

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.*



## Lenovo Group Limited 聯想集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0992)**

### **FY2008/09 ANNUAL RESULTS ANNOUNCEMENT**

#### **ANNUAL RESULTS**

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended March 31, 2009 together with comparative figures of last year, as follows:

#### **CONSOLIDATED INCOME STATEMENT**

	<i>Note</i>	<b>2009</b> <i>US\$'000</i>	2008 <i>US\$'000</i>
Continuing operations			
Sales	2	<b>14,901,351</b>	16,351,503
Cost of sales		<b>(13,159,742)</b>	(13,901,523)
Gross profit		<b>1,741,609</b>	2,449,980
Other income – net	3	<b>929</b>	17,261
Selling and distribution expenses		<b>(938,451)</b>	(1,103,713)
Administrative expenses		<b>(627,903)</b>	(595,902)
Research and development expenses		<b>(220,010)</b>	(229,759)
Other operating expenses – net		<b>(166,305)</b>	(38,823)
Operating (loss)/profit		<b>(210,131)</b>	499,044
Finance income		<b>59,977</b>	52,048
Finance costs	4	<b>(38,142)</b>	(38,366)
Share of profits of associated companies		<b>351</b>	124
(Loss)/profit before taxation		<b>(187,945)</b>	512,850
Taxation	5	<b>(38,444)</b>	(47,613)
(Loss)/profit from continuing operations		<b>(226,389)</b>	465,237
Discontinued operations			
Profit from discontinued operations	6	<b>-</b>	19,920
(Loss)/profit for the year		<b>(226,389)</b>	485,157
(Loss)/profit attributable to shareholders of the Company			
- Continuing operations		<b>(226,392)</b>	464,343
- Discontinued operations		<b>-</b>	19,920
Minority interests		<b>(226,392)</b>	484,263
		<b>3</b>	894
		<b>(226,389)</b>	485,157

	<i>Note</i>	<b>2009</b> <i>US\$'000</i>	2008 <i>US\$'000</i>
Dividends	7	<b>35,575</b>	186,753
<hr/>			
Basic (loss)/earnings per share attributable to shareholders of the Company:	<i>8(a)</i>		
– Continuing operations		<b>(US2.56 cents)</b>	US5.29 cents
– Discontinued operations		-	US0.22 cents
		<b>(US2.56 cents)</b>	US5.51 cents
<hr/>			
Diluted (loss)/earnings per share attributable to shareholders of the Company:	<i>8(b)</i>		
– Continuing operations		<b>(US2.56 cents)</b>	US4.86 cents
– Discontinued operations		-	US0.20 cents
		<b>(US2.56 cents)</b>	US5.06 cents
<hr/>			

## CONSOLIDATED BALANCE SHEET

		2009	2008
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
Non-current assets			
Property, plant and equipment		314,142	364,778
Prepaid lease payments		5,833	6,099
Construction-in-progress		47,062	51,237
Intangible assets		1,852,861	1,838,368
Interests in associated companies		2,635	2,690
Deferred tax assets		190,844	156,440
Available-for-sale financial assets		101,916	67,697
Other non-current assets		5,653	7,172
		<u>2,520,946</u>	<u>2,494,481</u>
Current assets			
Inventories		450,370	471,557
Trade receivables	<i>9(a)</i>	728,387	860,543
Notes receivable		82,927	371,126
Derivative financial assets		13,163	3,392
Deposits, prepayments and other receivables		613,826	767,268
Income tax recoverable		35,301	40,002
Bank deposits		-	540,058
Cash and cash equivalents		1,863,379	1,651,420
		<u>3,787,353</u>	<u>4,705,366</u>
Total assets		<u>6,308,299</u>	<u>7,199,847</u>
Share capital	<i>11</i>	29,530	29,699
Reserves		1,281,208	1,583,390
Shareholders' funds		1,310,738	1,613,089
Minority interests		177	174
Total equity		<u>1,310,915</u>	<u>1,613,263</u>
Non-current liabilities	<i>12</i>	891,208	1,098,123
Current liabilities			
Trade payables	<i>9(b)</i>	1,991,286	2,282,199
Notes payable		34,180	46,421
Derivative financial liabilities		23,674	18,197
Provisions, accruals and other payables	<i>10</i>	1,509,925	1,944,724
Income tax payable		89,459	87,209
Short-term bank loans		20,293	61,130
Current portion of non-current liabilities		437,359	48,581
		<u>4,106,176</u>	<u>4,488,461</u>
Total liabilities		<u>4,997,384</u>	<u>5,586,584</u>
Total equity and liabilities		<u>6,308,299</u>	<u>7,199,847</u>
Net current (liabilities)/assets		<u>(318,823)</u>	<u>216,905</u>
Total assets less current liabilities		<u>2,202,123</u>	<u>2,711,386</u>

## CONSOLIDATED CASH FLOW STATEMENT

	<b>2009</b> <i>US\$'000</i>	2008 <i>US\$'000</i>
Continuing operations		
Cash flows from operating activities		
Net cash generated from operations	<b>19,961</b>	1,131,804
Interest paid	<b>(41,976)</b>	(41,197)
Tax paid	<b>(75,292)</b>	(81,759)
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	<b>(97,307)</b>	1,008,848
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property, plant and equipment	<b>(107,016)</b>	(124,561)
Sale of property, plant and equipment	<b>10,671</b>	4,975
Payment for construction-in-progress	<b>(63,988)</b>	(67,142)
Payment for intangible assets	<b>(22,911)</b>	(75,575)
Net proceeds from disposal of investments	<b>9,788</b>	13,523
Net cash outflow from disposal of discontinued operations	-	(5,371)
Decrease/(increase) in bank deposits	<b>540,058</b>	(540,058)
Dividend received	<b>1,515</b>	223
Interest received	<b>64,126</b>	60,049
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	<b>432,243</b>	(733,937)
	<hr/>	<hr/>
Cash flow from financing activities		
Exercise of share options	<b>9,433</b>	34,829
Repurchase of shares	<b>(53,907)</b>	(42,583)
Contributions to employee share trusts	<b>(17,169)</b>	(63,177)
Dividends paid	<b>(179,159)</b>	(67,087)
Increase in bank borrowings	<b>124,493</b>	428,683
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	<b>(116,309)</b>	290,665
	<hr/>	<hr/>
Increase in cash and cash equivalents	<b>218,627</b>	565,576
Discontinued operations		
Decrease in cash and cash equivalents from discontinued operations	-	(12,695)
Effect of foreign exchange rate changes	<b>(6,668)</b>	34,823
Cash and cash equivalents at the beginning of the year	<b>1,651,420</b>	1,063,716
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<b>1,863,379</b>	1,651,420
	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US\$'000	Share premium US\$'000	Convertible rights in respect of convertible preferred shares and warrants US\$'000	Exchange reserve US\$'000	Investment revaluation reserve US\$'000	Share redemption reserve US\$'000	Employee share trusts US\$'000	Share-based compensation reserve US\$'000	Hedging reserve US\$'000	Other reserve US\$'000	Retained earnings US\$'000	Minority interests US\$'000	Total US\$'000
At April 1, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263
Fair value change on available-for-sale financial assets	-	-	-	-	34,830	-	-	-	-	-	-	-	34,830
Fair value change on interest rate swap contracts	-	-	-	-	-	-	-	-	(5,977)	-	-	-	(5,977)
Fair value change on forex forward contracts	-	-	-	-	-	-	-	-	(8,811)	-	-	-	(8,811)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
(Loss)/profit for the year	-	-	-	-	-	-	-	-	-	-	(226,392)	3	(226,389)
Exchange differences	-	-	-	92,351	-	-	-	-	-	-	-	-	92,351
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	(465)	-	-	-	-	-	-	-	(465)
Vesting of shares under long-term incentive program	-	-	-	-	-	-	31,943	(40,167)	-	-	-	-	(8,224)
Actuarial gain from defined benefit pension plans	-	-	-	-	-	-	-	-	-	-	7,025	-	7,025
Exercise of share options	80	9,353	-	-	-	-	-	-	-	-	-	-	9,433
Share-based compensation	-	-	-	-	-	-	-	54,114	-	-	-	-	54,114
Repurchase of shares	(249)	(53,658)	-	-	-	-	-	-	-	-	-	-	(53,907)
Contributions to employee share trusts	-	-	-	-	-	-	(17,169)	-	-	-	-	-	(17,169)
Dividends paid	-	-	-	-	-	-	-	-	-	-	(179,159)	-	(179,159)
At March 31, 2009	29,530	1,106,379	42,159	25,691	75,501	497	(157,461)	92,684	(16,576)	30,738	81,596	177	1,310,915

	Share capital US\$'000	Share premium US\$'000	Convertible rights in respect of convertible preferred shares and warrants US\$'000	Exchange reserve US\$'000	Investment revaluation reserve US\$'000	Share redemption reserve US\$'000	Employee share trusts US\$'000	Share-based compensation reserve US\$'000	Hedging reserve US\$'000	Other reserve US\$'000	Retained earnings US\$'000	Minority interests US\$'000	Total US\$'000
At April 1, 2007	28,504	1,042,579	45,979	(22,756)	15,078	497	(127,301)	51,420	-	-	99,532	744	1,134,276
Fair value change on available-for-sale financial assets	-	-	-	-	37,651	-	-	-	-	-	-	-	37,651
Fair value change on interest rate swap contracts	-	-	-	-	-	-	-	-	(1,788)	-	-	-	(1,788)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	31,849	(31,849)	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	484,263	894	485,157
Exchange differences	-	-	-	(38,278)	-	-	-	-	-	-	-	-	(38,278)
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	(11,593)	-	-	-	-	-	-	-	(11,593)
Conversion of Series A cumulative convertible preferred shares	1,130	115,924	(3,820)	-	-	-	-	-	-	-	-	-	113,234
Vesting of shares under long-term incentive program	-	-	-	-	-	-	18,243	(26,011)	-	-	-	-	(7,768)
Exercise of share options	290	34,539	-	-	-	-	-	-	-	-	-	-	34,829
Share-based compensation	-	-	-	-	-	-	-	53,328	-	-	-	-	53,328
Repurchase of shares	(225)	(42,358)	-	-	-	-	-	-	-	-	-	-	(42,583)
Contributions to employee share trusts	-	-	-	-	-	-	(63,177)	-	-	-	-	-	(63,177)
Disposal of discontinued operations	-	-	-	(5,626)	-	-	-	-	-	(7,312)	-	-	(12,938)
Dividends paid	-	-	-	-	-	-	-	-	-	-	(65,623)	(1,464)	(67,087)
At March 31, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263

Notes:

## 1 Basis of preparation

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

The Group has adopted those amendments to standards and new interpretations that are mandatory for the year ended March 31, 2009. The adoption of these amendments to standards and new interpretations do not result in substantial changes to the Group's accounting policies or financial results.

The following amendments to standards and new interpretations are mandatory for the year ended March 31, 2009:

- HKFRS 7 (Amendment), "Financial instruments: Disclosures", amendment on disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories, effective prospectively from July 1, 2008
- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met, effective prospectively from July 1, 2008
- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 1, 2008
- HK(IFRIC)-Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions", effective for annual periods beginning on or after January 1, 2008

The amendments on HKFRS 7 and HKAS 39 do not have any impact on the Group's financial statements as the Group has not reclassified any financial assets.

At the date of approval of these financial statements, the following new and revised standards, new interpretations, and amendments to standards and interpretations have been issued but are not effective for the year ended March 31, 2009 and have not been early adopted:

- HKFRS 1 (Amendment), "First-time adoption of Hong Kong Financial Reporting Standards", effective for annual periods beginning on or after January 1, 2009
- HKFRS 1 (Revised), "First-time adoption of Hong Kong Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009
- HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation", effective for annual periods beginning on or after January 1, 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
- HKFRS 7 (Amendment), "Financial instruments: Disclosures", amendment on improving disclosures about financial instruments issued in March 2009, effective for annual periods beginning on or after January 1, 2009
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009
- HKAS 1 (Revised), "Presentation of financial statements", effective for annual periods beginning on or after January 1, 2009
- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009
- HKAS 27 (Revised), "Consolidated and separate financial statements", effective for annual periods beginning on or after July 1, 2009

- HKAS 32 (Amendment), “Financial instruments: Presentation”, effective for annual periods beginning on or after January 1, 2009
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on eligible hedged items, effective for annual periods beginning on or after July 1, 2009
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on embedded derivatives, apply retrospectively for annual periods ending on or after June 30, 2009
- HK(IFRIC)-Int 2 (Amendment), “Members’ shares in co-operative entities and similar instruments”, effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 9 (Amendment), “Reassessment of Embedded Derivatives”, apply retrospectively for annual periods ending on or after June 30, 2009
- HK(IFRIC)-Int 13, “Customer loyalty programmes”, effective for annual periods beginning on or after July 1, 2008
- HK(IFRIC)-Int 15, “Agreements for the construction of real estate”, effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after October 1, 2008
- HK(IFRIC)-Int 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, “Transfers of assets from customers”, effective for annual periods beginning on or after July 1, 2009

The Improvements to HKFRSs, published in October 2008 (effective for annual periods beginning on or after January 1 or July 1, 2009), do not have material impact on the Group’s financial statements.

The effect on the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) to the results and financial position of the Group when they become effective will depend on the incidence and timing of business combinations occurring on or after April 1, 2010.

The Group is currently assessing the impact of the adoption of the other new and revised standards, new interpretations and amendments to standards and interpretations above to the Group in future periods.



## 2 Segment information

In accordance with the Group's internal financial reporting, the Group has adopted geographical segments as the primary reporting format and business segments as the secondary reporting format. On March 31, 2008, the Group completed the disposal of its entire interests in its Greater China mobile handset operations, and the results therein were accounted for as discontinued operations for the year then ended. The segment information presented below, including the comparative figures for last year, represents the continuing operations of the Group.

### (a) Primary reporting format – geographical segments

The segment results and capital expenditure information for the year ended March 31, 2009 are as follows:

	Americas US\$'000	Europe, Middle East and Africa US\$'000	Asia Pacific (excluding Greater China) US\$'000	Greater China US\$'000	Corporate or unallocated US\$'000	Total US\$'000
Sales	3,749,946	3,120,158	1,597,215	6,434,032	-	14,901,351
Segment operating results	(130,015)	(184,239)	(122,889)	354,179	(128,096)	(211,060)
Finance income						59,977
Finance costs						(38,142)
Loss on disposal of available-for-sale financial assets						(124)
Dividend income from available-for-sale financial assets						1,053
Share of profits of associated companies						351
Loss before taxation						(187,945)
Taxation						(38,444)
Loss for the year						(226,389)
Capital expenditure	51,393	15,479	19,088	44,960	62,995	193,915

Other significant segment items included in the income statement are as follows:

Depreciation of property, plant and equipment and amortization of prepaid lease payments	59,351	10,714	38,026	35,178	-	143,269
Amortization and impairment of intangible assets	16,382	13,631	6,978	46,738	-	83,729
Employee benefit costs, including	354,909	339,535	167,739	375,067	-	1,237,250
- long-term incentive awards	13,618	11,331	5,800	23,365	-	54,114
- severance and related costs	27,803	54,679	15,069	19,049	(523)	116,077
Termination of onerous contracts	10,003	4,186	5,387	-	420	19,996
Rental expenses under operating leases	10,509	12,244	12,702	10,521	-	45,976

#### Note:

Segment operating profit/(loss) presented above include the impact of one-off items of US\$216,403,000, comprising mainly costs on termination of onerous contracts, severance and related costs, accelerated depreciation of property, plant and equipment and impairment of intangible assets. The segment operating profit/(loss) before these one-off items are: Americas (US\$68,224,000); Europe, Middle East and Africa (US\$100,560,000); Asia Pacific (excluding Greater China) (US\$93,568,000); Greater China US\$377,368,000; and corporate or unallocated (US\$109,673,000).

The segment assets and liabilities at March 31, 2009 are as follows:

	Americas US\$'000	Europe, Middle East and Africa US\$'000	Asia Pacific (excluding Greater China) US\$'000	Greater China US\$'000	Corporate or unallocated US\$'000	Total US\$'000
Segment assets	<u>1,213,538</u>	<u>574,175</u>	<u>648,134</u>	<u>3,187,615</u>		<u>5,623,462</u>
Interests in associated companies					2,635	
Deferred tax assets					190,844	
Available-for-sale financial assets					101,916	
Cash and cash equivalents					145,174	
Income tax recoverable					35,301	
Other unallocated assets					208,967	<u>684,837</u>
Consolidated total assets						<u>6,308,299</u>
Segment liabilities	<u>1,258,128</u>	<u>1,014,142</u>	<u>418,552</u>	<u>1,527,532</u>		<u>4,218,354</u>
Bank borrowings					465,000	
Convertible preferred shares					215,974	
Derivative financial liabilities					7,382	
Income tax payable					89,459	
Other unallocated liabilities					1,215	<u>779,030</u>
Consolidated total liabilities						<u>4,997,384</u>

The segment results and capital expenditure information for the year ended March 31, 2008 are as follows:

	Americas US\$'000	Europe, Middle East and Africa US\$'000	Asia Pacific (excluding Greater China) US\$'000	Greater China US\$'000	Corporate or unallocated US\$'000	Total US\$'000
Sales	4,506,451	3,606,048	2,113,250	6,125,754	-	16,351,503
Segment operating results	88,915	122,549	(2,701)	426,248	(153,228)	481,783
Finance income						52,048
Finance costs						(38,366)
Impairment of assets						(2,530)
Gain on disposal of available-for-sale financial assets						19,791
Share of profits of associated companies						124
Profit before taxation						512,850
Taxation						(47,613)
Profit for the year						465,237
Capital expenditure	53,261	8,259	27,179	78,162	117,182	284,043
Depreciation of property, plant and equipment and amortization of prepaid lease payments	40,775	9,091	11,320	18,656	8,183	88,025
Amortization of intangible assets	-	-	-	28,140	99,173	127,313
Employee benefit costs, including	380,105	314,907	191,310	250,901	56,973	1,194,196
- long-term incentive awards	14,697	11,761	6,892	19,978	-	53,328
- severance and related costs	12,926	14,955	15,207	982	-	44,070
Termination of onerous contracts	3,558	(98)	(119)	229	-	3,570
Rental expenses under operating leases	6,628	8,068	10,423	9,429	155	34,703

*Note:*

Segment operating profit/(loss) presented above include the impact of one-off items of US\$47,640,000, comprising mainly costs on termination of onerous contracts, and severance and related costs. The segment operating profit/(loss) before these one-off items are: Americas US\$105,399,000; Europe, Middle East and Africa US\$137,406,000; Asia Pacific (excluding Greater China) US\$12,387,000; Greater China US\$427,459,000; and corporate or unallocated (US\$153,228,000).

The segment assets and liabilities at March 31, 2008 are as follows:

	Americas <i>US\$'000</i>	Europe, Middle East and Africa <i>US\$'000</i>	Asia Pacific (excluding Greater China) <i>US\$'000</i>	Greater China <i>US\$'000</i>	Corporate or unallocated <i>US\$'000</i>	Total <i>US\$'000</i>
Segment assets	<u>1,472,775</u>	<u>788,664</u>	<u>1,213,620</u>	<u>2,715,799</u>		6,190,858
Interests in associated companies					2,690	
Deferred tax assets					156,440	
Available-for-sale financial assets					67,697	
Cash and cash equivalents					449,576	
Income tax recoverable					40,002	
Other unallocated assets					292,584	1,008,989
Consolidated total assets						<u>7,199,847</u>
Segment liabilities	<u>1,384,307</u>	<u>1,029,253</u>	<u>933,348</u>	<u>1,414,180</u>		4,761,088
Bank borrowings					500,000	
Convertible preferred shares					211,181	
Share-based compensation					6,430	
Derivative financial liabilities					1,788	
Income tax payable					87,209	
Other unallocated liabilities					18,888	825,496
Consolidated total liabilities						<u>5,586,584</u>

(b) Secondary reporting format – business segments

	Personal computer		Total US\$'000	Others US\$'000	Total US\$'000
	Desktop US\$'000	Notebook US\$'000			
Year ended March 31, 2009:					
Sales	<u>5,905,620</u>	<u>8,730,045</u>	<u>14,635,665</u>	<u>265,686</u>	<u>14,901,351</u>
Capital expenditure			<u>192,000</u>	<u>1,915</u>	<u>193,915</u>
At March 31, 2009					
Total segment assets			<u>3,459,441</u>	<u>93,312</u>	<u>3,552,753</u>
Year ended March 31, 2008:					
Sales	<u>6,698,677</u>	<u>9,422,297</u>	<u>16,120,974</u>	<u>230,529</u>	<u>16,351,503</u>
Capital expenditure			<u>278,334</u>	<u>5,709</u>	<u>284,043</u>
At March 31, 2008					
Total segment assets			<u>4,397,096</u>	<u>115,144</u>	<u>4,512,240</u>

**3 Other income – net**

	2009 US\$'000	2008 US\$'000
Dividend income from available-for-sale financial assets	1,053	-
(Loss)/gain on disposal of investments and available-for-sale financial assets	(124)	19,791
Impairment of investments	-	(2,530)
	<u>929</u>	<u>17,261</u>

**4 Finance costs**

	2009 US\$'000	2008 US\$'000
Interest on bank loans and overdrafts	22,310	11,500
Dividend and relevant finance costs on convertible preferred shares	14,115	18,700
Others	1,717	8,166
	<u>38,142</u>	<u>38,366</u>

## 5 Taxation

The amount of taxation in the consolidated income statement represents:

	2009 US\$'000	2008 US\$'000
Current taxation		
– Hong Kong profits tax	149	408
– Taxation outside Hong Kong	90,532	94,123
Deferred taxation	(52,237)	(46,918)
	<u>38,444</u>	<u>47,613</u>

## 6 Profit from discontinued operations

On March 31, 2008, the Group completed the disposal of its entire interests in its Greater China mobile handset operations. Accordingly, the comparative information for the corresponding period of last year is presented as discontinued operation in the financial statements.

## 7 Dividends

	2009 US\$'000	2008 US\$'000
Interim dividend of HK3.0 cents per ordinary share (2008: HK3.0 cents)	35,575	34,715
Proposed final dividend - Nil (2008: HK12.8 cents per ordinary share)	-	152,038
	<u>35,575</u>	<u>186,753</u>

The directors do not recommend a final dividend for the year ended March 31, 2009.

## 8 (Loss)/earnings per share

### (a) Basic

Basic loss/(earnings) per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Weighted average number of shares for the purpose of basic earnings per share	<u>8,851,779,460</u>	<u>8,781,101,650</u>
	US\$'000	US\$'000
(Loss)/profit attributable to shareholders of the Company		
– Continuing operations	(226,392)	464,343
– Discontinued operations	-	19,920
	<u>(226,392)</u>	<u>484,263</u>

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

For the year ended March 31, 2009, all dilutive potential ordinary shares were antidilutive as the Group incurred a loss for the year.

For the year ended March 31, 2008, adjustments for the dilutive potential ordinary shares are as follows:

- For the convertible preferred shares were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- For the share options and warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. 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 and warrants.
- For the long-term incentive awards, a calculation is done to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

	<b>2009</b>	2008
Weighted average number of ordinary shares in issue	<b>8,851,779,460</b>	8,781,101,650
Adjustments for assumed conversion of convertible preferred shares	-	857,246,554
Adjustments for share options, long-term incentive awards and warrants	-	294,887,296
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	<b>8,851,779,460</b>	<b>9,933,235,500</b>
	<hr/>	<hr/>
	<b>US\$'000</b>	US\$'000
(Loss)/profit from continuing operations attributable to shareholders of the Company	<b>(226,392)</b>	464,343
Interest expense on convertible preferred shares	-	18,700
	<hr/>	<hr/>
Profit from discontinued operations attributable to shareholders of the Company	<b>(226,392)</b>	483,043
	-	19,920
	<hr/>	<hr/>
	<b>(226,392)</b>	<b>502,963</b>
	<hr/>	<hr/>

## 9 Ageing analysis

- (a) Customers are generally granted credit term of 30 days. Ageing analysis of trade receivables of the Group at the balance sheet date is as follows:

	<b>2009</b> <i>US\$'000</i>	2008 <i>US\$'000</i>
0 – 30 days	<b>597,933</b>	788,126
31 – 60 days	<b>63,467</b>	32,240
61 – 90 days	<b>20,727</b>	21,729
Over 90 days	<b>76,015</b>	32,333
	<hr/>	<hr/>
Less: provision for impairment	<b>758,142</b> <b>(29,755)</b>	874,428 (13,885)
	<hr/>	<hr/>
Trade receivables – net	<b>728,387</b>	860,543
	<hr/> <hr/>	<hr/> <hr/>

- (b) Ageing analysis of trade payables of the Group at the balance sheet date is as follows:

	<b>2009</b> <i>US\$'000</i>	2008 <i>US\$'000</i>
0 – 30 days	<b>1,209,795</b>	1,618,188
31 – 60 days	<b>563,269</b>	466,068
61 – 90 days	<b>140,562</b>	176,094
Over 90 days	<b>77,660</b>	21,849
	<hr/>	<hr/>
	<b>1,991,286</b>	2,282,199
	<hr/> <hr/>	<hr/> <hr/>



## 10 Provisions, accruals and other payables

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

	<b>Warranty</b> <i>US\$'000</i>	<b>Restructuring</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
Year ended March 31, 2008			
At the beginning of the year	448,333	5,645	453,978
Exchange adjustment	-	1,227	1,227
Provisions made	665,912	50,820	716,732
Amounts utilized	(411,661)	(34,136)	(445,797)
Unused amounts reversed	-	(7,616)	(7,616)
Disposal of discontinued operations	(4,669)	(8,352)	(13,021)
	<u>697,915</u>	<u>7,588</u>	<u>705,503</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(209,071)</u>	<u>-</u>	<u>(209,071)</u>
At the end of the year	<u><u>488,844</u></u>	<u><u>7,588</u></u>	<u><u>496,432</u></u>
Year ended March 31, 2009			
At the beginning of the year	697,915	7,588	705,503
Exchange adjustment	(2,191)	(520)	(2,711)
Provisions made	404,564	108,041	512,605
Amounts utilized	(483,898)	(16,755)	(500,653)
Unused amounts reversed	(82,991)	(751)	(83,742)
	<u>533,399</u>	<u>97,603</u>	<u>631,002</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(170,008)</u>	<u>-</u>	<u>(170,008)</u>
At the end of the year	<u><u>363,391</u></u>	<u><u>97,603</u></u>	<u><u>460,994</u></u>

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

## 11 Share capital

	2009		2008	
	<i>Number of Shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>				
At the beginning and the end of the year				
Ordinary shares	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares	3,000,000	27,525	3,000,000	27,525
		<u>527,525</u>		<u>527,525</u>
	<i>Number of Shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the year	8,888,786,650	28,496	8,517,981,022	27,301
Conversion from Series A cumulative convertible preferred shares	-	-	350,459,078	1,130
Conversion from non-voting ordinary shares (Note 11(a))	375,282,756	1,203	-	-
Exercise of share options	24,948,000	80	90,436,550	290
Repurchase of shares (Note 11(b))	(77,628,000)	(249)	(70,090,000)	(225)
At the end of the year	<u>9,211,389,406</u>	<u>29,530</u>	<u>8,888,786,650</u>	<u>28,496</u>
Non-voting ordinary shares:				
At the beginning of the year	375,282,756	1,203	375,282,756	1,203
Conversion to voting ordinary shares (Note 11(a))	(375,282,756)	(1,203)	-	-
At the end of the year	<u>-</u>	<u>-</u>	<u>375,282,756</u>	<u>1,203</u>
Issued and fully paid ordinary shares	<u>9,211,389,406</u>	<u>29,530</u>	<u>9,264,069,406</u>	<u>29,699</u>
Issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning of the year	1,774,999	2,081	2,730,000	3,211
Conversion to voting ordinary shares	-	-	(955,001)	(1,130)
At the end of the year	<u>1,774,999</u>	<u>2,081</u>	<u>1,774,999</u>	<u>2,081</u>

(a) On May 15, 2008, all non-voting ordinary shares have been converted into 375,282,756 voting ordinary shares.

(b) For the year ended March 31, 2008, included in the 70,090,000 shares were 18,936,000 shares repurchased in March 2008 that were subsequently cancelled in April 2008.

## 12 Non-current liabilities

	2009 <i>US\$'000</i>	2008 <i>US\$'000</i>
Amount payable for marketing rights	-	5,417
Interest-bearing bank loans repayable within five years	<b>230,000</b>	465,000
Share-based compensation	-	6,430
Convertible preferred shares	<b>215,974</b>	211,181
Warranty provision	<b>170,008</b>	209,071
Retirement benefit obligations	<b>68,000</b>	85,490
Deferred revenue	<b>165,980</b>	88,701
Derivative financial liabilities	<b>7,382</b>	1,788
Other non-current liabilities	<b>33,864</b>	25,045
	<b>891,208</b>	1,098,123

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares in the Company for an aggregate cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share. The warrant will expire on May 17, 2010.

On November 2, 2007, 955,001 convertible preferred shares were converted into 350,459,078 voting ordinary shares.

## FINANCIAL REVIEW

The Group completed the disposal of its entire interests in the Greater China mobile handset operations on March 31, 2008. The analysis presented below covers the continuing operations of the Group for the year ended March 31, 2009.

### *Results*

For the year ended March 31, 2009, the Group achieved total sales of approximately US\$14,901 million. Loss attributable to shareholders for the year was approximately US\$226 million, representing a decrease of US\$691 million as compared to last year. Gross profit margin for the year was 11.7 percent down from 15.0 percent reported last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents totaled US\$1,863 million as at March 31, 2009. Basic loss per share and diluted loss per share of the Group's continuing operations were US2.56 cents and US2.56 cents, representing a decrease of US7.85 cents and US7.42 cents respectively as compared with last year.

The Group has adopted geographical segments as the primary reporting format. Geographical segments comprise Americas, EMEA (Europe, Middle East and Africa), Asia Pacific (excluding Greater China), and Greater China.

### *Other income – net*

Other income comprises mainly dividend income from available-for-sale financial assets. Other income reported last year represents gain on disposal of investments and available-for-sale financial assets of approximately US\$20 million, net of impairment charge of approximately US\$3 million.

### *Selling and distribution expenses*

Selling and distribution expenses for the year ended March 31, 2009 decreased by 15.0 percent as compared to last year. This is principally attributable to a US\$80 million decrease in amortization of intangible assets and US\$39 million decrease in contracted services.

### *Administrative expenses*

The Group also experienced an increase in administrative expenses for the year ended March 31, 2009 of 5.4 percent as compared to last year. The increase is caused by the increase in depreciation and amortization charges, contracted services; and set off with decrease in staff costs.

### *Research and development expenses*

The Group continues making investment towards its commitment to deliver the most innovative products in the industry. Research and development spending for the year ended March 31, 2009 decreased by 4.2 percent as compared to last year.

### *Other operating expenses - net*

The Group recorded net other operating expenses for the year ended March 31, 2009 of US\$166 million, an increase of 328.4 percent as compared to last year. Other operating expenses mainly comprise one-off items, including restructuring charge of US\$146 million (2008: US\$48 million), primarily associated with a resource redeployment plan to substantially reduce operational costs, eliminate duplications across organizations, and improve efficiencies by more closely aligning the Group's structure and growth strategies, impairment of server license of US\$19 million (2008: Nil), warranty costs not reimbursable by suppliers of US\$15 million (2008: Nil), and bad debt provision of US\$9 million (2008: Nil).

### **Capital Expenditure**

The Group incurred capital expenditures of US\$194 million (2008: US\$290 million) during the year ended March 31, 2009, mainly for the acquisition of plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

### **Liquidity and Financial Resources**

At March 31, 2009, total assets of the Group amounted to US\$6,304 million (2008: US\$7,200 million), which were financed by shareholders' funds of US\$1,311 million (2008: US\$1,613 million), minority interests of US\$177,000 (2008: US\$174,000), and non-current and current liabilities of US\$4,997 million (2008: US\$5,587 million). At March 31, 2009, the current ratio of the Group was 0.92 (2008: 1.05).

The Group has a solid financial position. At March 31, 2009, bank deposits, cash and cash equivalents totaled US\$1,863 million (2008: US\$2,191 million), of which 65.7 (2008: 63.9) percent was denominated in US dollars, 24.5 (2008: 20.4) percent in Renminbi, 2.8 (2008: 2.2) percent in Euros, 1.9 (2008: 2.9) percent in Japanese Yen, and 5.1 (2008: 10.6) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2009, 81.0 (2008: 72.1) percent of cash are bank deposits, and 19.0 (2008: 27.9) percent of cash are investments in liquid money market fund of investment grade.

Due to the unprecedented global economic challenges, the Group continued to incur a significant operating loss in the fourth quarter. The global resource redeployment plan announced in January also realized a significant restructuring charge. The substantial loss incurred in the fourth quarter triggered a breach of certain financial covenants in connection with the US\$400 million 5-year revolving and term loan facility with syndicated banks. The Group has obtained consent from the syndicated banks the waiver from strict compliance with those financial covenants and will enter into a revised loan agreement. At March 31, 2009, this facility was fully utilized and the facility will expire in March 2011.

The Group also has a 5-year fixed rate loan facility with a bank in China expiring in March 2011. At March 31, 2009, the outstanding loan balance was US\$65 million (2008: US\$100 million).

To secure more long-term funding for the Group in case the economy continues to stay weak, the Group has obtained a new US\$300 million 3-year term loan facility with a bank in China in March 2009. This facility was utilized to the extent of US\$200 million at March 31, 2009.

The Group has also arranged other short-term credit facilities. At March 31, 2009, the Group's total available credit facilities amounted to US\$4,210 million (2008: US\$2,628 million), of which US\$279 million (2008: US\$384 million) was in trade lines, US\$498 million (2008: US\$406 million) in short-term and revolving money market facilities and US\$3,433 million (2008: US\$1,838 million) in foreign exchange forward contracts. At March 31, 2009, the amounts drawn down were US\$91 million (2008: US\$150 million) in trade lines, US\$1,964 million (2008: US\$1,127 million) being used for the foreign exchange forward contracts; and US\$20 million (2008: US\$61 million) in short-term bank loans.

At March 31, 2009, the Group's outstanding bank loans represented the term loans of US\$665 million (2008: US\$500 million) and short-term bank loans of US\$20 million (2008: US\$61 million). When compared with total equity of US\$1,311 million (2008: US\$1,613 million), the Group's gearing ratio was 0.52 (2008: 0.35). The net cash position of the Group at March 31, 2009 is US\$1,178 million (2008: US\$1,630 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2009, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US\$1,964 million (2008: US\$1,127 million).

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

The Group issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the issue price of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. On November 2, 2007, 955,001 convertible preferred shares were converted into 350,459,078 voting ordinary shares. The fair value of the liability component and equity component of the convertible preferred shares, and warrants at March 31, 2009 amounted to approximately US\$216 million (2008: US\$211 million), US\$7 million (2008: US\$7 million) and US\$35 million (2008: US\$35 million) respectively. The warrants will expire on May 17, 2010.

### **Contingent Liabilities**

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

## Human Resources

At March 31, 2009, the Group had a total of 22,511 (2007/08: 23,111) employees.

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

## **BUSINESS REVIEW**

The impact of the global economic crisis in 2008 reached far and wide. It has significantly affected the worldwide PC market demand as many large enterprises delayed purchase decisions and reduced IT budgets. Even the growth of the China PC market has slowed down under the economic challenges. At the same time, the PC industry as a whole has shifted dramatically and rapidly to lower price points, imposing additional pressures on industry players.

During the 2008/09 fiscal year, the year-on-year growth of worldwide PC market shipments decelerated to approximately 4 percent, mainly supported by consumer and low-priced notebook segments. The China PC market and worldwide commercial PC segment in which Lenovo is heavily weighted showed significant slowdown in the second half of the fiscal year under the economic crisis. In addition, the Group could not enjoy the benefits of the growth in transaction space as it has not adequately addressed the worldwide transaction segment outside China, in particular the consumer market. Lenovo reported lower-than-market growth in its worldwide PC shipments which only increased by approximately 2 percent year-on-year. As a result, the Group's market share decreased slightly to 7.6 percent, ranking number four worldwide during the fiscal year.

The Group's financial performance in the second half of the 2008/09 fiscal year was significantly impacted by the widespread economic slowdown. Lenovo's overall sales for the fiscal year decreased 9 percent year-on-year to approximately US\$14,901 million, resulting from the slower PC shipment growth and a steeper-than-normal decline in average selling prices exacerbated by the weak economic backdrop. The Group's gross margin performance was further affected by the continued shift in the market to lower price points, aggressive pricing and currency fluctuations. The gross margin for the fiscal year (excluding one-off items) declined to 11.9 percent from 15.0 percent while gross profit (excluding one-off items) decreased 27 percent year-on-year to approximately US\$1,779 million.

In anticipation of continued deterioration in the global economic environment, Lenovo announced a global resource restructuring plan in January 2009 to reduce costs and enhance operational efficiency. About 2,500 employees were eliminated as a result of this action which is expected to realize annual savings of approximately US\$300 million on a run rate basis in the coming fiscal year. Despite Lenovo's efforts to control expenses during the 2008/09 fiscal year, the decline in sales and pressure on gross margin resulted in 95 percent year-on-year decline in the Group's profit before taxation (excluding the cost of restructuring actions and one-off charges) to approximately US\$29 million for the year. The Group reported a loss attributable to shareholders of approximately US\$226 million, after accounting for US\$146 million of restructuring costs and US\$71 million of one-off charges. This compared to a profit attributable to shareholders (including US\$20 million net profit from discontinued operations) of US\$484 million in the previous fiscal year.

## Performance of Geographies

The worldwide PC market showed year-on-year negative growth in the second half of the 2008/09 fiscal year, caused by the widespread economic slowdown. No country was immune in this PC market slowdown. Lenovo's performance in various geographies was also affected in varying degrees. Nevertheless, the Group continued to acquire commercial customers at a strong pace, resulting in an increase of its worldwide commercial market share to approximately 10.9 percent during the year.

**Greater China** – Accounted for approximately 43 percent of the Group's sales. Although the growth of China PC market was also negatively impacted, Lenovo achieved approximately 8 percent year-on-year growth in PC shipments as compared to the 4 percent growth of the overall market. Lenovo strengthened its number one position by gaining 0.9 percentage points in market share, accounting for approximately 28.8 percent of the market during the 2008/09 fiscal year.

**Americas** – Accounted for approximately 25 percent of the Group's sales. The PC market in the United States was sluggish and in particular the commercial segment was hard hit by the economic crisis. Although Lenovo's efforts to increase its presence in the transaction segment helped offset some of the impact of the reduction in commercial spending, the Group still reported a year-on-year decline of approximately 6 percent in PC unit shipments in the Americas during the 2008/09 fiscal year.

**Europe, Middle East and Africa (EMEA)** – Accounted for approximately 21 percent of the Group's sales. Lenovo enjoyed solid growth in Europe, Middle East and Africa (EMEA) up until the economic crisis hit in the summer of 2008. The extreme currency fluctuations during the year posted additional challenges to the Group in EMEA. Due to the significant contraction of desktop demand and Lenovo's limited participation in consumer and entry level PC segments in the geography, the Group reported a lower-than-market PC shipments growth of 6 percent year-on-year for the 2008/09 fiscal year.

**Asia Pacific (excluding Greater China)** – Accounted for approximately 11 percent of the Group's sales. The growth of the PC market in this geography slowed down significantly due to the negative growth of the Indian market in addition to the impact of the global economic crisis. Lenovo reported a year-on-year decline of approximately 14 percent in PC shipments for the 2008/09 fiscal year.

## Performance of Product Groups

Lenovo takes pride in its innovation leadership in the PC industry. During the 2008/09 fiscal year, the Group continued to lead the industry in introducing new key technologies and product platforms. More importantly, it successfully launched a number of models to address the growth in SMB and consumer markets.

**Notebook Computers** – Accounted for approximately 58 percent of the Group's sales. Notebook computers were the primary source of growth for the worldwide PC market in the 2008/09 fiscal year, mainly driven by consumer demand and the shift to lower price points. Lenovo's notebook business reported a 14 percent year-on-year increase in unit shipments. The Group's limited participation in the entry level segment and the consumer market outside of China impacted its shipment performance compared to the overall market, resulting in a year-on-year lower market share of approximately 7.2 percent.



**Desktop Computers** – Accounted for approximately 40 percent of the Group’s sales. During the 2008/09 fiscal year, the desktop computer market showed a decline in unit shipments due to decreased commercial spending and increased consumer demand for notebook computers. The Group reported a better-than-market performance in unit shipments which showed approximately a 7 percent year-on-year decline, resulting in an increase of market share to approximately 8.0 percent.

## **FUTURE PROSPECTS**

The economic crisis is expected to drive negative growth in the global economy in 2009. Against this backdrop, the commercial PC market will remain weak while consumer PC purchasing will also tighten as a result of a decline in discretionary spending in the short term. The worldwide PC industry is expected to see a year-on-year decline in unit shipments for the 2009/10 fiscal year according to industry analyst forecast. The continuous shift of product mix toward entry-level PCs will lead to faster decrease in average selling prices and exert greater pressure on industry players.

The Group expects the operating environment to remain very challenging in the 2009/10 fiscal year. Nevertheless, Lenovo has taken decisive actions to meet these challenges. It will continue to strive to realize its strategic aspiration of delivering profitable growth and gaining share through consistent performance, unmatched innovation, the capability to meet its customer commitments and a fast, disciplined winning culture. The Group believes its strategic priorities, recently realigned organization and emphasis on execution will enable it to regain momentum and fuel the growth that will deliver future success.

### **Strategic Priorities**

Lenovo’s strategy has not changed but evolved to take it to the next level. The simplified strategy facilitates execution which is crucial to success as we hone the art of turning the Group’s energy and resources into tangible results. With greater clarity and focus on accountability and efficiency, Lenovo’s strategic priorities are aimed at stabilizing the Group’s business and driving growth in critical market opportunities. During the 2009/10 fiscal year, Lenovo will strive to protect its core business in China and the worldwide commercial market. At the same time, the Group will attack the growth opportunities as presented in the worldwide transaction space and emerging markets.

### **Realignment of Organizational Structure**

To align the Group more closely with its strategic direction and market dynamics, Lenovo announced in March 2009 a new organizational structure that supports speed, efficiency and execution. The Group is now organized around its customer segments with the creation of two new business units – one focusing on customers in mature markets, and the other focusing on customers in emerging markets. This realignment enables Lenovo to better leverage synergies that exist among similar markets that may be separated geographically but share market dynamics that impact its customers, products and go-to-market approach. The goal is to create a faster, more streamlined organization that can adapt quickly to growth opportunities while more effectively focusing resources on the Group’s core business.

At the same time, the Group’s product organizations were also realigned to help reinforce its focus on innovation and better serve both commercial and consumer customers. The new

Think Product Group focuses primarily on commercial customers, the relationship business model and the premium end of the SMB transaction market. The new Idea Product Group focuses on consumer and SMB transaction business in emerging and mature markets, and entry-level products.

### **Building Success on Strengths**

The Group's dominant position in China's PC market and its ability to deliver profitable growth have been built on the fundamental strengths that lie in its dual business model, lean cost structure and innovation leadership. In the 2009/10 fiscal year, Lenovo will expand these strengths further to strive for execution excellence across its global operation.

### **A Winning Culture**

To achieve all its goals with execution excellence, Lenovo needs a truly integrated team that can transfer energy into results by keeping its commitments and achieving targets day in and day out. The Group has made good progress integrating its teams following the acquisition in 2005. Lenovo will continue to cultivate a fast, disciplined winning culture suitable for a PC company that needs to act fast and efficiently in the marketplace.

While it braces itself against the current economic challenges, Lenovo is confident that with the successful execution of strategic priorities based on its business strengths, Lenovo will emerge as a stronger player in the PC market.

### **PROPOSED DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended March 31, 2009 (2007/08: HK12.8 cents).

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

During the year, the Company purchased 77,628,000 ordinary shares of HK\$0.025 each in the capital of the Company at prices ranging from HK\$5.00 to HK\$5.99 per share on The Stock Exchange of Hong Kong Limited ("the Exchange").

<b>Month/Year</b>	<b>Number of shares repurchased</b>	<b>Highest price per share HK\$</b>	<b>Lowest price per share HK\$</b>	<b>Aggregate Consideration paid (excluding expenses) HK\$</b>
April 2008	29,228,000	5.58	5.00	154,574,380
May 2008	3,000,000	5.99	5.79	17,573,000
June 2008	42,400,000	5.96	5.20	231,088,920
July 2008	3,000,000	5.49	5.13	15,947,540

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

During the year, the trustee of the Long Term Incentive Program purchased 24,710,000 ordinary shares from the market for award to employees upon vesting. Details of the program

will be set out in the 2008/09 Annual Report of the Company.

On May 8, 2008, the Company received a written notice from IBM for the conversion of 375,282,756 ordinary non-voting shares and as a result of such conversion, the 375,282,756 ordinary non-voting shares were converted into same number of fully paid ordinary voting shares of the Company on May 15, 2008.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold, redeemed or converted any of the Company's listed securities during the above-mentioned period.

#### **REVIEW BY AUDIT COMMITTEE**

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

The Audit Committee of the Company has reviewed the annual results for the year ended March 31, 2009. It meets regularly with the management, the external auditors and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

#### **CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the year ended March 31, 2009, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Exchange, and where appropriate, met various recommended best practices in the CG Code, save for the deviations which are explained below.

##### **Code A.4.1**

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

##### **Code A.5.4**

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") prevailing before January 1, 2009. Revised Model Code complying with new requirements effective from January 1, 2009 was adopted by the Board on May 21, 2009. Notwithstanding this, the Board and relevant employees were informed of the new changes made in the Model Code and complied with the requirements of the new Model Code throughout the year.

Code C.3.3 (g)

The Audit Committee of the Company regularly discusses with the management the system of internal control and ensure an effective internal control system albeit that amendment of the terms of reference of Audit Committee were merely approved by the Board on May 21, 2009 to include new responsibility including the adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and training programmes and budget.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as disclosed in the respective sections of the 2008/09 Annual Report. Particularly, the Company published quarterly financial results and business review within 45 days after the end of the relevant period in addition to interim and annual results. Quarterly financial results enhanced the shareholders to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual accounts.

By order of the Board

**Liu Chuanzhi**

*Chairman*

Hong Kong, May 21, 2009

*As at the time of approval of this announcement, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Liu Chuanzhi, Mr. Zhu Linan, Ms. Ma Xuezheng, Mr. James G. Coulter, Mr. William O. Grabe and Mr. Justin T. Chang (alternate director to Mr. James G. Coulter); and the independent non-executive directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. John W. Barter III and Dr. Tian Suning.*