

Contributions of US$5,607,984 are estimated to be made for the year ending March 31, 2016.

35 RETIREMENT BENEFIT OBLIGATIONS (continued)

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

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

	Pension		Medical	
	2015	2014	**2015**	2014
	US$'000	US$'000	**US$'000**	US$'000
Opening defined benefit obligation	**409,357**	424,641	**19,578**	20,542
Exchange adjustment	**(50,501)**	(16,002)	**(178)**	(169)
Current service cost	**14,272**	15,850	**455**	495
Past service cost	**(1,542)**	(695)	**–**	(34)
Interest cost	**10,845**	9,689	**676**	685
Remeasurements:				
Loss from change in demographic assumptions	**6,617**	509	**(104)**	69
Loss/(gain) from changes in financial assumptions	**90,530**	(4,614)	**310**	(678)
Experience loss/(gain)	**2,330**	1,779	**(526)**	(465)
Contributions by plan participants	**408**	415	**–**	–
Benefits paid	**(16,393)**	(25,135)	**(258)**	(373)
Curtailments	**5,205**	2,920	**(1,859)**	(494)
Acquisition of businesses	**190,329**	–	**9,793**	–
Closing defined benefit obligation	**661,457**	409,357	**27,887**	19,578

During the year, benefits of US$716,000 were paid directly by the Group (2014: US$2,061,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2015	2014	2013	2012	2011
	US$'000	US$'000	US$'000	US$'000	US$'000
Present value of defined benefit obligations	**689,344**	428,935	445,183	435,760	255,673
Fair value of plan assets	**289,562**	272,420	281,300	230,942	180,803
Deficit	**399,782**	156,515	163,883	204,818	74,870
Actuarial (gains)/losses arising on plan assets	**(29,070)**	(588)	(7,840)	1,786	3,642
Actuarial losses/(gains) arising on plan liabilities	**99,157**	(3,400)	25,014	35,751	3,548
	70,087	(3,988)	17,174	37,537	7,190

35 RETIREMENT BENEFIT OBLIGATIONS (continued)

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

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

	Pension		Medical	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Current service cost	14,272	15,850	455	495
Past service cost	(1,542)	(695)	–	(34)
Interest cost	10,845	9,689	676	685
Interest income	(6,150)	(5,965)	(146)	(160)
Curtailment losses	5,205	2,920	(1,870)	(494)
Total expense recognized in the consolidated income statement	22,630	21,799	(885)	492

36 BUSINESS COMBINATIONS

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

On October 1, 2014, the Group acquired certain assets and assumed certain liabilities in connection with System X. The acquisition provides the Group with end-to-end capabilities to serve enterprise customers and explore new growth segments in the enterprise hardware market. It also offers a comprehensive and competitive portfolio of server products including towers, racks, blades and converged systems, as well as associated maintenance services.

On October 30, 2014, the Group acquired 100% of the issued and outstanding equity interests in Motorola. Motorola is principally engaged in the business of developing, manufacturing, distributing and selling mobile devices, particularly smartphones based on the Android operating system, and their related products. The acquisition provides the Group with immediate access to key assets, technology and personnel to accelerate the Group's entry into mature geographies for smartphones, including those based on the popular Android operating system under its strong relationships with retailers and carriers.

The estimated total consideration for the business combination activities completed during the year is approximately US$5,232 million, including cash, the Company's shares as consideration shares, deferred consideration and share-based compensation obligation assumed by the Company.

Set forth below is the preliminary calculation of goodwill:

	Motorola US$'000	System X US$'000	Total US$'000
Purchase consideration:			
– Cash paid less cash to be refunded (a)	836,306	1,859,188	2,695,494
– Fair value of consideration shares (b)	768,482	270,914	1,039,396
– Present value of deferred consideration (c)	1,376,230	–	1,376,230
– Share-based compensation obligation assumed	114,922	6,330	121,252
Total purchase consideration	3,095,940	2,136,432	5,232,372
Less: Fair value of net assets acquired	(1,436,665)	(1,072,453)	(2,509,118)
Goodwill (Note 17(a))	1,659,275	1,063,979	2,723,254

36 BUSINESS COMBINATIONS (continued)

(a) At completion date on acquisition of System X, cash payment comprising cash consideration of US$2,070,000,000 net of a downward adjustment of US$210,811,622 calculated based on transferred balances of certain working capital items, was paid to IBM.

At completion date on acquisition of Motorola, US$660,000,000, representing the cash consideration, and a compensation of US$176,306,000, which primarily relates to the estimated amount of excess net cash and working capital remaining in Motorola transferrable to the Company, was paid to Google Inc.("Google"), the seller, in cash.

(b) The fair values of 182,000,000 and 519,107,215 ordinary shares of the Company issued as part of the purchase consideration for the business combinations of System X and Motorola were based on the published share price on October 1 and October 30, 2014, respectively.

(c) The deferred consideration represents the promissory note of US$1,500,000,000 issued to Google payable in cash on the third anniversary of the completion date. The present value of deferred consideration is included in other non-current liabilities in the balance sheet.

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

	Motorola US$'000	**System X** US$'000	**Total** US$'000
Cash and cash equivalents	404,157	17,801	421,958
Property, plant and equipment	477,432	113,429	590,861
Deferred tax assets less liabilities	47,358	(51,405)	(4,047)
Intangible assets	1,587,718	1,510,000	3,097,718
Other non-current assets	24,720	–	24,720
Net working capital except cash and cash equivalents	(832,692)	(146,646)	(979,338)
Non-current liabilities	(272,028)	(370,726)	(642,754)
Fair value of net assets acquired	1,436,665	1,072,453	2,509,118

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

At March 31, 2015, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.

Acquisition-related costs of US$26,813,000 have been charged to administrative expenses in the consolidated income statement for the year ended March 31, 2015.

The aggregate revenue included in the consolidated income statement since October 1, 2014 and October 30, 2014 contributed by System X and Motorola was approximately US$5,603,000,000. System X and Motorola incurred an aggregate loss of approximately US$63,000,000 over the same period.

No separate set of financial information was prepared for System X before the acquisition. The historical financial information of Motorola was prepared under the accounting policies of Google, and it is impractical for the Group to prepare a set of financial information in conformity with the Group's accounting policies. Accordingly, disclosure of the revenue and profit/loss before taxation of both newly acquired businesses for the full year from April 1, 2014 has not been made.

37 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 2015	2014	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	BRL957,207,677.92	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	HK$2,574,207,653.94	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	AUD43,857,597	100%	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	100%	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	100%	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2015	2014	Principal activities
聯想（成都）有限公司 (Lenovo (Chengdu) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB12,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	100%	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	100%	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	100%	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD1	100%	–	Manufacturing of computers and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	100%	–	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	100%	100%	Distribution of IT products
Lenovo HK Services Limited	Hong Kong	HK$1	100%	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo (Hong Kong) Limited	Hong Kong	HK$74,256,023	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

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2015	2014	Principal activities
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
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	HK$2 ordinary and HK$1,000,000 non-voting deferred	100%	100%	Procurement agency and distribution of IT products
Lenovo PC International Limited	Hong Kong	HK$4,758,857,784	100%	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	100%	100%	Distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	100%	100%	Distribution of IT products
Lenovo (South Africa) (Pty) Limited	South Africa	RAND1,000	100%	100%	Distribution of IT products
Lenovo (Spain), SRL	Spain	EUR108,182	100%	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2015	2014	Principal activities
Lenovo (Sweden) AB	Sweden	SEK200,000	100%	100%	Distribution of IT products
聯想系統集成（深圳）有限公司 (Lenovo Systems Technology Company Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	USD41,100,000	100%	–	Manufacturing and Distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,508	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	BRL2,837,051,501	100%	100%	Manufacturing and Distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	100%	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	100%	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	100%	100%	Distribution of IT products
LenovoEMC, Limited	Hong Kong	HK$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

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2015	2014	Principal activities
Medion AG	Germany	EUR48,418,400	79.82%	79.82%	Retail and service business for consumer electronic products
Motorola Mobility Comércio de Productos Eletronicos Ltda	Brazil	BRL739,238,401	100%	–	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales	Bermuda	USD1	100%	–	Used for Non-US countries for Distribution of Products
Motorola Mobility LLC	United States	–	100%	–	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	51%	51%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	USD298,000,000	100%	–	Investment management
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

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries, CCE and Motorola's subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries and of CCE for the years ended March 31, 2014 and 2015, and Motorola's subsidiaries for the period ended March 31, 2015 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.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 21, 2015.

FIVE-YEAR FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENT

	2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
Revenue	**46,295,593**	38,707,129	33,873,401	29,574,438	21,594,371
Profit before taxation	**970,967**	1,014,195	801,299	582,443	357,751
Taxation	**(134,364)**	(196,725)	(169,707)	(107,027)	(84,515)
Profit for the year	**836,603**	817,470	631,592	475,416	273,236
Profit/(loss) attributable to:					
Equity holders of the Company	**828,715**	817,228	635,148	472,992	273,234
Non-controlling interests	**7,888**	242	(3,556)	2,424	2
	836,603	817,470	631,592	475,416	273,236
Earnings per share attributable to equity holders of the Company					
Basic (US cents)	**7.77**	7.88	6.16	4.67	2.84
Diluted (US cents)	**7.69**	7.78	6.07	4.57	2.73

CONDENSED CONSOLIDATED BALANCE SHEET

	2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
Non-current assets	**11,653,543**	4,956,545	4,492,260	4,040,348	2,769,476
Current assets	**15,427,735**	13,400,548	12,389,737	11,820,400	7,936,463
Total assets	**27,081,278**	18,357,093	16,881,997	15,860,748	10,705,939
Non-current liabilities	**5,813,795**	1,870,051	2,110,342	1,603,102	838,386
Current liabilities	**17,161,362**	13,462,322	12,091,474	11,809,677	8,032,653
Total liabilities	**22,975,157**	15,332,373	14,201,816	13,412,779	8,871,039
Net assets	**4,106,121**	3,024,720	2,680,181	2,447,969	1,834,900

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
Mr. Yang Chih-Yuan Jerry

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu, Eric

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

PRINCIPAL BANKERS
Bank of China
BNP Paribas
Citibank, N.A.
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

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

SHARE REGISTRAR
Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

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

STOCK CODES

Hong Kong Stock Exchange:	992
American Depositary Receipts:	LNVGY

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