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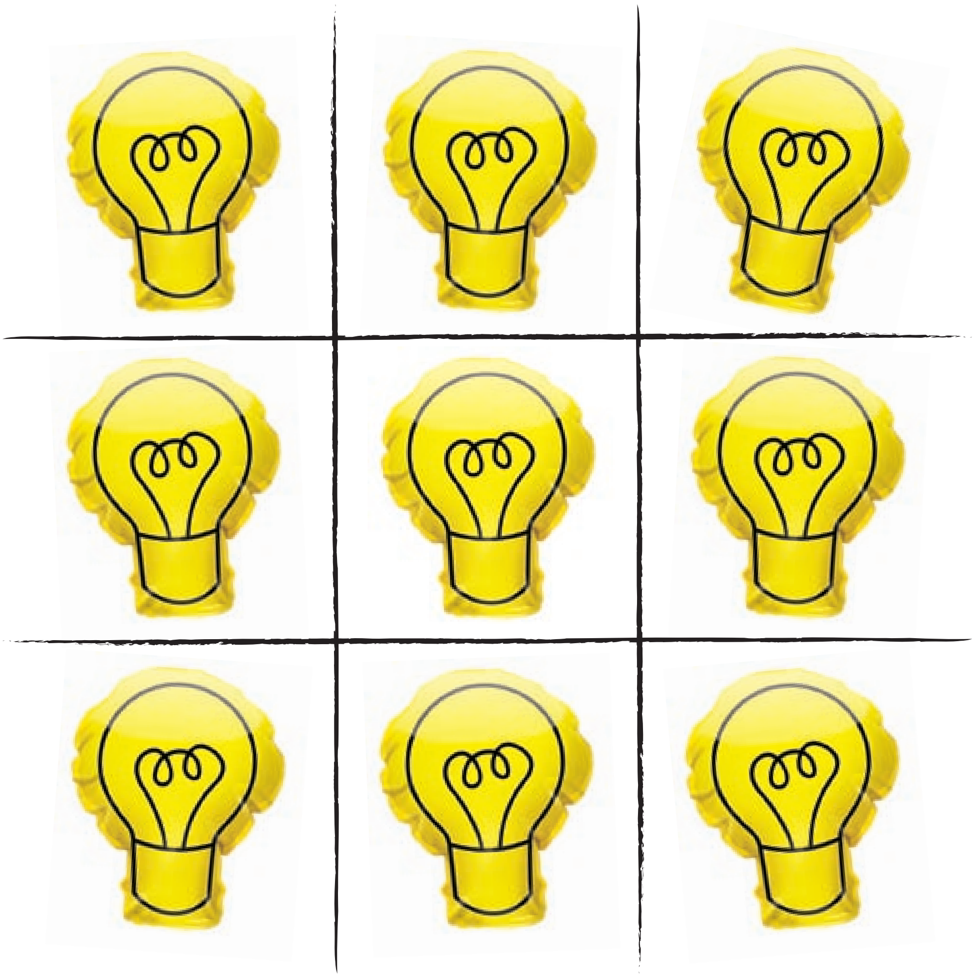


IDEAS EVERYWHERE

Lenovo Group Limited Annual Report 2007/08

lenovo™
NEW WORLD. NEW THINKING.™

CONTENTS

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) develops, manufactures and markets high-quality, secure and easy-to-use technology products and services worldwide and is dedicated to building the world's best-engineered personal computers. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, Lenovo's heritage in both emerging and developed markets has resulted in a New World Company business model where ideas, operations and resources are borderless and mobile. With four operational hubs in Beijing, Raleigh, Singapore and Paris, Lenovo has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina.

IN EVERY DIRECTION

On the subway. At the office. In the elevator. At the beach. In the park. In the car. On the bus. In the bedroom. In the boardroom. Where do you have your best ideas?

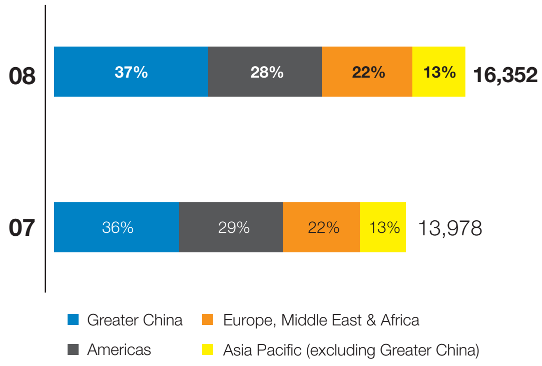
Wherever it may be, Lenovo believes in the power of ideas and helps you create, nurture, preserve, share and realize them. Lenovo strives to make the best engineered PCs. Innovative, reliable, beautifully-designed machines that are enjoyed and relied upon in the commercial and, increasingly, consumer marketplaces. Lenovo, itself, is the culmination of novel ideas and daring vision that have contributed to the formation and unremitting growth of a “new world” company.

FINANCIAL HIGHLIGHTS

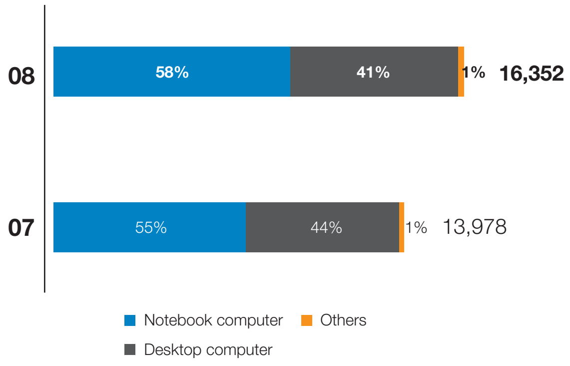
For the year ended March 31	**2008 US$ mn**	2007 US$ mn	Year-on-year Change
Continuing Operations[1]			
Sales	**16,352**	13,978	17.0%
Gross profit	**2,450**	1,887	29.8%
Gross profit margin (%)	**15.0**	13.5	1.5 pts
Operating expenses[2]	**1,921**	1,722	11.5%
Expense-to-revenue ratio (%)	**11.7**	12.3	(0.6 pts)
EBITDA[2]	**798**	375	113.0%
Pre-tax income	**513**	155	231.8%
Pre-tax income margin (%)	**3.1**	1.1	2.0 pts
Group Results			
Profit attributable to shareholders	**484**	161	200.5%
EPS – basic (US cents)	**5.51**	1.87	194.7%
EPS – diluted (US cents)	**5.06**	1.84	175.0%
Interim dividend per share (HK cents)	**3.0**	2.4	25.0%
Proposed final dividend per share (HK cents)	**12.8**	2.8	357.1%
Proposed total dividend per share (HK cents)	**15.8**	5.2	203.8%
Cash and Working Capital			
Bank deposits, cash and cash equivalents	**2,191**	1,064	106.0%
Total bank borrowings	**561**	118	375.4%
Net cash reserves	**1,630**	946	72.4%
Cash conversion cycle (days)	**(28)**	(27)	(1)

Notes:
[1] The disposal of mobile handset business was completed in March 2008. Continuing operations exclude mobile handset business.
[2] Excluding restructuring charges

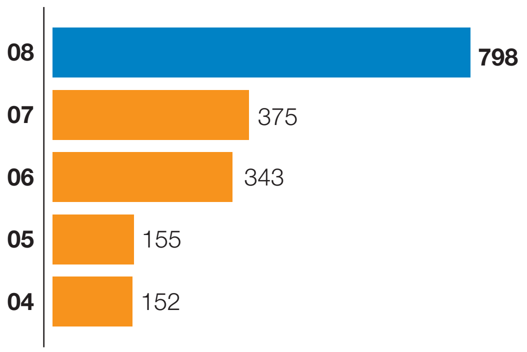
Sales Analysis by Geography – Continuing Operations[1]
for the year ended March 31 (US$ million)



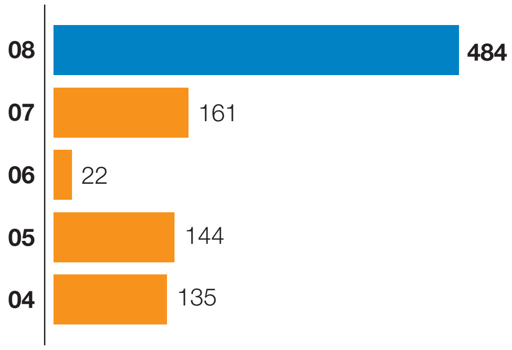
Sales Analysis by Product – Continuing Operations[1]
for the year ended March 31 (US$ million)



EBITDA – Continuing Operations[1, 2]
for the year ended March 31 (US$ million)



Profit Attributable to Shareholders
for the year ended March 31 (US$ million)

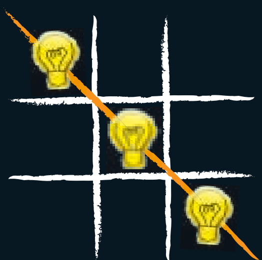


Notes:

1 The disposal of mobile handset business was completed in March 2008. Continuing operations exclude mobile handset business.

2 Excluding restructuring charges

INSPIRING IDEAS



Those who pursue extraordinary ideas and think beyond the possibilities of today will find a kindred spirit in Lenovo. Our goal is nothing less than to build the best engineered PCs in the world, so every one of our products has been thoughtfully designed to inspire through ease of use, reliability and broadened capabilities. Lenovo aims to offer a working platform that is second to none in facilitating brilliance.

"Lenovo will continue our focus on our PC business to achieve profitable growth at higher-than-industry levels as we take up a new position in the global PC market."

Lenovo has focused on implementing our well-defined strategies since we completed the acquisition of IBM's PC Division. By the 2007/08 fiscal year, Lenovo had achieved all the major targets set before the acquisition. We expanded from a US$3 billion company to a US$17 billion multi-national company. We returned the acquired business to profitability, with overall profit in the 2007/08 fiscal year triple that prior to the acquisition. We also formed a world-class international management team and saw increasing awareness of the Lenovo brand. As a result of these accomplishments – and more – it is clear that our acquisition of IBM's PC Division has proved to be a successful transaction. Lenovo's aspirations to expand our base of business through the acquisition, remove the ceiling on our growth, and generate enhanced returns for our shareholders are becoming a reality.

Lenovo continued to make a number of accomplishments under our defined strategies in the past fiscal year. On one hand, we successfully strengthened our existing business in China and the relationship business in other geographies. On the other hand, we also achieved breakthroughs in developing our transaction business in various geographies. In the past fiscal year, Lenovo generated higher-than-market growth in both PC shipments and sales, enabling the Group's business outside Greater China returned to profitability with good growth momentum. At the same time, Lenovo's relentless efforts to innovate strengthened the competitiveness of our products, with the launch of cutting-edge and well-received products such as the IdeaPad and ThinkPad X300. The completion of restructuring actions has allowed Lenovo to use our global resources more efficiently, boost the competitiveness of our desktop business and reduce end-to-end supply chain costs. Lenovo's brand-building efforts have also effectively increased the awareness of the Lenovo brand, allowing us to transition our products to the Lenovo/Think brand ahead of schedule.

Lenovo has embarked on its next stage of profitable growth upon the completion of the integration. Looking forward, we will strive to strengthen our existing core business – the China business and relationship business in other geographies – while seizing opportunities in the market to generate additional growth. Lenovo will focus its efforts in three areas: developing business in emerging markets; growing the transaction business which includes our consumer business; and expanding in the notebook computer market. In addition, Lenovo will continue to actively develop profitable new businesses, such as the high value-added peripherals, accessories and extended services.

The Board of Directors is satisfied with Lenovo's performance in the past year and is confident in our ability to execute our strategy. Lenovo builds its past and future success on choosing the right strategy and then executing that strategy effectively. Our successes in replicating the transaction model around the world and significantly improving the performance of our desktop business has given us great confidence in management's execution capability. Furthermore, we believe the great emphasis that Lenovo's international management team places on technology and business model innovation and worldsourcing will result in sustained improvement in Lenovo's competitiveness.

My expectation for Lenovo in the next few years is that we will continue our focus on our PC business to achieve profitable growth at higher-than-industry levels as we take up a new position in the global PC market. No matter how the market environment will change, Lenovo endeavors to realize our strategic objectives and to enhance competitiveness to bring sustainable long-term returns to investors. Last but not least, I would like to express my sincere thanks to our shareholders, my fellow board members, customers and employees for their continuous support of Lenovo over the years.

Yang Yuanqing

Yang Yuanqing
Chairman of the Board
Hong Kong, May 22, 2008

CEO'S REPORT

> **"Thanks to increased efficiencies, we have been able to significantly reduce our costs while maintaining product quality and availability."**

Last year, Lenovo set out three important and aggressive goals for the company: to make the world's best PCs, to offer customers an unrivaled ownership experience, and finally, to grow faster and more profitably than our industry as a whole. I am pleased to report we have made excellent progress in all three of these areas, despite the unsettled nature of the global economy.

- The successful introduction of the ThinkPad X300 notebook, the thinnest, lightest full-function machine we have ever created, along with the beautiful, consumer-friendly IdeaPad series, significantly increased Lenovo's leadership in innovation and customer appeal.
- Lenovo continues to rank at the top of industry surveys for customer service satisfaction, because we always strive to make our products more reliable, more secure and users more productive.
- Measured by both shipments and sales, we grew faster – in some geographies, appreciably faster – than industry average. We grew profits significantly, delivering positive results for our shareholders in the last fiscal year.

The Success of Worldsourcing

Lenovo's unique heritage has led directly to one of the strategic foundations of the company: our worldsourcing business model. Worldsourcing is a complete approach to doing business in a rapidly changing world. This demands a company distribute its management, operations, processes, and production in company-owned global "hubs" of excellence.

Our Commitment to Corporate Social Responsibility

From the environment to the needs of the developing world's population, it is both good citizenship and sound business practice for a global leader to play a significant role in meeting the challenges faced by all the world's citizens. Our intent is to adhere to the most stringent global standards and adopt the best practices wherever we do business, including emerging markets. Our "Hope Through Entrepreneurship" program invests in helping people around the world transform their lives and their communities by our support for organizations that encourage business development and social entrepreneurship.

Our environmental commitment is evident in our products, from the ThinkPad X300 – the first notebook to earn "Greenguard" certification – to the ThinkCentre M57/57p ECO desktop PCs, which are ENERGY STAR and EPEAT Gold-certified and use more than 10 percent post-consumer recycled plastics.

Our Commitment to Talent Management

Central to our success has been the passion, excitement and total commitment of Lenovo's more than 23,000 dedicated team members. Diversity, in an atmosphere of trust, autonomy and accountability, is an asset that provides fertile ground for innovation, productivity and personal growth.

Strategies for Continued Growth

Pursue Operational Excellence

Lenovo has been vigilant in streamlining and improving our global supply chain and logistics network. Thanks to increased efficiencies, we have been able to significantly reduce our costs while maintaining product quality and availability. In the coming year we will create even greater efficiencies in our manufacturing, supply chain and overall operations.

Enhance Customer Intimacy

We are dedicated to building the world's best PCs that delight our customers by both understanding and anticipating their every need. Our goal is to deliver a Lenovo PC ownership experience that goes beyond the expected to a new level we call customer intimacy.

Win in Priority Businesses

Our presence in every major market in the world has given Lenovo insights into what will be the prime growth markets for us in the coming year. As a result, we will focus heavily on the consumer PC, workstations and servers, and emerging markets.

Gain Scale Profitably

Increasing our scale compared to competitors is vital to generating more efficiency and managing profitability. Lenovo will use its product leadership, strong presence in China and large enterprise markets, and dual selling models to grow in both core and adjacent markets.

Build the Brand

Continuing to build the Lenovo brand has been a top priority for the company. Our sponsorship of the Summer Olympic Games in Beijing, along with other world-class sports partnerships, will ensure that an ever-growing number of customers associate the Lenovo brand with the world's best PCs and unrivaled ownership experience.

I am proud of the progress made in the past fiscal year, thanks to the extraordinary work of our employees around the world. It is an exciting time at our company as we build a truly global brand.

William Amelio
President and Chief Executive Officer
Hong Kong, May 22, 2008

LENOVO MANAGEMENT TEAM

1 **Yang Yuanqing**
Chairman of the Board

2 **William Amelio**
President and
Chief Executive Officer

3 **Wong Wai Ming**
Senior Vice President and
Chief Financial Officer

4 **Scott DiValerio**
Senior Vice President and
President, Americas

5 **David Miller**
Senior Vice President and
President, Asia Pacific

6 **Chen Shaopeng**
Senior Vice President and
President, Greater China

7 **Deepak Advani**
Senior Vice President and
Chief Marketing Officer

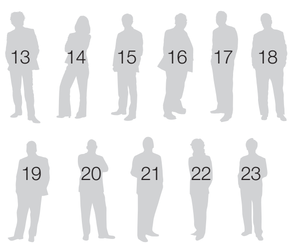
8 **Cuong Viet Do**
Senior Vice President and
Chief Strategy Officer

9 **He Zhiqiang**
Senior Vice President and
Chief Technology Officer

10 **Rory Read**
Senior Vice President,
Global Operations

11 **Kenneth DiPietro**
Senior Vice President,
Human Resources

12 **Robert Cones**
Controller and
Senior Vice President, Finance



13 **Milko van Duijl**
Senior Vice President and President, EMEA

14 **Fran O'Sullivan**
Senior Vice President, Product Group

15 **Liu Jun**
Senior Vice President and President, Consumer Business Group

16 **Peter Hortensius**
Senior Vice President, Notebook Business Unit

17 **Christopher Askew**
Senior Vice President, Worldwide Services

18 **Steve Petracca**
Senior Vice President, Mergers and Acquisitions

19 **David Schmoock**
Senior Vice President and Chief Information Officer

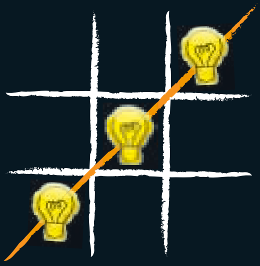
20 **Gerry Smith**
Senior Vice President, Global Supply Chain

21 **Michael O'Neill**
Senior Vice President and General Counsel

22 **Wang Xiaoyan**
Senior Vice President, Information Services

23 **Qiao Song**
Senior Vice President and Chief Procurement Officer

SHARING IDEAS



We understand that communicating great ideas is just as important as having them. Lenovo's spirit of innovation ensures that all our products feature cutting edge technology that helps you connect with others easier, faster and more securely. In addition, our development in wireless capabilities means greater flexibility in how you choose to work. Sharing your ideas has never been easier.

MANAGEMENT'S DISCUSSION & ANALYSIS

BUSINESS REVIEW

Lenovo made significant progress against its goal of growing faster and more profitably than the industry during the 2007/08 fiscal year. Lenovo's financial performance was outstanding thanks to solid execution of its key initiatives, including rolling out the transaction model in additional geographies, improving global supply chain, enhancing competitiveness in desktop computers, and building a global brand.

During the fiscal year, Lenovo achieved faster than industry growth in both PC shipments and sales, with solid performance in both the China PC market and the large enterprise business outside China. It also made significant inroads into emerging markets as well as the small- and medium-sized business (SMB) and consumer markets, through the roll-out of the transaction business model outside China. For the fiscal year ended March 31, 2008, Lenovo increased its worldwide PC shipments by approximately 22 percent, healthily outpacing the industry average growth of 16 percent.

In order to allow the Group to better focus on its core PC business, Lenovo completed the sale of its entire interest in its mobile handset business in March 2008. The Group recorded approximately US$65 million as a pre-tax gain on disposal. Lenovo's continuing business (excluding mobile handset business) improved strongly in its financial performance. During the 2007/08 fiscal year, Lenovo's sales grew 17 percent year-on-year to approximately US$16,352 million. The gross profit margin for the year improved to 15.0 percent from 13.5 percent. The Group's profit before taxation (excluding the cost of strategic restructuring actions) for its continuing operations surged 237 percent to approximately US$560 million with pre-tax operating margin improved to 3.3 percent from 1.2 percent in the previous year. Including the net profit of US$20 million from discontinued operations, the Group's profit attributable to shareholders increased significantly by 201 percent year-on-year to US$484 million this year.

Performance of Geographies

Lenovo's improvement in market competitiveness positioned it to take advantage of a rising PC market and deliver a solid year across all geographies. All of the Group's geographies posted double-digit PC shipment increases and were profitable for the year. During the year ended March 31, 2008, Lenovo gained 0.4 percentage points in market share, accounting for approximately 7.6 percent of the overall market, making it the number four company in the worldwide PC market.

Greater China: Lenovo Greater China continued to be the largest contributor to the Group's overall sales, accounting for approximately 37 percent in the 2007/08 fiscal year. The PC market in China enjoyed another year of robust growth on the back of continuous strong economic growth in the country, which increased disposable income, as well as increased rates of notebook adoption. Building on the market traction of its well-established dual business model in China, the success of Olympic marketing, and continuous improvement in market coverage, the Group recorded approximately 27 percent growth in PC unit shipments during the fiscal year. Lenovo increased its share of the China market to 28 percent, leading the world's second largest PC market for 11 consecutive years.

Lenovo is sponsoring Olympic athletes from around the world who are training to compete in the 2008 Olympic Games in Beijing.

Lenovo's continuous efforts to enhance coverage of SMB and consumer segments enabled it to further expand its lead in China. During the 2007/08 fiscal year, Lenovo further expanded its retail channel coverage and developed its network of local retail stores to cover over 2,000 cities. The Group also boosted its notebook sales by growing the number of notebook category stores and focusing on the SMB market.

During the 2007/08 fiscal year, Lenovo also enhanced its position in the large enterprise segment to complement its established strengths in the public sector. Through better use of its business management system for relationship business, the Group improved customer account development and was able to expand its share of the large enterprise segment, in particular the insurance and banking sector.

Americas: During the 2007/08 fiscal year, Lenovo delivered solid performance improvement in the Americas, which accounted for approximately 28 percent of overall sales. PC shipments increased 13 percent year-on-year, in line with the market. Lenovo's sales in the Americas grew 9 percent driven by strong growth in the transaction business and in Latin America. With the higher growth in sales and improved operational efficiencies, the geography improved its profitability during the 2007/08 fiscal year, contributing to the Group's profitable growth.

Despite weak market demand in the large enterprise segment, along with aggressive competition during the year, Lenovo was able to improve its market position thanks to the well-established leadership of Think brand products as well as strengthened sales resources and execution. The Group's increased efforts in mid-market business development activities also delivered good results in both unit shipments and profitability.

In its second year of implementing the transaction model in the Americas, Lenovo achieved profitable growth with strong unit shipment. This was attributable to the Group's success in building up a mixed channel structure, including channel partners, retail and Teleweb. The creation of Club Lenovo, a new loyalty rewards program for SMB resellers in the United States and Canada, further demonstrated the Group's commitment to the SMB market and resulted in significant progress in penetrating the segment in North America.

IdeaPad Y710 consumer notebook

Europe, Middle East and Africa (EMEA): During the 2007/08 fiscal year, Lenovo delivered strong growth and profits in the Europe, Middle East and Africa (EMEA), benefiting from the robust PC market and the Group's strong performance in the commercial segment of the market. EMEA expanded the roll-out of the transaction model, launched mid-market and consumer businesses, all while maintaining steady progress in large enterprise business. Lenovo gained market share in EMEA by posting 23 percent increase in PC shipments for the fiscal year. EMEA accounted for 22 percent of the Group's overall sales with a 18 percent year-on-year increase.

The growth in EMEA was attributable to improved sales to large enterprises and growth in the mid-market segment through a strengthening of the Group's sales resources. Lenovo increased its new account acquisition rate and options and service attach rates, delivering improved customer satisfaction and profitability.

IdeaCentre Mini Q consumer desktop

During the year, the continuous success in the deployment and expanded roll-out of the transaction business model in more countries drove significant growth in PC shipments for the geography. Lenovo capitalized market potential by further penetrating emerging markets in Eastern Europe and expanding its partner network. In the last quarter of the fiscal year, the Group launched consumer PCs in France and South Africa to better address market demand.

Asia Pacific (excluding Greater China): The PC market in Asia Pacific (excluding Greater China) continued its strong growth, mainly driven by India, Australia, New Zealand and the ASEAN countries. Lenovo's PC shipments in this geography increased 18 percent year-on-year, outpacing the market growth of 12 percent in Asia Pacific (excluding Greater China). Sales increased 15 percent, accounting for 13 percent of the Group's overall sales during the 2007/08 fiscal year.

Lenovo progressed steadily in its relationship business in the geography by enhancing sales force coverage of the large enterprise and mid-market segments. The changes that Lenovo introduced in its Japan operation also have started to pay off, leading to improvement in both shipments and profitability in the country during the 2007/08 fiscal year.

The Group continued to see strong momentum of its transaction business in Asia Pacific (excluding Greater China). Lenovo boosted unit shipment by expanding retail store networks and strengthening its product lineup for both the SMB and consumer segments. The launch of IdeaPad and IdeaCentre products in early 2008 added further excitement and completed the full-range of offerings in India, Australia, New Zealand and the ASEAN countries. The Group also seized the opportunity to invest appropriately in this fast growing geography during the 2007/08 fiscal year in order to capture even more growth. Lenovo outpaced the market growth in India and gained further share with shipments increasing approximately 28 percent year-on-year through its successful penetration into both commercial and consumer segments.

Performance of Product Groups

Lenovo leads the PC industry in product innovation. The 2007/08 fiscal year was a fruitful year for its product groups, which launched a number of award-winning products for both commercial and consumer segments. The Group continued to leverage its innovation leadership, which in turn drove Lenovo market share gain in both worldwide notebook and desktop markets for the fiscal year.

Notebook Computers: The increased adoption of notebook computers worldwide continues to be the primary driving force behind the growth of the worldwide PC market and Lenovo is uniquely positioned to capitalize on this trend. During the 2007/08 fiscal year, notebook computers accounted for 58 percent of the Group's total sales. Expanding the portfolio of Lenovo and ThinkPad notebooks and further leveraging its Lenovo 3000 series to better address the SMB segment has resulted in Lenovo increasing its worldwide shipment of notebook computers by approximately 36 percent during the 2007/08 fiscal year. This growth has resulted in a higher market share of 7.8 percent during the same period.

The launch of the ThinkPad X300 notebook in early 2008 marked a major milestone for Lenovo and was one of the most celebrated new products in the market. Designed for today's most demanding road warriors, ThinkPad X300 is the thinnest and lightest full-function notebook in its class, measuring less than three-fourths of an inch at its thinnest point and weighing as little as 2.9 pounds. It also combines a number of leading technologies, such as solid-state drive storage, LED backlit display, ultra-long battery life, enhanced wireless connectivity, and features environmentally-conscious technologies, such as low-voltage processors. The ThinkPad X300 is also Lenovo's first notebook to be certified EPEAT Gold. In its first month of launch, ThinkPad X300 swept about 20 product awards from leading publications.

ThinkPad X300 product launch

ThinkPad X300 is the thinnest and lightest full-function notebook in its class, measuring less than three-fourths of an inch at its thinnest point and weighing as little as 2.9 pounds.

Lenovo continues to lead China's notebook market and accounted for approximately 31 percent of the market with its tailored features for various customer segments. During the 2007/08 fiscal year, the Group further capitalized on its position as an Olympic worldwide sponsor by launching Tianyi F21, the "Cloud of Promise"-themed, and Tianyi F41 "Snow Mountain" series notebook computers. Like the "Cloud of Promise" Olympic Torch on which the design is based, Tianyi F21 notebooks are characterized by striking swirls of regal red against a pure silver base color, a contrast representative of the traditional Chinese values of balance and harmony.

During the fiscal year, ThinkPad continued to demonstrate leadership in the notebook category through a number of highly successful product launches. Lenovo introduced its strongest, coolest and quietest ever ThinkPad lineup, based on Intel® Centrino® Pro processor platform, with great success. Selected models are equipped with ThinkPad's exclusive Top Cover Roll Cage for excellent durability, improved cooling systems, enhanced wireless connectivity with Ultra Connect II and longer battery life through the Battery Stretch control option. The ThinkPad T61 proved to be the best-selling model and won more than 40 accolades from the most respected publications in the world during the year.

At the Consumer Electronics Show 2008, Lenovo's new consumer notebook line made its debut with remarkable results. The IdeaPad Y510, Y710 and U110, powered by Intel® Centrino® Pro processor technology, combine cutting-edge and easy-to-use technologies such as facial recognition, Dolby® Home Theatre surround sound and dedicated gaming controls. They also make a bold design statement with frameless screens, touch-sensitive control surfaces and unique textures. The 11-inch IdeaPad U110 won three "Best of Show" awards and earned very positive product reviews.

Tianyi F21 – The Cloud of Promise

Desktop Computers: Desktop computers accounted for approximately 41 percent of Lenovo's total sales during the 2007/08 fiscal year. By consolidating desktop product platforms to reduce complexity and strengthen cost efficiency, Lenovo's desktop business realized significantly improved competitiveness and profitability in the worldwide market. The Group's desktop computer shipments increased 13 percent year-on-year while the overall market grew by just 4 percent. Lenovo increased its share of the worldwide desktop computer market to 7.7 percent and continued to command the number one position in China with 27 percent share for the year ended March 31, 2008.

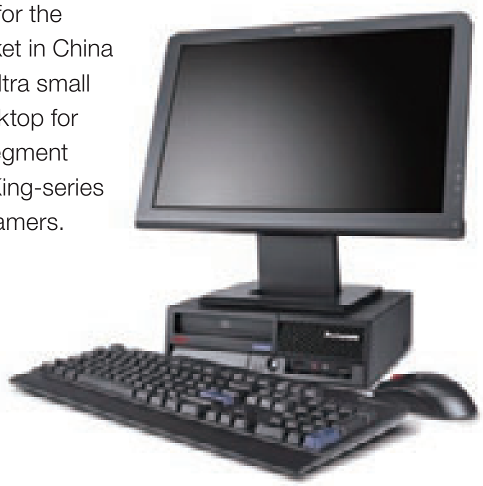
The better performance during the 2007/08 fiscal year was attributable to Lenovo's continuous efforts to drive operational efficiencies and roll out competitive desktop computer products. Lenovo streamlined its product launch process and simplified its product line to further reduce operational complexity. With these efforts, Lenovo was able to further reduce the number of machine models which, in turn, helped reduce cost and enhance serviceability, leading to greater customer satisfaction.

Lenovo's desktop computers continued to show strengths in both commercial and consumer segments by accurately addressing customer needs. In view of the increasing demand for smaller, quieter and more environmentally responsible desktop computers, Lenovo launched the ultra-small ThinkCentre A61e which uses approximately half the power of a conventional desktop. ThinkCentre A61e is Lenovo's first EPEAT Gold-rated desktop computer, incorporating up to 90 percent reusable or recyclable materials, as well as 90 percent recyclable packaging, and it can be powered by an optional solar panel.

To better address the specific needs of various corporate customers, Lenovo introduced in early 2008 ThinkCentre M57e, a high-performance and high-value desktop PC for large businesses, and ThinkCentre A57, a rock-solid desktop designed for the SMB market. During the fiscal year, the Group also launched two space-saving, secure, manageable and environmentally responsible desktops, the ThinkCentre M57p and M57 Eco Ultra Small Form Factor. Additionally, ThinkCentre M55e was awarded the "Best Desktop of 2007" by *PC Magazine*. Lenovo made its official global consumer market entry with the launch of the IdeaCentre desktop line in early 2008. The IdeaCentre K200/210, Q200 and Q800 include cutting-edge features such as system recovery with one key, facial recognition and antibacterial keyboards.

Fengxing King Series for computer gamers

In China, Lenovo strengthened its desktop offerings during the fiscal year to better serve its various customer segments. It launched Kaitian X-series to address the needs of vertical markets for an ultra small form factor desktop and focused on the Yangtian series for SMB customers. The Group refreshed its product lineup for the consumer market in China with Tianjiao i ultra small form factor desktop for the high-end segment and Fengxing King-series for computer gamers.



ThinkCentre 61e
small form factor desktop

FINANCIAL REVIEW

The Group completed the disposal of its entire direct and indirect interest in the Greater China mobile handset operations in March 2008. Accordingly, the results of the Group's Greater China mobile handset operations are presented as discontinued operations in the financial statements. The Group's continuing operations (excluding mobile handset business) improved strongly in its financial performance for the year ended March 31, 2008.

For the year ended March 31	**2008 US$'000**	2007 US$'000
Continuing operations		
Sales	**16,351,503**	13,978,309
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs (EBITDAR)	**798,089**	374,750
Profit attributable to shareholders	**464,343**	128,354
Earnings per share (US cents)		
– Basic	**5.29**	1.49
– Diluted	**4.86**	1.47
Discontinued operations		
Sales	**436,369**	611,895
(Loss)/profit of discontinued operations	**(38,303)**	32,784
Profit on disposal of discontinued operations	**58,223**	–
Dividend per ordinary share (HK cents)		
– Interim dividend	**3.0**	2.4
– Proposed final dividend	**12.8**	2.8

Continuing Operations

Results

For the year ended March 31, 2008, the Group achieved total sales of approximately US$16,352 million representing a 17.0 percent year-on-year growth driven across all geographies. Profit attributable to shareholders for the year was approximately US$464 million, representing an increase of US$336 million as compared to last year. Gross profit margin for the year was 15.0 percent up from 13.5 percent reported last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US$1,128 million as compared to March 31, 2007. Basic earnings per share and diluted earnings per share were US5.29 cents and US4.86 cents, representing an increase of US3.80 cents and US3.39 cents, respectively, as compared with last year.

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

For the year ended March 31	**2008** Sales US$'000	**2008** Segment operating results US$'000	2007 Sales US$'000	2007 Segment operating results US$'000
Americas	**4,506,451**	**88,915**	4,119,481	(27,538)
Europe, Middle East and Africa	**3,606,048**	**122,549**	3,056,723	25,856
Asia Pacific (excluding Greater China)	**2,113,250**	**(2,701)**	1,833,243	(1,278)
Greater China	**6,125,754**	**426,248**	4,968,862	294,150
Corporate or unallocated		**(153,228)**		(137,891)
	16,351,503	**481,783**	13,978,309	153,299
Other income – net		**17,261**		8,187
Finance income		**52,048**		26,329
Finance costs		**(38,366)**		(35,133)
Share of profits of associated companies		**124**		1,869
Profit before taxation		**512,850**		154,551
Taxation		**(47,613)**		(26,197)
Profit for the year		**465,237**		128,354

Note:
Segment operating profit/(loss) presented above include the impact of restructuring costs of US$47,640,000 (2007: US$11,794,000). The segment operating profit/(loss) before restructuring costs are: Americas US$105,399,000 (2007: (US$29,270,000)); Europe, Middle East and Africa US$137,406,000 (2007: US$20,633,000); Asia Pacific (excluding Greater China) US$12,387,000 (2007: US$ 5,403,000); Greater China US$427,459,000 (2007: US$297,240,000); and corporate or unallocated (US$153,228,000) (2007: (US$128,913,000)) respectively.

Other Income – net
The sale of available-for-sale financial assets during the year generated income of approximately US$20 million (2007: US$17 million). The Group performs reviews for the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses of approximately US$3 million (2007: US$9 million) were recognized for the year in connection with certain investments.

Selling and Distribution Expenses
In addition to the Olympics, the Group has been successful in leveraging its alliance with prominent international sports teams to boost its brand awareness through advertising campaigns and sponsorship activities. Selling and distribution expenses for the year ended March 31, 2008 increased by 6.8 percent as compared to last year. This is principally attributable to a US$31 million accelerated amortization for discontinued use of the IBM logo, as a result of broader brand awareness. The Group also experienced increased staff costs related to the Group's salary increment plan, performance bonuses, and commissions.

Administrative Expenses
The Group also experienced an increase in administrative expenses for the year ended March 31, 2008 of 22.1 percent as compared to last year. The increase is driven by staff costs.

Research and Development Expenses
Research and development spending for the year ended March 31, 2008 increased by 17.1 percent as compared to last year. This is a ref ection of the continued investment the Group is making towards its commitment to deliver the most innovative products in the industry.

Other Operating Expenses – net
The net other operating expenses for the year ended March 31, 2008 increased by US$23 million as compared to last year. This was driven by the costs associated with restructuring actions taken to streamline processes, consolidate Lenovo's expertise across the globe, and increase global operational efficiency. Restructuring costs incurred during the year under review amounted to US$48 million (2007: US$12 million).

Major Expense Items

For the year ended March 31	**2008 US$'000**	2007 US$'000
Amortization of intangible assets	**127,313**	104,837
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**88,025**	67,819
Employee benefit costs	**1,194,196**	904,251
Rental expenses under operating leases	**34,703**	33,393
Restructuring costs (net of reversal of unused provision)	**47,640**	11,794
– amounts included in employee benefit costs	***44,070***	*(3,156)*

Discontinued Operations

The Group completed the disposal of its mobile handset business on March 31, 2008, and the results from discontinued operations for the year represent a full year results of the mobile handset business. Due to intensified market competition, the mobile handset business reported total sales of approximately US$436 million representing a 28.7 percent year-on-year drop, and a loss for the year of US$38 million (2007: profit of US$33 million). Gross profit margin for the year was 16.6 percent down from 24.5 percent reported last year.

The Group recorded a pre-tax gain on disposal of approximately US$65 million as a result of the divestment of the mobile handset business.

Capital Expenditure

The Group incurred capital expenditures of US$290 million (2007: US$243 million) during the year ended March 31, 2008, mainly for the acquisition of property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At March 31, 2008, total assets of the Group amounted to US$7,200 million (2007: US$5,451 million), which were financed by shareholders' funds of US$1,613 million (2007: US$1,134 million), minority interests of US$174,000 (2007: US$744,000), and non-current and current liabilities of US$5,587 million (2007: US$4,317 million). At March 31, 2008, the current ratio of the Group was 1.05 (2007: 0.87).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At March 31, 2008, bank deposits, cash and cash equivalents totaled US$2,191 million (2007: US$1,064 million), of which 63.9 (2007: 59.1) percent was denominated in US dollars, 20.4 (2007: 20.3) percent in Renminbi, 2.2 (2007: 4.6) percent in Euros, 2.9 (2007: 3.9) percent in Japanese Yen, and 10.6 (2007: 12.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At March 31, 2008, 72.1 (2007: 65.8) percent of cash are bank deposits, and 27.9 (2007: 34.2) percent of cash are investments in liquid money market fund of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At March 31, 2008, the Group had a US$400 million (2007: US$400 million) 5-Year Revolving and Term Loan Facility with syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum; and a US$100 million (2007: US$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in the Chinese Mainland. These facilities were utilized to the extent of US$500 million (2007: US$100 million) at March 31, 2008.

The Group has also arranged other short-term credit facilities. At March 31, 2008, the Group's total available credit facilities amounted to US$2,628 million (2007: US$2,502 million), of which US$384 million (2007: US$476 million) was in trade lines, US$406 million (2007: US$291 million) in short-term and revolving money market facilities and US$1,838 million (2007: US$1,735 million) in forward foreign exchange contracts. At March 31, 2008, the amount drawn down was US$150 million (2007: US$104 million) in trade lines, US$1,127 million (2007: US$896 million) being used for the currency forward contracts and US$61 million (2007: US$18 million) in short-term bank loans.

At March 31, 2008, the Group's outstanding bank loan represented the term loan of US$500 million (2007: US$100 million) and short-term bank loans of US$61 million (2007: US$18 million). When compared with total equity of US$1,613 million (2007: US$1,134 million), the Group's gearing ratio was 0.35 (2007: 0.10). The net cash position of the Group at March 31, 2008 is US$1,630 million (2007: US$946 million).

	2008 **US$ million**	2007 US$ million
Bank deposits and cash and cash equivalents	**2,191**	1,064
Less: total borrowings	**(561)**	(118)
	1,630	946

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2008, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US$1,127 million (2007: US$896 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, 2008 amounted to approximately US$211 million (2007: US$318 million), US$7 million (2007: US$11 million) and US$35 million (2007: 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, 2008, the Group had a total of approximately 23,111 (2007: 25,100) employees, 16,791 (2007: 19,300) of whom were employed in the Chinese Mainland, 1,970 (2007: 2,000) in the U.S. and 4,350 (2007: 3,800) in other countries.

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

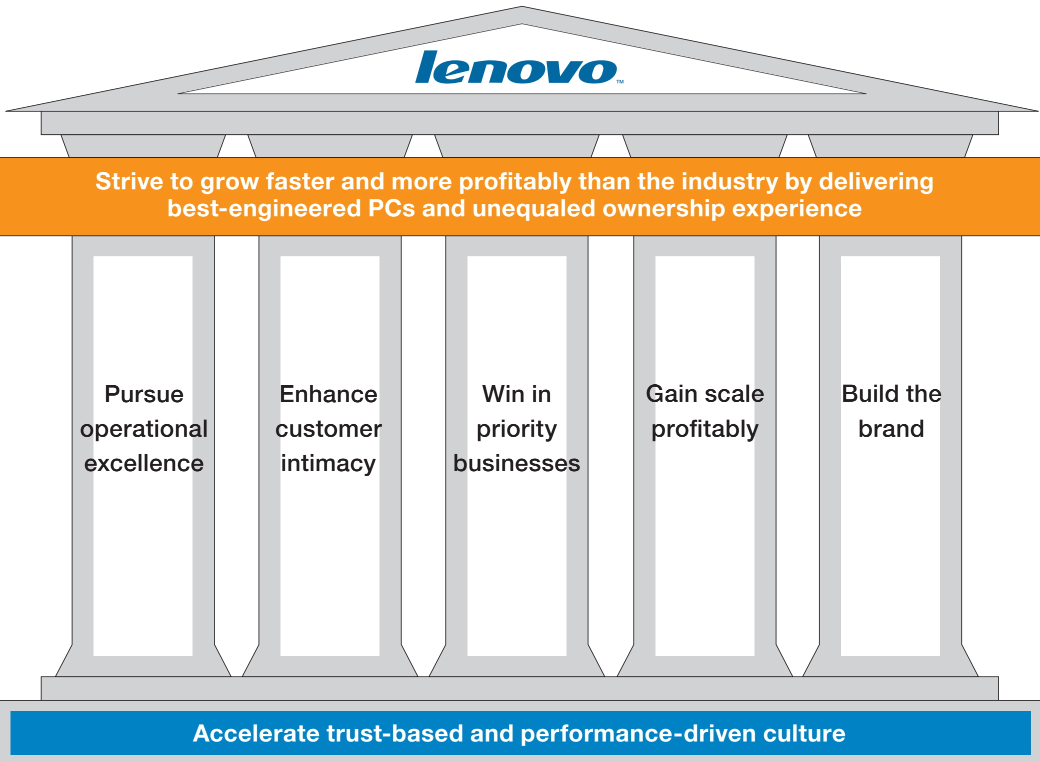
Lenovo's consistent focus on and solid implementation of its strategic initiatives over the past two years has dramatically improved its market and financial performance during the 2007/08 fiscal year. Lenovo has embedded these initiatives and their key performance indicators (KPIs) into the fabric of how it manages the company day-to-day. The Group continues to make significant progress achieving its goal of growing faster and more profitably than the industry by providing best-engineered PCs and an unequaled ownership experience for its customers.

Over this same time frame, Lenovo and the market environment have also changed. The Group launched a number of new businesses and placed greater priority on emerging markets as areas where it can win, while the market continues to consolidate with a smaller number of key global players vying for leadership in the global PC industry.

Building upon its past successes and focusing on delivering profitable growth, Lenovo is rearticulating its commitment to five strategic pillars: pursuing operational excellence, enhancing customer intimacy, winning in priority businesses, gaining scale profitably and building the brand. At the same time, Lenovo continue to build a trust-based and performance-driven culture that will enable it to drive future success under these strategic pillars.

This is not a changing of the Group's strategic priorities, but rather a refinement, that ensures their relevance as the Group and the market environment change. Many of the KPIs and initiatives that have delivered results over the past year will be maintained and subsumed under the "Pursue Operational Excellence," "Gain Scale Profitably," and "Build the Brand" pillars. "Enhance Customer Intimacy" and "Win in Priority Businesses" are new focus areas that build upon and ref ect recent efforts while ensuring Lenovo remains focused on the future needs of its customers.

The Five Pillars of Lenovo's Strategy



Lenovo Expanding its Global Manufacturing Footprint

* *Expected to be operational in FY2008/09*

Pursue Operational Excellence

Driving operational excellence is an indispensable part of Lenovo's profitable growth strategy. Over the past two years, the Group focused on improving efficiency in its global supply chain and realized significant improvements through relentless focus on improving various management processes and implementing efficiency enhancement projects. As a result of streamlining the global supply organization including Lenovo's logistics network, it further improved its notebook and desktop serviceability by 10 percent and reduced end-to-end supply chain cost per box by 17 percent year-on-year in the 2007/08 fiscal year.

In the 2008/09 fiscal year, Lenovo will continue its focus on key areas to create additional efficiency. First, Lenovo will complete the expansion of its global manufacturing footprint and operate its own facilities closer to its customer base in key geographic regions. Second, Lenovo will expand the reach and impact of the Lean Six Sigma application in the global supply chain and across the company. Third, Lenovo will continue to improve its logistics network, forecast accuracy, product transition process, and materials management processes to drive Lenovo toward best-in-class worldwide.

Besides driving efficiency in its existing operation, Lenovo will also ensure prudent scaling of expenses as it expands. In addition, it has put in place a business management system that will help ensure its geographies and business units invest appropriately to grow the Group's core business and drive growth in its priority businesses going forward.

Enhance Customer Intimacy

Delivering unequaled customer experience is the foundation of Lenovo's competitive differentiation. Lenovo delights customers and deepens their loyalty by striving to build the best-engineered PCs with leading design and technology that is backed by best-in-class service delivery.

Delivering Best-in-Class Service: Lenovo's consistent delivery of service and support led to a number one ranking in an industry survey conducted by Technology Business Research. The survey found that Lenovo had a competitive advantage in break fix services, the most critical aspect of the technical support experience. In China, Lenovo is also well-known for its quality services and has won eight awards from CCID Consulting for customer satisfaction in the service and support environment. To measure and improve customer satisfaction, Lenovo initiated the Lenovo Customer Support Survey in the 2007/08 fiscal year as the metric in its management system. Lenovo has also designed and implemented a set of indicators that enable it to focus on customer-specific performance and other broader areas to improve overall customer experience. It requires the efforts of every Lenovo employee to embrace customer intimacy. Making these indicators part of the balanced scorecards in each of its geographies shows the Group's commitment to this goal.

Design & Technology Leadership: Today's customers face significant challenges in managing their PCs efficiently and at the lowest possible total cost of ownership. Those challenges span a wide range of issues such as security, manageability, user training and usability. Lenovo focuses its research and development efforts on addressing these customer pain points and ensures the highest standard of product quality. Lenovo's PC products require significantly fewer repair actions than its competitors' products. Lenovo's constant efforts to drive for higher quality allowed it to retain its ISO 9001 status after an extensive international audit in 2007.

As Lenovo focuses on winning in the consumer market, the design of its products becomes increasingly important. Lenovo has a world-class design team that has commercialized prize-winning and praise-worthy products such as the IdeaPad U110 ultra portable PC, ThinkPad X300, and, of course, the Olympic Torch. Maintaining and augmenting its design capability is a key priority for Lenovo to ensure it maintain its competitive edge.

Win in Priority Businesses

In view of the market demand trends and its existing business portfolio, Lenovo has identified consumer PC, workstations and servers, and emerging markets as its three priority businesses to drive growth. The Group has laid solid foundation in each of these businesses to ensure their future success.

Consumer PC: Consumer PCs accounted for over 42 percent of the worldwide PC market in the 2007/08 fiscal year. Replicating its success in China's consumer market in other geographies is critical for Lenovo to grow its scale.

During the 2007/08 fiscal year, the Group made significant progress towards this goal. Besides further expanding its leadership position in China's consumer PC market, Lenovo also recorded good growth in its consumer business in India and the ASEAN countries with effective marketing tactics. At the same time, Lenovo was in full strength to jump start its global consumer business upon the creation of the consumer business unit. In January 2008, Lenovo announced its official entry into the global consumer market with the launch of a new line of consumer-oriented IdeaPad notebooks and IdeaCentre desktops. Lenovo offered these trend-setting products initially in multiple countries including the United States, France, Russia, South Africa, India, Australia, Hong Kong, Indonesia, Malaysia, Vietnam, Thailand, China, the Philippines and Singapore.

The 11-inch IdeaPad U110 won three "Best of Show" awards at the Consumer Electronics Show 2008 and earned very positive product reviews.

In the 2008/09 fiscal year, Lenovo will strengthen its newly launched global consumer business by establishing strategic partnerships, extending its consumer notebook portfolio and exploring more routes to market. The Group will also accelerate the growth by rolling out the business to additional countries.

Workstations & Servers: In addition to offering standard notebook and desktop products, Lenovo is expanding into the higher margin workstation and server markets globally to better fulfill market demand and pursue growth by leveraging its core PC strengths.

Lenovo launched the ThinkStation line in November 2007 to deliver high performance workstation products for professional users who work in graphically and computationally-intensive environments. The Group will focus on the market opportunities in higher volume mature markets by leveraging its existing large enterprise customer relationships. ThinkStation has already won business from major global enterprises and received numerous positive industry reviews in the first few months since its launch. Lenovo will also leverage its transaction business model to target SMB opportunities in mature and emerging markets.

Lenovo already has a significant mid-size server business in China and will expand the business on a global basis. In the worldwide server hardware market, x86 servers have been the fastest growing segment and made up more than 50 percent of the spending in that area. Lenovo made its initial foray into the worldwide server market by extending its strategic alliance with IBM in early 2008 to license the rights to design, manufacture and sell a select set of one-and two-socket rack and tower x86 servers. Lenovo will target SMB server opportunities as it continues to expand its overall product portfolio for its customers and business partners.

Emerging Markets: Emerging markets are major growth drivers in the worldwide PC market and are expected to account for over 50 percent of the incremental growth over the next coming few years. Lenovo is uniquely positioned to capitalize on these new market opportunities with its tremendous success in China and rapid expansion in India. Lenovo's proven business model will enable it to capture the opportunities in the emerging countries in all geographies. The roll-out of the transaction business model outside China has laid important groundwork for Lenovo to further expand in India, Russia, Middle East, Turkey, Brazil, and Mexico.

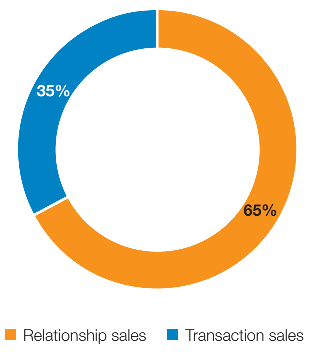
Gain Scale Profitably

It is critical for Lenovo to drive growth in its core business to gain scale and better manage profitability. Lenovo delivered solid growth in the 2007/08 fiscal year and will strive to continue success by extending its product leadership, strengthening its China market position and large enterprises business, expanding its dual business model and accelerating the growth of higher margin adjacent businesses.

Extend Product Leadership: Lenovo's ability to grow, capture share, and gain scale is all based on its competitive advantage through product innovation and its commitment to providing the best-engineered PCs. In the 2008/09 fiscal year, Lenovo will continue to extend its leadership with innovative design by focusing on the key product technology trends in PC market. At the same time, it will drive products that satisfy customers' desires, such as smaller form factor desktop computers, and thin and light notebook computers.

Leverage Our Base in China and Large Enterprise Business: Lenovo's China PC business and worldwide large enterprise business still represent a large portion of its business and will continue to be critical in its future success, even as the Group moves ahead with new market opportunities. In the 2008/09 fiscal year, Lenovo plans to strengthen its position by focusing on the fast-growing notebook market in China and drive market demand by leveraging its unique marketing opportunity at the Olympic Games in Beijing. Following smooth transitions of global sales support and product brand name, Lenovo has taken full responsibility of its large enterprise business. It will build on its strengths in various segments such as the public sector, mid-market for growth and at the same time accelerate customer acquisition.

Lenovo PC Sales (excluding Greater China) by Business Model
for the year ended March 31, 2008



Expand Relationship and Transaction Models: Lenovo's relationship business grew in all geographies during the 2007/08 fiscal year. A renewed focus on customer segmentation and relationship management contributed to the significant improvement in profitability. The Group will continue to implement a number of initiatives to further expand the business to drive sales productivity and enhance customer segment coverage. The focus will remain on better serving key accounts and growing share to meet the mid-market opportunity.

Transaction business accounted for approximately 35 percent of Lenovo's PC sales excluding Greater China in the 2007/08 fiscal year. Lenovo will continue to grow this business by expanding its business partner demand generation programs, accelerating development in emerging markets, strengthening execution in selected countries, and improving sales productivity and channel coverage.

Accelerate Growth of High-Margin Adjacent Businesses: Besides driving growth in PC business, Lenovo will also accelerate the development of adjacent businesses, namely Lenovo Services and Software & Peripherals.

Lenovo Services increased service attach rate for extended warranties by 13 percent year-on-year and grew sales by approximately 57 percent, following the building up of service sales infrastructure in each of the geographies. To accelerate the growth in the PC service market, Lenovo will continue to strengthen its sales infrastructure, expand its service portfolio to target various customer segments and offer solutions for channel partners.

Lenovo also recorded higher-than-market growth in sales for its Software & Peripherals business during the 2007/08 fiscal year. By leveraging technology alliances and expanding its product portfolio, the Software & Peripherals business unit increased its sales by 19 percent year-on-year and saw strong growth, particularly in China. The Group plans to drive further growth by expanding product categories, introducing new products, exploring client virtualization technology, and developing more routes to market in various geographies.

Build the Brand

A key strategic initiative for Lenovo is building a global brand. In the 2007/08 fiscal year, Lenovo had numerous successes in its marketing and branding efforts. The Group's sponsorships of the Olympic Games, the AT&T Williams Formula One racing team and the National Basketball Association (NBA), as well as airport and train station advertising, built brand awareness and image. Two major product announcements were also instrumental in building the Lenovo brand; the introduction of the ultra-thin ThinkPad X300 was featured on the cover of *Business Week* and the IdeaPad U110 won three major awards at the Las Vegas Consumer Electronics Show. As a result of these efforts, Lenovo's brand awareness has risen 28 percent, consideration rate has gone up 15 percent and Lenovo's image increased 13 percent over the last sixteen months.

The 2008/09 fiscal year will be eventful for Lenovo's brand building. The Group will continue to leverage its sponsorships of the Olympic Games, the AT&T Williams Formula One racing team and NBA, launch a new integrated advertising campaign to support products of both Think and Idea brands, and invest to build our brand in emerging markets.

Accelerate Trust-Based and Performance-Driven Culture

As a newly-integrated company, Lenovo has put great emphasis on creating a corporate culture that will help it attain its aspiration and accelerate growth. Based on the results of its worldwide culture audit, Lenovo has forged a new culture which captures the positive aspects of the pre-existing cultures. The senior management team is committed to the new corporate culture which has been cascaded to all levels within the Group. Lenovo understands the importance of rewarding its staff appropriately to ensure a successful execution of its strategy. Its human resources team will continue to refine appraisal, reward, recognition, development, and promotion processes to help develop a winning team and install a performance-driven culture.

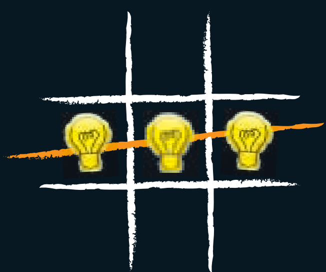
To win in the competitive PC marketplace, Lenovo will ensure successful implementation of its profitable growth strategy by refocusing the efforts of its performance-driven team on the five strategic pillars of its business. Lenovo is confident that its strategy will take the Group to the next level.

Lenovo continues to leverage its sponsorship of the Olympic Games, the AT&T Williams Formula One racing team and NBA.

Lenovo-designed Olympic Torch travels the world on its way to herald the arrival of the Beijing 2008 Olympic Games.

The Lenovo brand was prominent at over thousands of NBA games and related events.

REALIZING IDEAS



In a wonderful world full of ideas, Lenovo's goal is to help realize as many of them as possible. From large corporations, to small businesses, to home users, our PCs are able to meet the differing needs of everyone. The combination of better technology, better support and products with proven track records for quality and value for money makes Lenovo the first choice for a growing number of PC users.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

The Company is committed to attaining and upholding a high standard of corporate governance and maintains sound and well-established corporate governance practices in order to protect the interests of shareholders, customers and staff. The Company abides strictly by the laws and regulations of the jurisdictions where it operates, and observes the guidelines and rules issued by regulatory authorities. It also keeps its corporate governance system under constant review to ensure that it is in line with international and local best practices.

Code on Corporate Governance Practices

During the year, the Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation under Code A.4.1 which is explained below.

Code A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term. Non-executive directors of the Company do not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same purpose as a specific term of appointment.

The Company has met the recommended best practices under the CG Code in various areas of its corporate governance practices. In particular, the Company has published quarterly financial results and business review within 45 days after the end of the relevant quarter in addition to the interim results and annual results. The information disclosed in quarterly financial results enables the shareholders to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the same accounting policies applied to the annual accounts.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Appendix 10 to the Listing Rules to govern the directors' securities transactions. In response to a specific request, all the directors of the Company have confirmed their compliance with the required standard during the year. The Company has also adopted its own Trading in Securities Policy which is on terms no less exacting than the required standard as set out in the Model Code. This policy also applies to designated senior management of the Company.

BOARD OF DIRECTORS

The board of directors (the "Board") is responsible for steering the success of the Company by overseeing the overall strategy and directing and supervising its affairs in a responsible and effective manner, whilst management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Board has formulated a clear written policy, which stipulates the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review this policy. The Board has reserved for its decision or consideration matters covering annual budget, major capital and equity transactions, major disposals and acquisitions, connected transactions, recommendation on appointment or reappointment of auditors and other significant operational and financial matters. Each director has a duty to act in good faith in the best interests of the Company.

The Board is 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 a going concern basis while the external auditors' responsibilities to shareholders are set out in the Independent Auditor's Report on page 75 of this annual report.

As at the date of this annual report, there are twelve Board members consisting of two executive directors, six non-executive directors and four independent non-executive directors. Mr. John W. Barter III, an independent non-executive directors of the Company, has the appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules. The biographies and responsibilities of directors and senior management are set out on pages 56 to 59 of this annual report.

During the year and up to the date of this report, the following changes in the Board composition of the Company took place: (i) Ms. Ma Xuezheng was re-designated from an executive director to a non-executive director while Mr. Wong Wai Ming resigned as an independent non-executive director both on May 23, 2007; (ii) Dr. Tian Suning was appointed as an independent non-executive director with effect from August 2, 2007; (iii) Mr. Vince Feng resigned as the alternate director to Mr. William O. Grabe, a non-executive director, on November 2, 2007; and (iv) Mr. Shan Weijian has tendered his resignation as a non-executive director with effect from May 23, 2008 whereas his alternate Mr. Daniel A. Carroll ceased to act in such position on the same date.

Dr. Tian's appointment as a new director of the Company was reviewed by the Governance Committee, which recommended to the Board for approval. The appointment is further subject to re-election by shareholders at the forthcoming annual general meeting of the Company pursuant to Article 92 of the Company's Articles of Association.

Save for the relationships (including financial, business, family, other material and relevant relationships) as detailed below and in the biography of directors set out on pages 56 to 58 of this annual report, there is no other relationship among the Board and the chief executives to the best knowledge of the Board members as at the date of this annual report:

1. Mr. Liu Chuanzhi and Mr. Zhu Linan, non-executive directors, also serve on the board of directors of Legend Holdings Limited, the controlling shareholder of the Company.

2. Among the non-executive directors of the Company, Mr. James G. Coulter and Mr. Shan Weijian were nominated by TPG Capital (formerly known as TPG) and Newbridge Capital Group (integrated with TPG Capital) respectively pursuant to an Investment Agreement dated March 30, 2005, details of which were disclosed in the Company's circular dated April 20, 2005, and had appointed respective alternate directors. Mr. James G. Coulter, Mr. Justin T. Chang (alternate director to Mr. Coulter), Mr. Shan Weijian and Mr. Daniel A. Carroll (alternate director to Mr. Shan), all currently being partners of TPG Capital, are business related persons based on the historic relationship between their respective organizations and the integration of TPG Capital and Newbridge Capital Group. In 2007, Ms. Ma Xuezheng, a non-executive director of the Company, became a managing director of TPG Capital. Thus, Ms. Ma is work associate of Mr. Coulter, Mr. Chang (alternate director to Mr. Coulter), Mr. Shan and Mr. Carroll (alternate director to Mr. Shan) in TPG Capital.

3. Mr. William O. Grabe, a Managing Director of General Atlantic Group, was nominated by General Atlantic Group as a non-executive director of the Company pursuant to an Investment Agreement dated March 30, 2005, details of which were disclosed in the Company's circular dated April 20, 2005. Mr. Grabe is related to Mr. John W. Barter III, an independent non-executive director of the Company, in that (i) Mr. Barter serves on the board of Genpact Limited and Dice Holdings Inc. which are portfolio companies of General Atlantic Group and (ii) Mr. Barter is a limited partner co-investor in an investment fund company managed by General Atlantic Group. In this respect, Mr. Grabe and Mr. Barter are business related by their bonds with General Atlantic Group.

4. Mr. Shan Weijian, a non-executive director of the Company, and Mr. Wong Wai Ming, a past director and the present Chief Financial Officer of the Company, are both directors of China Unicom Limited.

There is no such relationship as between the Chairman and the Chief Executive Officer.

It is expressly provided in the Company's 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 contract or arrangement or any other proposal in which he/she is materially interested nor shall he/she be counted in the quorum present at the meeting.

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

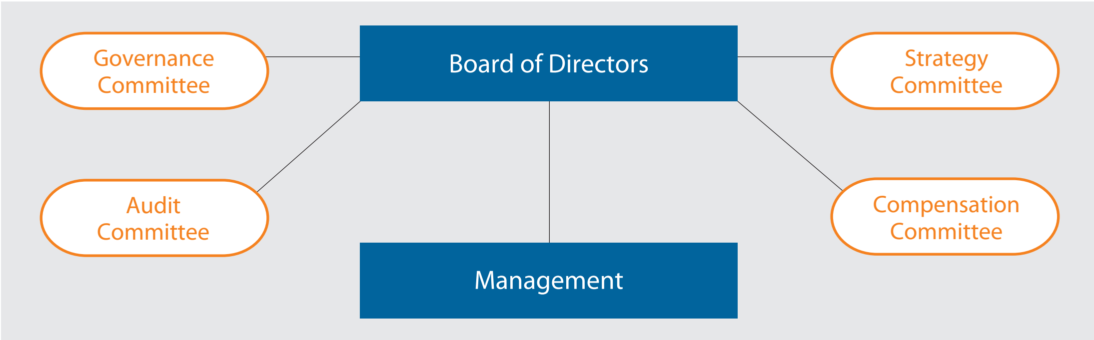
The positions of the Chairman of the Board and Chief Executive Officer are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved.

The Board meets at least quarterly to review the financial performance of the Group, the overall group strategy, and the operations. The Board also held an extra meeting to discuss the strategy during the year. Board meetings are scheduled two years in advance to facilitate maximum attendance of directors. The meeting agenda is set by the Chairman in consultation with members of the Board. At least 30 days notice of regular Board meeting was given to all members of the Board. For regular Board meetings, directors receive an agenda with supporting Board papers seven days before the meeting and documents with updated financial figures three days prior to the meeting. For other Board meetings, directors are given as much notice as is reasonable and practicable in the circumstances. Minutes of Board meetings are circulated to all members of the Board for comment and are open for inspection by any director.

On a bimonthly basis, management provided updates of the financial performance to all members of the Board. During the year, each Board member was also furnished with a copy of the Non-statutory Guidelines on Directors' Duties published by the Hong Kong Companies Registry in October 2007 while the newly appointed director received a comprehensive induction package to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities as a director.

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 also in place for directors to seek, at the Company's expenses, independent professional advice in performing their directors' duties. No request was made by any director for such advice during the year. The Company has arranged for appropriate liability insurance to indemnify the directors for any liabilities arising from corporate activities. The insurance coverage is reviewed on an annual basis.

The following chart sets out the Company's corporate governance framework:



Board Committees

The Board has established four board committees ("Board Committees") with defined terms of reference (available upon written request to the Company Secretary); they are Audit Committee, Compensation Committee, Strategy Committee and Governance Committee. The terms of reference of the Audit Committee and the Compensation Committee are on no less exacting terms than those set out in the CG Code. Should the need arise, the Board will authorize an independent board committee comprising all the independent non-executive directors to review, approve and monitor connected transactions (including the continuing connected transactions) that should be approved by the Board. Minutes of meetings are circulated to members of the relevant Board Committee for comment and are open for inspection by any director. The following lists out the membership, responsibilities and the summary of work that each Board Committee performed on behalf of the Board during the financial year:

Membership of Audit Committee (defined as "Committee" in this section)

All Committee members are non-executive directors, the majority of whom including the Committee Chairman are independent non-executive directors. The members during the year were Mr. John W. Barter III (Committee Chairman), Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. Shan Weijian and Ms. Ma Xuezheng. The Committee members possess diversified industry experience and the Chairman has the accounting or related financial management expertise.

Responsibilities and summary of work

The Committee is responsible for assisting the Board in providing an independent review of the financial statements and internal control system. It acts in an advisory capacity and makes recommendations to the Board. The Committee met with external auditors and management of the finance and internal audit functions of the Company at least four times a year at quarterly interval and is authorized to obtain outside independent professional advice to support its function.

The Committee met four times during the year and has reviewed and/or approved items including:

- The accounting principles and practices adopted by the Group
- The financial reporting matters including the quarterly, interim and annual financial statements, announcements, interim report and annual report before submission to the Board for approval
- 2006/07 internal audit and business control review and 2007/08 internal audit report of the Group
- 2006/07 external audit progress report and 2007/08 audit plan of the Group
- The continuing connected transactions of the Group
- Recommendation on re-appointment of external auditors

Membership of Compensation Committee (defined as "Committee" in this section)

All Committee members are non-executive directors, the majority of whom are independent non-executive directors. The current members are Mr. William O. Grabe (Committee Chairman), Professor Woo Chia-Wei and Mr. Ting Lee Sen while Ms. Ma Xuezheng was appointed as an observer on May 23, 2007.

Responsibilities and summary of work

The Committee is responsible for considering and recommending to the Board the Company's compensation policy, including its long-term incentive policy. It is also responsible for the determination of the compensation level and package paid to the Chairman of the Board, Chief Executive Officer and other directors and senior management. The Committee is authorized to obtain outside independent professional advice to support its function.

In the financial year ended March 31, 2008, the Committee held 7 meetings. The attendance record is set forth on page 37 of this annual report. During the year, and up to the report date, the Committee undertook the following activities:

- Review of the compensation policy and levels for executive directors and senior management
- Review of and recommendations to the Board concerning the Long-Term Incentive Program, and awards made under this plan in 2007
- Review of and recommendations to the Board concerning the Long-Term Incentive Program, and the linkage of long-term incentive award levels with Company performance
- Review of and recommendations to the Board concerning the Performance Bonus Program, and the linkage to Company, performance group and individual performance
- Engagement of an independent consultant to make recommendations to the Board on the compensation policy for non-executive directors

No director or any of his associates has been involved in deciding his/her own compensation.

Membership of Strategy Committee (defined as "Committee" in this section)

The Committee currently comprises Mr. Yang Yuanqing (Committee Chairman), Mr. William J. Amelio, Mr. Liu Chuanzhi, Mr. James G. Coulter and Mr. William O. Grabe. Ms. Ma Xuezheng was appointed as an observer of the Committee on May 23, 2007.

Responsibilities and summary of work

The Committee is responsible for assisting the Board in determining the vision, the long-term strategy and intermediate targets for the Company and reviewing the annual targets of the Company. The Committee is also responsible for the assessment of the performance of the Chairman of the Board and the Chief Executive Officer and making proposals to the Compensation Committee.

The Committee met three times during the year to review the business performance and business strategy of the Group.

Membership of Governance Committee (defined as "Committee" in this section)

The Committee currently comprises Mr. Yang Yuanqing (Committee Chairman), Mr. Liu Chuanzhi and Mr. James G. Coulter.

Responsibilities and summary of work

The Committee is to assist the Board in overseeing Board organization and senior management succession planning, developing its corporate governance principles and determining Board evaluation criteria and process.

During the year, the Committee discussed via circular resolution the appointment of Dr. Tian Suning as an independent non-executive director of the Company.

The composition of the Board and attendance of individual directors at meetings of the Board and Board Committees during the financial year were as follows:

	Attendance/Number of Meetings Obligated to Attend			
Directors	**Board (Total no.: 5)**	**Audit Committee (Total no.: 4)**	**Compensation Committee (Total no.: 7)**	**Strategy Committee (Total no.: 3)**
Executive directors				
Mr. Yang Yuanqing (Chairman)	5/5	–	–	3/3
Mr. William J. Amelio (CEO)	5/5	–	–	2/3[7]
Non-executive directors				
Mr. Liu Chuanzhi	4/5	–	–	3/3
Mr. Zhu Linan	5/5	–	–	–
Ms. Ma Xuezheng[1]	5/5	3/3	–	–
Mr. James. G. Coulter	5/5[6]	–	–	2/3
Mr. William O. Grabe	5/5	–	7/7	3/3
Mr. Shan Weijian[5]	2/5	1/4	–	–
Independent non-executive directors				
Professor Woo Chia-Wei	5/5	4/4	7/7	–
Mr. Ting Lee Sen[2]	5/5	4/4	7/7	–
Mr. John W. Barter III	5/5	4/4	–	–
Dr. Tian Suning[3]	2/2	–	–	–
Mr. Wong Wai Ming[4]	2/2	1/1	0/1[7]	–

Notes:

1. Re-designated as a non-executive director on May 23, 2007 and appointed as a member of Audit Committee on July 15, 2007.
2. Appointed as an alternate and a member of Compensation Committee on May 6, 2007 and May 23, 2007 respectively.
3. Appointed as an independent non-executive director on August 2, 2007.
4. Resigned as an independent non-executive director and ceased to be a member of both Audit Committee and Compensation Committee on May 23, 2007.
5. Resigned as a non-executive director and ceased to be a member of Audit Committee on May 23, 2008.
6. Three out of total attendance was attended by Mr. Coulter's alternate director, Mr. Justin T. Chang.
7. For corporate governance reason, the relevant directors were required to excuse themselves from the meetings to avoid potential conflict of interest.

COMPENSATION POLICY

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 and senior management.

Lenovo's compensation policy for its directors and senior management is to ensure that compensation is aligned to support the Company's strategy, attract and retain top talent, reinforce the Company's performance driven culture, and reflects the market practices of other leading international and IT-focused enterprises, with particular focus on those who compete in the PC sector.

Non-Executive Directors

To ensure that non-executive directors are appropriately remunerated, in 2007 the Compensation Committee engaged an independent international compensation consulting firm who conducted an analysis of the compensation package of non-executive directors and recommended to the Board to increase the additional cash retainer amounts for the Chairs of the Audit and Compensation Committees.

In making its recommendations, which were subsequently approved by the Board (comprising only executive directors) and shareholders of the Company, the firm also reviewed other relevant factors such as the time commitment, workload, job requirements and responsibilities of the non-executive directors and compared with those of the peers companies and general industry.

The compensation of non-executive Directors is comprised of an annual cash retainer equal to US$40,000 (approximately HK$312,000) and an annual award of Stock Appreciation Rights (SARs) and Restricted Stock Units (RSUs) which can be settled in either Lenovo shares or their cash equivalent upon exercise. SARs and RSUs are subject to a three-year vesting period and are otherwise subject to the same terms and conditions of the SAR and RSU schemes described below.

The Chairman of the Audit Committee also receives an additional cash retainer equal to US$20,000 (approximately HK$156,000). The Chairman of the Compensation Committee receives an additional cash retainer of US$10,000 (approximately HK$78,000).

Details of the compensation of the non-executive directors are included in note 12 to the financial statements. SAR and RSU awards outstanding for non-executive directors as of March 31, 2008 under this scheme are presented below.

Chairman, Executive Directors and Senior Management

To ensure that Lenovo's compensation reflects the policy principles described above, the Compensation Committee considers a number of relevant factors including: salaries and total compensation paid by comparable companies, job responsibilities and scope, employment conditions elsewhere in the Company, location and market practices, Company business performance and individual performance.

Lenovo's compensation structure for its employees, including the Chairman of the Board, executive directors and senior management, is comprised of base salaries and allowances, performance bonus, long-term incentives, retirement benefits, and benefits in kind. These components are described in more detail below.

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 also 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

Executive directors, including the Chairman of the Board and Chief Executive Officer, as well as senior management and selected employees of the Company are eligible to receive a performance bonus payable in cash. The amounts paid under the plan are based on the performance of the Company and its subsidiaries, performance groups and/or geographies as appropriate, as well as the performance of the individual.

Long-Term Incentive Program

The Company operates a Long-Term Incentive Program ("LTI Program") which was approved 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 three types of equity-based compensation vehicles: (i) share appreciation rights, (ii) restricted share units, and (iii) performance-based share units. These vehicles are described in more detail below.

(i) Share Appreciation Rights ("SARs")

SARs entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level. SARs are typically subject to a vesting schedule of up to four years.

(ii) Restricted Share Units ("RSUs")

RSUs are equivalent to the value of one ordinary share of the Company. Once vested, RSUs are converted to an ordinary share, or its cash equivalent. RSUs are typically subject to a vesting schedule of up to four years. Dividends are typically not paid on RSUs.

(iii) Performance Based Share Units

The Company has two performance based share unit plans, the 2005 Performance Share Unit (PSU) plan and the 2007 Performance RSU plan. The 2005 PSU plan was discontinued in 2006, however, the Company continues to honor grants previously awarded. All outstanding awards vest completely May 1, 2008.

In 2007, the Company introduced a new performance based RSU program based on the Company's performance against pre-determined targets over a one year period. In addition to the performance condition, these awards are subject to a vesting schedule of up to four years. Dividends are typically not paid on performance-based awards.

The Company reserves the right, at its discretion, to pay any awards under the LTI Program in cash or ordinary shares. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, awards are due after exercise by the recipient. In the case of RSUs, awards are due after the employee satisfies any vesting conditions.

The number of units that are awarded under the plan 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 an 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.

During the year, eligible executive directors and senior management received an annual award comprised of SARs, RSUs and Performance Based RSUs.

Awards outstanding for executive and non-executive directors as of March 31, 2008 under the LTI Program are presented below.

Share Option Scheme

The Company operates two share option schemes, the "New Option Scheme" and the "Old Option Scheme". Details of the programs are set out in the Directors' Report on pages 52 and 53. Options outstanding for executive and non-executive directors as of March 31, 2008 under these schemes are presented in the Directors' Report on page 54.

No options were granted under these Schemes during the year.

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 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 65 to 67.

Long-Term Incentive Awards

The total number of awards of the members of the Board, including the Chairman of the Board and Chief Executive Officer, under the LTI Program as at March 31, 2008 is set out below.

				Number of units						
Name	**Award type**	**Fiscal Year of Award**	**Effective price (HK$)**	**As at April 1, 2007 (unvested)**	**Awarded during the year**	**Vested during the year**	**As at March 31, 2008 (unvested)**	**Total outstanding as at March 31, 2008**	**Max no. of shares subject to conditions**	**Vesting period (mm.dd.yyyy)**
Executive Directors										
Mr. Yang Yuanqing	SAR	05/06	2.42	4,772,056	–	1,590,700	3,181,356	6,362,756	6,362,756	05.01.2006 - 05.01.2009
	SAR	06/07	2.35	13,385,665	–	3,346,416	10,039,249	13,385,665	13,385,665	06.01.2007 - 06.01.2010
	SAR	07/08	3.94	–	6,002,009	–	6,002,009	6,002,009	6,002,009	06.01.2008 - 06.01.2011
	RSU	05/06	2.42	696,595	–	232,200	464,395	464,395	464,395	05.01.2006 - 05.01.2009
	RSU	06/07	2.35	2,974,593	–	743,648	2,230,945	2,230,945	2,230,945	06.01.2007 - 06.01.2010
	RSU	07/08	3.94	–	3,556,710	–	3,556,710	3,556,710	3,556,710	06.01.2008 - 06.01.2011
	PSU	05/06	2.42	928,795	–	–	928,795	928,795	1,857,590	Note 3
Mr. William J. Amelio	SAR	06/07	2.35	17,831,489	–	4,457,872	13,373,617	17,831,489	17,831,489	06.01.2007 - 06.01.2010
	SAR	07/08	3.94	–	6,773,696	–	6,773,696	6,773,696	6,773,696	06.01.2008 - 06.01.2011
	RSU	06/07	3.10	10,013,000	–	–	10,013,000	10,013,000	10,013,000	01.01.2009
	RSU	06/07	2.35	3,962,553	–	990,638 #	2,971,915	2,971,915	2,971,915	06.01.2007 - 06.01.2010
	RSU	07/08	3.94	–	4,014,002	–	4,014,002	4,014,002	4,014,002	06.01.2008 - 06.01.2011
Non-Executive Directors										
Mr. Liu Chuanzhi	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
Mr. Zhu Linan	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
Ms. Ma Xuezheng	SAR	05/06	2.42	1,561,125	–	520,375	1,040,750	2,081,500	2,081,500	05.01.2006 - 05.01.2009
	SAR	06/07	2.35	4,109,895	–	1,027,474	3,082,421	4,109,895	4,109,895	06.01.2007 - 06.01.2010
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	SAR	07/08	5.62	–	693,130	–	693,130	693,130	693,130	06.01.2008 - 06.01.2011
	RSU	05/06	2.42	227,925	–	75,975	151,950	151,950	151,950	05.01.2006 - 05.01.2009
	RSU	06/07	2.35	1,369,965	–	342,491	1,027,474	1,027,474	1,027,474	06.01.2007 - 06.01.2010
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
	RSU	07/08	5.62	–	231,041	–	231,041	231,041	231,041	06.01.2008 - 06.01.2011
	PSU	05/06	2.42	303,900	–	–	303,900	303,900	607,800	Note 3
Mr. James G. Coulter	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
Mr. William O. Grabe	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.66	–	24,046	24,046	–	–	–	Note 1
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
	RSU	07/08	4.63	–	679	679	–	–	–	Note 2
	RSU	07/08	5.20	–	18,822	18,822	–	–	–	Note 1
	RSU	07/08	8.74	–	11,098	11,098	–	–	–	Note 1
	RSU	07/08	6.91	–	620	620	–	–	–	Note 2
	RSU	07/08	5.52	–	17,663	17,663	–	–	–	Note 1
Mr. Shan Weijian*	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2007 (unvested)	Awarded during the year	Vested during the year	As at March 31, 2008 (unvested)	Total outstanding as at March 31, 2008	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
Independent Non-Executive Directors										
Professor Woo Chia-Wei	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.66	–	21,374	21,374	–	–	–	Note 1
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
	RSU	07/08	4.63	–	604	604	–	–	–	Note 2
	RSU	07/08	5.20	–	15,058	15,058	–	–	–	Note 1
	RSU	07/08	8.74	–	8,879	8,879	–	–	–	Note 1
	RSU	07/08	6.91	–	540	540	–	–	–	Note 2
	RSU	07/08	5.52	–	14,130	14,130	–	–	–	Note 1
Mr. Ting Lee Sen	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.66	–	21,374	21,374	–	–	–	Note 1
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
	RSU	07/08	4.63	–	604	604	–	–	–	Note 2
	RSU	07/08	5.20	–	15,058	15,058	–	–	–	Note 1
	RSU	07/08	8.74	–	8,879	8,879	–	–	–	Note 1
	RSU	07/08	6.91	–	540	540	–	–	–	Note 2
	RSU	07/08	5.52	–	14,130	14,130	–	–	–	Note 1
Mr. John W. Barter III	SAR	05/06	3.15	376,000	–	188,000	188,000	564,000	564,000	05.01.2006 - 05.01.2008
	SAR	06/07	2.99	390,000	–	130,000	260,000	390,000	390,000	06.01.2007 - 06.01.2009
	SAR	07/08	3.94	–	297,000	–	297,000	297,000	297,000	06.01.2008 - 06.01.2010
	RSU	06/07	2.99	130,000	–	43,333	86,667	86,667	86,667	06.01.2007 - 06.01.2009
	RSU	07/08	3.66	–	21,374	21,374	–	–	–	Note 1
	RSU	07/08	3.94	–	99,000	–	99,000	99,000	99,000	06.01.2008 - 06.01.2010
	RSU	07/08	4.63	–	604	604	–	–	–	Note 2
	RSU	07/08	5.20	–	22,587	22,587	–	–	–	Note 1
	RSU	07/08	8.74	–	13,318	13,318	–	–	–	Note 1
	RSU	07/08	6.91	–	591	591	–	–	–	Note 2
	RSU	07/08	5.52	–	21,196	21,196	–	–	–	Note 1
Dr. Tian Suning	SAR	07/08	5.14	–	151,950	–	151,950	151,950	151,950	09.01.2008 - 09.01.2010
	RSU	07/08	5.14	–	50,650	–	50,650	50,650	50,650	09.01.2008 - 09.01.2010

The total number of awards granted in the year (including members of the Board and employees) under the LTI Program is set out below.

	Award type	Effective price (HK$)	Number of units: As at April 1, 2007 (unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at March 31, 2008 (unvested)	Total outstanding as at March 31, 2008	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
All Directors											
	SAR	2.35-5.62	47,412,230	16,293,785	13,298,837	–	–	50,407,178	67,133,090	67,133,090	05.01.2006 – 06.01.2011
	RSU	2.35-8.74	20,284,631	9,017,171	3,005,384	–	–	26,296,418	26,296,418	26,296,418	05.01.2006 – 06.01.2011
	PSU	2.42	1,232,695	–	–	–	–	1,232,695	1,232,695	2,465,390	Note 3
All other employees											
	SAR	2.32-8.07	264,615,458	82,553,269	75,281,089	62,204,697	22,476,983	249,410,655	305,321,227	305,321,227	05.01.2006 – 01.01.2012
	RSU	2.32-8.07	126,611,882	46,936,746	32,682,426	–	11,114,365	129,751,837	129,751,837	129,751,837	05.01.2006 – 01.01.2012
	PSU	2.32-3.73	10,080,353	–	–	–	330,130	9,750,223	9,750,223	19,500,446	Note 3
Total											
	SAR	2.32-8.07	312,027,688	98,847,054	88,579,926	62,204,697	22,476,983	299,817,833	372,454,317	372,454,317	05.01.2006 – 01.01.2012
	RSU	2.32-8.74	146,896,513	55,953,917	35,687,810	–	11,114,365	156,048,255	156,048,255	156,048,255	05.01.2006 – 01.01.2012
	PSU	2.32-3.73	11,313,048	–	–	–	330,130	10,982,918	10,982,918	21,965,836	Note 3

Note 1: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforseen emergency.

Note 2: Dividends paid with respect to eligible deferral grants.

Note 3: Within 75 days following the announcement of the audited financial results of the Company for the financial year ending March 31, 2008.

Out of 990,638 units, 346,724 units were withheld for tax purpose.

* Resigned as a non-executive director on May 23, 2008.

EXTERNAL AUDITORS

The Group's external auditors are PricewaterhouseCoopers, who are remunerated mainly for their audit services provided to the Group. The Company has adopted a policy on engagement of external auditors for non audit services (the "Policy"), under which the external auditors are required to comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. External auditors may provide certain non-audit services to the Group provided these do not involve any management or decision making functions for and on behalf of the Group; or perform any self assessments; or acting in an advocacy role for the Company. The engagement of the external auditors for permitted and approved non-audit services shall be approved by the Audit Committee if the value of such non-audit services equals to or is above US$320,000.

During the year, PricewaterhouseCoopers provided audit and insignificant non-audit services to the Group.

The fees paid or payable to PricewaterhouseCoopers for audit and non-audit services for the financial year ended March 31, 2008 and the comparative figures for the financial year ended March 31, 2007 are as follows:

	2008 **US$mn**	2007 US$mn
Audit		
– 2005/06	**–**	1.9
– 2006/07	**1.3**	4.2
– 2007/08	**4.9**	–
	6.2	6.1
Non-audit	**0.4**	0.3
Total	**6.6**	6.4

INTERNAL CONTROL

The Board acknowledges its responsibility to ensure the Company maintains sound and effective internal controls. This is achieved through a defined management structure with specified limits of authority and defined control responsibility to:

- Achieve business objectives and safeguard assets against unauthorized use or disposition;
- Ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- Ensure compliance with the relevant legislation and regulations.

To achieve this the Company has established an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework.

Within this framework, management perform periodic enterprise wide risk assessments and continuously monitor and report the progress of action plans to address the key risks. They also track and report on the implementation of strategic initiatives, business plans, budgets and financial results. As part of the focus on financial integrity all relevant senior executives regularly verify the accuracy and completeness of the quarterly financial statements and compliance with key internal controls.

While management is responsible for the design, implementation and maintenance of internal controls, the Board and its Audit Committee oversee the actions of management and monitor the effectiveness of the established controls.

To assist the Audit Committee in its oversight and monitoring activities, the Company maintains an independent worldwide Internal Audit function which provides objective assurance to the Audit Committee that the system of internal controls is effective and operating as intended. 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, the Audit Committee periodically commissions an independent external quality assurance review of the Internal Audit function.

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 audit matters and to the Chief Financial Officer on administrative matters. The Head of Internal Audit is authorized to communicate directly with the Chairman of the Board and other Board members.

Using a risk based methodology, Internal Audit prepares its audit plan in consultation with, but independent of, management. The audit plan focuses on those areas of the Company's activities with the greatest perceived risk. The plan is reviewed by the Audit Committee, who are also given quarterly updates on the performance of the plan and key findings. Ad hoc reviews will also be performed on areas of concern identified by the Audit Committee and management. Management of individual business units or processes are informed of areas for improvement, and Internal Audit monitors the corrective actions to completion.

Regarding procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision. The Company conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Hong Kong Stock Exchange in 2002 and has implemented policies and procedures which strictly prohibit unauthorized use of confidential and sensitive information, and has communicated to all relevant staff regarding this matter. In addition, only Directors and delegated officers can act as the Company's spokesperson and respond to external enquiries about the Company's affairs.

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 is 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.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to safeguard shareholders' interests and encourage shareholders to attend the annual general meeting for which at least 21 days' notice is given. Shareholders are therefore encouraged to actively participate at such meetings. The 2007 Annual General Meeting of the Company held on July 20, 2007 was attended by, among others, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chairman of the Audit Committee, Chairman of the Compensation Committee and representatives of external auditors, PricewaterhouseCoopers to answer questions raised by shareholders at the meeting. Resolutions passed at the 2007 Annual General Meeting included: adoption of the Group's audited accounts for the year ended March 31, 2007 together with the directors' report and independent auditors' report, declaration of final dividend, re-election of retiring directors and authorization to fix directors' fees, re-appointment of external auditors and authorization to fix auditors' fees and grant of a general mandate to the Board to issue and repurchase shares of the Company. All the resolutions proposed at the 2007 Annual General Meeting were decided by way of poll voting. The poll is conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the results of the poll were published on the Company's website (www.lenovo.com/hk/publication) and the Hong Kong Stock Exchange's website (www.hkex.com.hk).

Other than the 2007 Annual General Meeting, the Company also held an extraordinary general meeting on March 17, 2008 for the purpose of seeking the approval of the independent shareholders in respect of the disposal of 100% interest in the registered capital of Lenovo Mobile Communication Technology Ltd. (% of votes cast in favour of the resolution: 99.99996%).

This extraordinary general meeting was attended by members of the relevant Independent Board Committee of the Company and representatives of the independent financial advisor to respond to questions and comments raised by shareholders. The resolutions proposed at the extraordinary general meeting was duly passed by the shareholders by way of poll voting.

INVESTOR RELATIONS

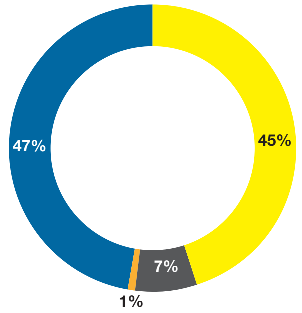
Lenovo is committed to enhancing relationships and communications with its existing and potential investors. The Company continues its proactive approach to communicate with investors in a timely manner by using various platforms such as webcast, conference calls, and face-to-face meetings. Lenovo maintains regular meetings with investors and is widely covered by investment analysts.

During the 2007/08 fiscal year, Lenovo actively participated in various major investment conferences, and organized a number of non-deal investor roadshows to meet with investors around the world. The Company continued its efforts in organizing securities analyst meeting in Hong Kong in June 2007, enabling its management team to elaborate company strategies in details with the investment community. The event was well attended by both buy-side and sell-side investors. To further facilitate communication with investor, the Company newly introduced in early 2008 an Investor Relations section on its Chinese corporate website (www.lenovo.com.cn) in addition to the English website.

Shareholders

According to the shareholders' list of the ordinary voting shares (defined as "Shares" in this section unless specified otherwise) of the Company as at March 31, 2008, there were 1,196 registered shareholders holding the Shares, of whom 97.74 percent had their registered addresses in Hong Kong. However, the actual number of investors in the Shares may be larger than that as a substantial portion of such shareholdings are held through nominees, custodian houses and HKSCC Nominees Limited.

Beneficial Shareholding Structure as at March 31, 2008*



*Representing all ordinary voting and non-voting shares.

Shareholdings as at March 31, 2008

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
2,000 or below	259	21.655%	492,272	0.005%
2,001 - 10,000	633	52.926%	4,322,000	0.049%
10,001 - 100,000	274	22.910%	8,316,272	0.093%
100,001 - 1,000,000	19	1.589%	5,868,000	0.066%
Above 1,000,000	11	0.920%	8,888,724,106	99.787%
Total	1,196	100.000%	8,907,722,650	100.000%

Remarks:

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

(ii) 51.41 percent of all the issued Shares were held through HKSCC Nominees Limited.

Market Capitalization and Public Float

As at March 31, 2008, the market capitalization of listed shares of the Company was approximately HK$44.5 billion based on the total number of 8,907,722,650 issued Shares of the Company and the closing price of HK$5.0 per share.

The daily average number of traded Shares was approximately 41.2 million Shares over an approximate free float of 4,819 million Shares in the 2007/08 fiscal year. The highest trading price for the Share was HK$9.20 per share on November 1, 2007 and the lowest was HK$2.77 per share on April 12, 2007.

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 percent of the Company's issued Shares throughout the financial year ended March 31, 2008 and has continued to maintain the public float as at the date of this annual report.

INFORMATION FOR INVESTORS

Listing Information	
Listing	Hong Kong Stock Exchange
Stock code	992
American Depositary Receipts Level I Program	
Ordinary share to ADR	20:1
Stock code	LNVGY
Share Information	
Board lot size	2,000 shares
Ordinary voting shares outstanding as of March 31, 2008	8,907,722,650 shares
Market capitalization as of March 31, 2008	HK$44,538,613,250 (Approx. US$5,710 million)
Basic earnings per share for the year ended March 31, 2008	5.51 US cents
Dividend per ordinary share for the year ended March 31, 2008	
– Interim	3.0 HK cents
– Proposed final	12.8 HK cents
– Proposed total	15.8 HK cents
Key Dates	
First Quarter Results Announcement	August 2, 2007
Interim Results Announcement	November 1, 2007
Closure of Register of Members for Interim Dividend	November 19-23, 2007 (Both days inclusive)
Payment of 2007/08 Interim Dividend	November 30, 2007
Third Quarter Results Announcement	January 31, 2008
Extraordinary General Meeting	March 17, 2008
Annual Results Announcement	May 22, 2008
Closure of Register of Members for Final Dividend	July 21-25, 2008 (Both days inclusive)
Annual General Meeting	July 25, 2008
Proposed Payment of 2007/08 Final Dividend	August 1, 2008

CORPORATE SOCIAL RESPONSIBILITY

Lenovo: Continuing its Commitment to Sustainability & Corporate Social Responsibility

As a global company, Lenovo implements and supports sustainable business practices with respect to the environment, employees, customers, and stakeholders around the world. Lenovo's corporate social responsibility commitments encompass:

- the environment
- employee health and welfare
- global supply chain, and
- corporate social investments

Highlights from 2007 are summarized in the section below. More extensive information on sustainability and corporate social responsibility can be found at: http://www.lenovo.com.

The Environment

Given its commitment to producing best-engineered PC functionality, Lenovo integrates product safety, resource conservation, and energy efficiency into its personal computing solutions. Lenovo's Environmental Management System assures the highest level of environmental protection across product development, site operations, and product take-back and recycling. Lenovo's Environmentally Conscious Products program considers the full product lifecycle and focuses on the development of high-quality, energy efficient products that are made using recycled content and environmentally preferable materials and are designed for easy recycling at end of life.

Lenovo participates in the Electronic Product Environmental Assessment Tool (EPEAT), a program originally developed by the U.S. Environmental Protection Agency (EPA) to assist purchasers in evaluating the environmental attributes of products. Lenovo has numerous products registered to the standard at the silver and gold levels, and was the first manufacturer to register an EPEAT gold monitor, the L193p. Today, Lenovo's full line of ThinkVision monitors are EPEAT gold, as are several ThinkPad and desktop models. In addition to EPEAT registered products, Lenovo offers a wide selection of monitor, notebook, and desktop products that meet the new ENERGY STAR 4.0 criteria.

Lenovo is committed to eliminating potential health hazards and minimizing the environmental impact of its products. In order to implement this commitment, Lenovo's chemical and substance management policy supports a precautionary approach, ensuring Lenovo will take appropriate action even if some cause and effect relationships are not fully scientifically established.

Lenovo offers PC take-back and recycling options in every country where we do business, with many of those programs free to the consumer. Since its introduction in 2006, Lenovo's free recycling program in China has generated a paradigm shift in asset recovery for the country. During 2007, Lenovo financed or managed the processing of over 38 million pounds of Lenovo owned or customer returned computer equipment with over 93 percent reused or recycled, and only 1.21 percent disposed in landfills. Since Lenovo was established as a global company in May of 2005, Lenovo has processed over 89 million pounds of computer equipment through its contracted service providers.

In an effort to minimize Lenovo's climate change impact and reduce its carbon footprint, Lenovo uses local manufacturing facilities in the Americas, Europe, and Asia. These facilities shorten the shipping distances and allow for lower carbon shipping methods such as truck and rail to be used. Furthermore, Lenovo uses logistics and packaging practices that continually evaluate and reduce carbon impacts. Achievements include lighter and smaller products, more compact and reusable packaging materials, bulk shipping alternatives, and distribution facilities to allow for load consolidation and full truck load shipments.

Employee Health and Welfare

At Lenovo, worldsourcing means using the best talent, leadership, innovation, and suppliers available worldwide. Clearly, fostering a safe and healthy working environment for Lenovo employees in 61 countries is essential to the Company's productivity and values. Lenovo is recognized as a leading employer around the world, offering competitive compensation packages, abiding by applicable minimum wage requirements in every country and region where it operates. Lenovo meets all required heath and safety regulations in the countries and jurisdictions in which it manufactures. In the last year, the Company's global supply chain was officially OHSAS 18001 certified.

Global Supply Chain

Lenovo's Global Supply Chain continues its focus on driving sustainable activity both within its internal supply chain operations as well as the operations of its suppliers. Internally, Lenovo supply chain team has executed local manufacturing strategies to shorten ship requirements. All Lenovo supply chain facilities meet ISO14001 requirements. In addition, optimizing logistics and shipping further reduces the environmental impact from Lenovo products. Lenovo's award winning use of thermoplastics and other recycled packaging materials is just one example.

As a member of the Electronics Industry Code of Conduct (EICC), Lenovo is helping lead a global, standards-based approach for monitoring suppliers across a broad range of sustainability and social responsibility issues. 97 percent of Lenovo's direct suppliers have committed to meet EICC standards and assessed their compliance against these standards. Audit programs are underway to verify these assessments and identify areas for improvement. In addition these suppliers are making the same stringent demands of their extended sources of supply engaged in the production of goods and services for Lenovo.

Corporate Social Investments

Lenovo dedicates 1 percent of earnings to corporate social investments, focusing on initiatives which reflect the Company's capabilities and core values. Lenovo's signature "Hope through Entrepreneurship" program encourages entrepreneurship and business development in distressed communities around the world. In this program Lenovo donates cash, technology, and expertise to support its goal of helping 100,000 entrepreneurs by 2010 through microfinance, business education, business plan competitions, and startup grants. In 2007, Lenovo initiated its Venture Philanthropy project in China, which aims to provide seed funding and training to build management and operations skills for startup NGOs, enabling their fast growth, and hence to multiply the return on Lenovo's social investments. From the project initiation to the end of the 2007/08 fiscal year, Lenovo has identified 16 NGOs out of several thousand candidates to support.

Directors’ Report and Financial Statements

CONTENTS

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended March 31, 2008.

Principal business and geographical analysis of operations

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

Details of the analyses of the Group's turnover, revenue and segment information for the year by geographical location and by principal business 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 76.

The state of affairs of the Group and of the Company as at March 31, 2008 is set out in the balance sheets on page 77.

The consolidated cash flows of the Group for the year are set out in the statement on page 78.

An interim dividend of HK3.0 cents (2007: HK2.4 cents) per ordinary share, amounting to a total of about HK$269 million (approximately US$35 million) (2007: HK$214 million (approximately US$27 million)), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of HK12.8 cents per ordinary share (2007: HK2.8 cents). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Friday, August 1, 2008 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Friday, July 25, 2008.

The Register of Members of ordinary shares of the Company will be closed from Monday, July 21, 2008 to Friday, July 25, 2008, both dates inclusive, during which period, no transfer of ordinary shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar not later than 4:00 p.m. on Friday, July 18, 2008.

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, 2008 and for the last four financial years are set out on page 144.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity, and note 31 to the financial statements.

Distributable reserves

As at March 31, 2008, the distributable reserves of the Company amounted to US$792,934,000 (2007: US$394,243,000).

Bank loans

Particulars of bank loans as at March 31, 2008 are set out in note 29(b) to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$7,796,652 (2007: US$1,138,150).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 16 to the financial statements.

Share capital

Details of the movements in the share capital of the Company are set out in note 30 to the financial statements.

Subsidiaries and associated companies

Particulars of the Company's principal subsidiaries and associated companies as at March 31, 2008 are set out in notes 38 and 21 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 8 percent of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	14 percent
Five largest suppliers combined	42 percent

None of the directors of the Company, their associates or any shareholder (which to the knowledge of the directors owns more than 5 percent of the Company's share capital) had an interest in the major suppliers noted above.

Directors' rights to acquire shares or debentures

Share Option Schemes

At the 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 ("New Option Scheme") and the termination of the old share option scheme ("Old Option Scheme"). Although no further options may be granted under the Old Option Scheme, all remaining provisions will remain in force to govern the exercise of all the options previously granted.

1. Old Option Scheme

The Old Option Scheme was adopted on January 18, 1994 and was terminated on April 26, 2002. The Old Option Scheme was designed to provide qualified employees with appropriate incentives linked to share ownership. Only employees, including directors, of the Group could participate in the Old Option Scheme. Total number of options must not exceed 10 percent of the issued share capital of the Company. The maximum entitlement of any individual participant thereunder must not exceed 2.5 percent of the shares in issue. The exercise price for options was determined based on not less than 80 percent of the average closing price of the listed ordinary shares for the 5 trading days immediately preceding the date of grant. Options granted were exercisable at any time during a period of 10 years.

As at March 31, 2008, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder is 137,778,000 ordinary shares, representing approximately 1.50 percent of the issued share capital of the Company (including ordinary voting and non-voting shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

2. New Option Scheme

(a) Purpose

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

(b) Qualified participants

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

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

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

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

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

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

Directors' rights to acquire shares or debentures *(continued)*

Share Option Schemes *(continued)*

2. New Option Scheme *(continued)*

(c) *Maximum number of shares*

As at March 31, 2008, the maximum number of ordinary shares available for issue under the New Option Scheme is 145,181,051, representing approximately 1.56 percent of the issued share capital of the Company (including ordinary voting and non-voting shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

(d) *Maximum entitlement of each qualified participant*

The maximum number of ordinary shares issued and to be issued upon exercise of share options granted to each qualified participant (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1 percent of the ordinary shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options to be granted to a director or chief executive of the Company or any of their respective associates are subject to approval by the independent non-executive directors of the Company. In addition, any grant of share options to an independent non-executive director of the Company or any of their respective associates, when aggregated with all share options (whether exercised, cancelled or outstanding) already granted to any of them during the 12-month period up to the date of grant, in excess of 0.1 percent 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 listed ordinary shares on the date of grant; (ii) the average of the closing prices of the listed ordinary shares of the Company for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of the ordinary shares.

(h) *Life of the scheme*

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

Directors' rights to acquire shares or debentures *(continued)*

Share Option Schemes *(continued)*

3. Outstanding options

Particulars of the outstanding options are as follows:

	Options held at April 1, 2007	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at March 31, 2008	Exercise price HK$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme								
Directors								
Mr. Yang Yuanqing	6,000,000	–	–	–	6,000,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	2,250,000	–	–	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Ms. Ma Xuezheng	2,920,000	–	–	–	2,920,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,600,000	–	–	–	1,600,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Mr. Liu Chuanzhi	2,250,000	–	–	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Continuous contract	7,712,000	–	1,016,000	–	6,696,000	4.038	01.28.2000	01.28.2000 to 01.27.2010
employees	74,480,000	–	19,468,000	–	55,012,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
	26,630,000	–	4,728,000	–	21,902,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	832,000	–	–	–	832,000	2.904	08.29.2001	08.29.2001 to 08.28.2011
	53,314,000	–	14,998,000	–	38,316,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme								
Directors								
Mr. Yang Yuanqing	3,000,000	–	–	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Ma Xuezheng	1,600,000	–	–	–	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Liu Chuanzhi	3,000,000	–	–	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Continuous contract	13,188,000	–	4,072,000	–	9,116,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
employees	46,236,000	–	12,780,000	–	33,456,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	105,063,601	–	25,696,550	–	79,367,051	2.545	04.27.2004	04.27.2004 to 04.26.2014
	7,520,000	–	5,780,000	–	1,740,000	2.170	07.08.2004	07.08.2004 to 07.07.2014
Other participants	14,200,000	–	1,838,000	–	12,362,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,600,000	–	60,000	–	1,540,000	2.245	04.26.2003	04.26.2003 to 04.25.2013

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK$5.086.

2. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK$5.305.

3. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK$5.381.

4. 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.

Directors' rights to acquire shares or debentures *(continued)*

Long-term incentive program

The Company adopted the LTI 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 program and the movement in the number of awards for the year ended March 31, 2008 are set out in the Corporate Governance section on pages 39 to 41.

Apart from the share option schemes and the LTI Program, at no time during the year ended March 31, 2008 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any body corporate.

Purchase, sale, redemption or conversion of the Company's securities

During the year and up to the date of this report, the Company purchased 99,318,000 ordinary voting shares of HK$0.025 each in the capital of the Company at prices ranging from HK$4.25 to HK$5.58 per share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Month/Year	Number of shares repurchased and cancelled	Highest price per share HK$	Lowest price per share HK$	Aggregate consideration paid (excluding expenses) HK$
March 2008	70,090,000	5.10	4.25	330,568,740
April 2008	29,228,000	5.58	5.00	154,574,380

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 LTI Program purchased 100,000,000 ordinary voting shares from the market for award to employees upon vesting. Details of the program are set out in the Corporate Governance section on page 39.

During the year and up to the date of this report, the following conversion of shares of the Company took place:

(1) On November 2, 2007, the holders of the convertible preferred shares comprising group companies of TPG Capital, Newbridge Capital and General Atlantic exercised the conversion rights under the terms of issue of such shares and converted 955,001 convertible preferred shares into fully paid 350,459,078 ordinary voting shares of the Company.

(2) 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 or redeemed any of the Company's listed securities and no further conversion notice was received during the above-mentioned period.

Directors

The directors during the year and up to the date of this report were:

Executive Directors

Mr. Yang Yuanqing
Mr. William J. Amelio

Non-executive Directors

Mr. Liu Chuanzhi	
Mr. Zhu Linan	
Ms. Ma Xuezheng	(re-designated as a non-executive director on May 23, 2007)
Mr. James G. Coulter	
Mr. William O. Grabe	
Mr. Shan Weijian	(resigned with effect from May 23, 2008)
Mr. Justin T. Chang (Alternate director to Mr. James G. Coulter)	
Mr. Vince Feng (Alternate director to Mr. William O. Grabe)	(resigned with effect from November 2, 2007)
Mr. Daniel A. Carroll (Alternate director to Mr. Shan Weijian)	(resigned with effect from May 23, 2008)

Directors *(continued)*

Independent Non-executive Directors

Professor Woo Chia-Wei	
Mr. Ting Lee Sen	
Mr. John W. Barter III	
Dr. Tian Suning	(appointed on August 2, 2007)
Mr. Wong Wai Ming	(resigned on May 23, 2007)

In accordance with articles 92 and 101 of the Company's articles of association, Dr. Tian Suning, Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. Liu Chuanzhi and Mr. Zhu Linan will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received from each of 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 Company considers they are independent.

Biography of directors and senior management

Biography of directors

Executive directors

Mr. Yang Yuanqing, 44, is the Chairman of the Board. Mr. Yang is a former Chief Executive Officer of the Company and has been an executive director since December 16, 1997. He has more than 20 years of experience in the field of computer, graduating from the Department of Computer Science at the University of Science and Technology of China with a Master's degree in 1989.

Mr. William J. Amelio, 50, has been an executive director, the President and Chief Executive Officer of the Company since December 20, 2005. Prior to joining the Company, he was the Senior Vice President for the Asia-Pacific and Japan regions of Dell Inc.. Prior to joining Dell in March 2001, he was Executive Vice President and Chief Operating Officer of the retail and financial group of NCR Corporation from July 2000 to March 2001. From 1997 until 2000, Mr. Amelio was President of AlliedSignal Inc.'s turbo charging systems business and President and Chief Executive Officer of Honeywell International Inc.'s transportation and power-systems divisions after the merger of AlliedSignal and Honeywell. He also spent 18 years from 1979 to 1997 with IBM and held a variety of senior management positions, including as General Manager of Worldwide Operations for IBM's personal computing business. He holds a Bachelor's degree in Chemical Engineering from Lehigh University and a Master's degree in Management from Stanford University.

Non-executive directors

Mr. Liu Chuanzhi, 64, was re-designated as a non-executive director of the Company on April 30, 2005 when he ceased to be the Chairman of the Board. Mr. Liu is the leading founder of Lenovo Group. He had been the Chairman of the Board and an executive director of the Company from February 8, 1994 and November 8, 1993 respectively. He has more than 37 years of experience in the computer industry. He graduated from the Department of Radar Communications at Xian Military Communications Engineering College of China in 1966. Mr. Liu is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

Mr. Zhu Linan, 45, has been a non-executive director of the Company since April 30, 2005. He has more than 20 years of management experience. He graduated with a Master's degree in Electronic Engineering from Shanghai Jiao Tong University in 1987. He was a Senior Vice President of the Group. Mr. Zhu is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

Ms. Ma Xuezheng, 55, has been re-designated as a non-executive Vice Chairman of the Company on May 23, 2007. She had been an executive director and Chief Financial Officer of the Company since 1997 and 2000 respectively and held directorship in various subsidiaries of the Company. Ms. Ma has more than 29 years of experience in financial and executive management. She graduated from Capital Normal University in 1976 with a Bachelor of Arts degree. Ms. Ma is currently the managing director of TPG Capital, an equity investment firm having a substantial interest in the convertible preferred shares of the Company. She is a director of Shenzhen Development Bank (listed on the Shenzhen Stock Exchange) and also an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited.

Mr. James G. Coulter, 49, has been a non-executive director of the Company since May 17, 2005. Mr. Coulter is a founding partner of TPG (an equity investment firm having a substantial interest in the convertible preferred shares of the Company) in 1992. From 1986 to 1992, Mr. Coulter was a Vice President of the Robert M. Bass Group, Inc. (now doing business as Keystone, Inc.). From 1986 to 1988, Mr. Coulter was also associated with SPO Partners, an investment firm that focuses on public market and private minority investments. Mr. Coulter also serves on the Board of Directors of Alltel, Inc., The Neiman Marcus Group, Inc., Zhone Technologies, Inc. (NASDAQ listed) and J Crew Group, Inc. (NYSE listed).

Biography of directors and senior management *(continued)*

Biography of directors *(continued)*

Non-executive directors (continued)

Mr. William O. Grabe, 70, has been a non-executive director of the Company since May 17, 2005. Mr. Grabe is a Managing Director of General Atlantic LLC, an equity investment firm having a substantial interest in the convertible preferred shares of the Company, and has been with the General Atlantic Group since 1992. Prior to that, he served as the Vice President and Corporate Officer of IBM. Mr. Grabe is also a director of the following listed companies: Patni Computer Systems Limited (Mumbai Stock Exchange and NYSE listed), Gartner Inc. (NYSE listed) and Compuware Corporation (NASDAQ listed).

Mr. Shan Weijian, 54, has been a non-executive director of the Company since May 17, 2005. Mr. Shan was a partner of Newbridge Capital and is currently a partner of TPG Capital following the integration of the two organizations, both having a substantial interest in the convertible preferred shares of the Company. He serves on the boards of directors at BOC Hong Kong (Holdings) Limited, China Unicom Limited, TCC International Holdings Limited (each of which is listed on the Hong Kong Stock Exchange), Shenzhen Development Bank (listed on the Shenzhen Stock Exchange), Taishin Financial Holdings Limited and Taiwan Cement Corporation (each of which is listed on the Taiwan Stock Exchange). Mr. Shan holds a PhD from the University of California Berkeley.

Alternate directors

Mr. Justin T. Chang, 41, has been an alternate director to Mr. James G. Coulter since May 17, 2005. Mr. Chang is a partner of TPG Capital, an equity investment firm having a substantial interest in the convertible preferred shares of the Company. Mr. Chang received his MBA from Harvard Business School and his Bachelor degree, cum laude, in Economics and Political Science from Yale University. Mr. Chang is also a Co-chairman of the Board of Directors of UTAC Holdings.

Mr. Daniel A. Carroll, 47, has been an alternate director to Mr. Shan Weijian since May 26, 2005. Mr. Carroll was a partner of Newbridge Capital and is currently a partner of TPG Capital following the integration of the two organizations, both having a substantial interest in the convertible preferred shares of the Company. He joined the firm in 1995 and has been responsible for raising and investing the firm's five investment funds and building the firm's Asia-based investment teams. Mr. Carroll runs TPG Capital's investment committee and, together with Mr. Shan Weijian, oversees the firm's investment strategy and operations. Prior to that, Mr. Carroll spent 9 years with Hambrecht & Quist Group. He holds a Bachelor degree in Economics from Harvard University and an MBA from the Stanford University Graduate School of Business. Mr. Carroll is also currently a director of Shenzhen Development Bank (listed on the Shenzhen Stock Exchange), BankThai Public Company Limited and NIS Group Co., Limited.

Independent non-executive directors

Professor Woo Chia-Wei, 70, has been an independent non-executive director of the Company since August 23, 1999. Professor Woo is Senior Advisor to The Shui On Group, and is also President Emeritus and University Professor Emeritus of Hong Kong University of Science and Technology. In 2007, he served on the Hong Kong Special Administrative Region's Commission on Strategic Development and the Chinese People's Political Consultative Conferences. In addition, Professor Woo is an independent non-executive director of First Shanghai Investments Ltd., Shanghai Industrial Holdings Ltd., IDT International Limited and Synergis Holdings Ltd. (all listed on the Hong Kong Stock Exchange).

Mr. Ting Lee Sen, 65, has been an independent non-executive director of the Company since February 27, 2003. He has extensive knowledge and experience in IT industry and is the Managing Director of W.R. Hambrecht + Co. and Board Director of Microelectronics Technology Inc. (listed on the Taiwan Stock Exchange). He is also a former corporate vice president of Hewlett-Packard Company, where he worked for more than 30 years. Mr. Ting obtained a Bachelor of Science degree in Electrical Engineering from the Oregon State University in 1965. He attended graduate studies in the same field at Stanford University and is a graduate of the Stanford Executive Program.

Mr. John W. Barter III, 61, has been an independent non-executive director of the Company since August 10, 2005. Mr. Barter holds a Bachelor of Science degree in Physics from Spring Hill College and an MBA in Finance from Tulane University. He has acquired extensive knowledge and experience in finance and accounting from senior management positions held in both the industrial and technology sectors. Between 1977 and 1997 he held a number of senior management positions with AlliedSignal, Inc. a then NYSE listed company engaged in the development, and manufacturing of aerospace, automotive and advanced materials products and was the chief financial officer of this company from 1988 to 1994. Between 1998 and 2001 he was a director and from 2000 to 2001, the chief financial officer of Kestrel Solutions, Inc. a US company engaged in the development of communications equipment. Mr. Barter is currently also a non-executive director of each of SRA International, Inc., Dice Holdings Inc. and Genpact Limited (all NYSE listed).

Biography of directors and senior management *(continued)*

Biography of directors *(continued)*

Independent non-executive directors (continued)

Dr. Tian Suning, 44, has been appointed as an independent non-executive director of the Company since August 2, 2007. Dr. Tian earned his Ph.D. in natural resource management from Texas Tech University in 1992 and a M.S. degree in ecology from the Graduate School of the Chinese Academy of Sciences in 1988. He has extensive experience and knowledge in the management and financing fields of the telecommunications and information industry. Dr. Tian is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. He held various senior positions in a fixed-line telecommunications operator China Netcom Group Corporations (Hong Kong) Limited (Hong Kong Stock Exchange and NYSE listed) from 1999 and 2007 and was a vice chairman and non-executive director of PCCW Limited (Hong Kong Stock Exchange listed) between 2005 and 2007. During 1994 to 1999, Dr. Tian was co-founder and chief executive officer of AsiaInfo Holdings, Inc. (a NASDAQ listed company providing software and networking solutions in China) of which he is currently an independent non-executive director. He is also an independent non-executive director of MasterCard Incorporated and MasterCard International Incorporated as well as a Senior Advisor of Kohlberg Kravis Roberts & Co. since November 2006. He is also the member of the Advisory Committee to Harvard Business School Asia Pacific Board and the International Business Council of the World Economic Forum.

Biography of senior management

(in alphabetical order of surname)

Mr. Deepak Advani, 44, joined the Group in May 2005 and is currently the Senior Vice President and Chief Marketing Officer. He is also responsible for our global eCommerce business. Mr. Advani was the Vice President, Marketing and Strategy, of IBM's PC Division prior to joining the Group and has expertise in business strategy and brand management. He holds a Master's degree in Computer Engineering and an MBA from The Wharton School.

Mr. Christopher J. Askew, 46, joined the Group in August 2006 and is currently the Senior Vice President of Worldwide Services. Mr. Askew was the Vice President of Dell Services, Asia-Pacific and Japan before joining the Group and has extensive global experience in the services business having held senior leadership roles in Europe, Asia and the US. A UK National, Mr. Askew was educated at George Green Grammar School in London.

Mr. Chen Shaopeng, 39, joined the Group in 1993 and is currently the Senior Vice President and President for Greater China. Mr. Chen has expertise in the sales and marketing of IT products and held various senior positions in regional sales, the commercial desktop PC business, and sales and marketing. Mr. Chen obtained his EMBA degree in Business and Administration from Tsinghua University in 2004.

Mr. Robert Cones, 47, joined the Group in May 2005 and is currently the Controller and Senior Vice President of Finance. Mr. Cones was the Vice President and CFO for IBM's Personal Systems Group prior to joining the Group and has extensive experience in financial planning, operations, business metrics, strategy and financial controls. He holds a Master of Science degree in Industrial Management from Union College.

Mr. Kenneth DiPietro, 49, joined the Group in June 2006 and is currently the Senior Vice President of Human Resources. Mr. DiPietro was a Corporate Vice President at Microsoft Corporation before joining the Group and has extensive experience in both human resources and organizational development. He holds a Bachelor's of Science degree in Industrial and Labour Relations from Cornell University.

Mr. J. Scott DiValerio, 45, joined the Group as the Senior Vice President and President for Americas in December 2007. Mr. DiValerio was most recently Corporate Vice President at Microsoft Corporation. Mr. DiValerio possesses a wide range of international business experience including in networking relationships worldwide with makers of personal computers. He holds a Bachelor's degree in Business Administration from the University of San Diego, California.

Mr. Cuong Viet Do, 41, joined the Group in December 2006 and is currently the Senior Vice President and Chief Strategy Officer. Before joining the Group, Mr. Do spent 17 years with McKinsey & Company where he was Director and Senior Partner. Mr. Do has extensive experience in consulting on issues involving strategy, sales and marketing, operations, and corporate finance. He holds a Bachelor's degree in Biochemisty and Economics from Dartmouth College and an MBA from the Tuck School at Dartmouth.

Mr. He Zhiqiang, 45, joined the Group in 1986 and is currently the Senior Vice President and Chief Technology Officer. He has expertise in R&D of computer products, development of R&D system and R&D project management. He graduated with a Master's degree in Computer Sciences from the Institute of Computing Technology of the Chinese Academy of Sciences.

Dr. Peter D. Hortensius, 47, joined the Group in May 2005 and is the Senior Vice President for the Notebook Business Unit. Dr. Hortensius was the Vice President, Products and Offerings, for IBM's Personal Computing Division prior to joining the Group and has extensive expertise in product and technology R&D. He holds a Doctorate degree in Electrical Engineering from the University of Manitoba.

Biography of senior management *(continued)*

(in alphabetical order of surname)

Mr. Liu Jun, 39, joined the Group in 1993 and has been appointed the Senior Vice President and President for Consumer Business Group since October 2007 responsible for worldwide consumer business. During his years with the Group, Mr. Liu held several senior management positions in research and development, product marketing and corporate strategy. He holds a Bachelor of Science degree in Automation and an executive MBA, both from Tsinghua University in China. He also completed an executive leadership program and two advanced study programs at Harvard University and Stanford University.

Mr. David Miller, 44, joined the Group in August 2006 and is currently the Senior Vice President and President for Asia Pacific. Mr. Miller was President of Dell China/Hong Kong prior to joining the Group and has expertise in customer-facing business in the Asia Pacific region. Mr. Miller holds a Bachelor of Science degree in agriculture business from California Polytechnic State University.

Mr. Michael O'Neill, 51, joined the Group in July 2007 as the Senior Vice President and General Counsel and is responsible for the Group's legal, corporate governance, security and government relations globally. Mr. O'Neill was most recently a partner in a law firm where he was general counsel for the firm's international practices. Prior to that, he spent 16 years at Honeywell where he held several senior legal positions. Mr. O'Neill holds both Juris Doctor and MBA degrees from the University of Baltimore, a BA in Business Administration and Economics from Belmont Abbey College and a Master's degree of Government Contracting from George Washington University.

Ms. Fran O'Sullivan, 49, joined the Group in May 2005 and is currently the Senior Vice President of the Product Group. Ms. O'Sullivan was the General Manager of the PC Division of IBM before joining the Group and has extensive experience in the Personal Computer industry. She graduated from the University of Virginia with a Bachelor of Science degree in Electrical Engineering.

Mr. Steve V. Petracca, 52, joined the Group in May 2005 and is currently Senior Vice President, Mergers and Acquisitions. Prior to joining the Group, he was Chairman and Chief Executive Officer of BuilderDepot, Inc., one of the largest home improvement Internet superstores. Mr. Petracca holds an MBA from Nova University.

Mr. Qiao Song, 40, joined the Group in 1991 and is currently the Senior Vice President and Chief Procurement Officer. He has expertise in product development, sales and marketing, and supply chain and procurement management. Mr. Qiao graduated with a Bachelor of Engineering degree from the Department of Computer Science and Technology at Tsinghua University in 1991.

Mr. Rory Read, 46, joined the Group in June 2006 and is currently Senior Vice President, Global Operations and also heads The Center of Excellence that manages critical global business and customer activities across business functions. He is responsible for the Group's management system and the day-to-day execution of the business operations. He held numerous key executive positions in IBM prior to joining the Group and holds a Bachelor's degree in Information Systems from Hartwick College.

Mr. David Schmoock, 39, joined the Group in 2006 as Senior Vice President, Center of Excellence and has recently assumed the position of Chief Information Officer. Mr. Schmoock is responsible for the Group's information technology strategy and operations. Before joining the Group, he was Vice President of Dell marketing for Asia-Pacific/Japan. Mr. Schmoock holds a Bachelor of Arts degree in Political Science from Columbia University.

Mr. Gerry Smith, 44, joined the Group in August 2006 as Senior Vice President, Global Supply Chain and is responsible for the Group's global procurement, logistics, supply planning and manufacturing operations. Before joining the Group, Mr. Smith was Vice President of the Display Line of Business of Dell. Mr. Smith holds a Bachelor's degree in Finance and Marketing from Pacific Lutheran University.

Mr. Milko van Duijl, 45, joined the Group in May 2005 and is currently the Senior Vice President and President for EMEA (Europe, Middle East and Africa). Mr. van Duijl was the Vice President, EMEA, of IBM's PC Division before joining the Group and has extensive knowledge and expertise of the IT industry, as well as international business management. He holds a doctorandus title/MBA from the University of Rotterdam.

Ms. Wang Xiaoyan, 46, joined the Group in 1994 and is currently the Senior Vice President responsible for information services. She has extensive experience in establishment of IT information systems, finance and administration. She graduated in 1988 with a Master's degree in Engineering from Beijing Institute of Technology.

Mr. Wong Wai Ming, 50, accepted the appointment as Senior Vice President and Chief Financial Officer of the Company on May 23, 2007. He is also the Qualified Accountant of the Company. Mr. Wong was previously an investment banker and has more than 15 years of experience in investment banking and was a member of the Listing Committee of the Stock Exchange. He was an independent non-executive director of the Company from March 30, 1999 to 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 of Science 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 contracts with Mr. Yang Yuanqing, an executive director and Chairman of the Board and with Ms. Ma Xuezheng, the then executive director, Chief Financial Officer and Senior Vice President of the Company, respectively for an unfixed term commencing from October 9, 2006. Upon termination of the service contracts, each of Mr. Yang and Ms. Ma 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 contracts were approved by the shareholders at an extraordinary general meeting of the Company held on November 7, 2006 (at which Mr. Yang and Ms. Ma and their associates abstained from voting) pursuant to rule 13.68 of the Listing Rules. Ms. Ma has retired as the Chief Financial Officer and Senior Vice President of the Company and has been re-designated as a non-executive Vice Chairman of the Company with effect from May 23, 2007. No service contract for being a non-executive Vice Chairman has been entered into between Ms. Ma and the Company.

Mr. William J. Amelio, an executive director, President and Chief Executive Officer of the Company entered into a service contract with the Company for an initial term of 3 years on December 20, 2005 which will automatically continue for successive one-year periods unless otherwise terminated by either party. Upon termination of the service contract, Mr. Amelio may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on a number of factors including the amount of his unvested equity awards and the entitlement and amount of his target bonus. The service contract was approved by the shareholders at an extraordinary general meeting of the Company held on May 24, 2006 (at which Mr. Amelio and his associates abstained from voting) pursuant to rule 13.68 of the Listing Rules.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

Directors' interests

As at March 31, 2008, 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 Issuer in the Listing Rules ("Model Code") 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**	**Trust**	**Aggregate long position**
Mr. Yang Yuanqing	Ordinary voting shares	11,408,048	–	–	–	11,408,048
	Share options	11,250,000	–	–	–	11,250,000
	Share awards	33,860,070	–	–	–	33,860,070
						56,518,118
Mr. William J. Amelio	Ordinary voting shares	7,850,152	–	–	–	7,850,152
	Share awards	41,604,102	–	–	–	41,604,102
						49,454,254
Mr. Liu Chuanzhi	Ordinary voting shares	16,053,667	976,000	–	–	17,029,667
	Share options	5,250,000	–	–	–	5,250,000
	Share awards	1,436,667	–	–	–	1,436,667
						23,716,334
Mr. Zhu Linan	Ordinary voting shares	3,763,667	–	–	–	3,763,667
	Share awards	1,436,667	–	–	–	1,436,667
						5,200,334
Ms. Ma Xuezheng	Ordinary voting shares	16,328,441	–	–	7,240,000	23,568,441
	Share options	6,120,000	–	–	–	6,120,000
	Share awards	9,298,790	–	–	–	9,298,790
						38,987,231
Mr. James G. Coulter	Ordinary voting shares	43,686	–	634,721,524 *(Note 3)*	–	634,765,210
	Share awards	872,667	–	–	–	872,667
						635,637,877
	Preferred shares	–	–	1,267,500	–	1,267,500
Mr. William O. Grabe	Ordinary voting shares	204,888	–	–	–	204,888
	Share awards	1,436,667	–	–	–	1,436,667
						1,641,555
Mr. Shan Weijian *(Note 4)*	Ordinary voting shares	43,634	–	–	–	43,634
	Share awards	1,436,667	–	–	–	1,436,667
						1,480,301
Professor Woo Chia-Wei	Ordinary voting shares	182,738	–	–	–	182,738
	Share awards	1,436,667	–	–	–	1,436,667
						1,619,405

Directors' interests *(continued)*

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

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/underlying shares held: Personal interests	Family interests	Corporate interests	Trust	Aggregate long position
Mr. Ting Lee Sen	Ordinary voting shares	182,686	–	–	–	182,686
	Share awards	1,436,667	–	–	–	1,436,667
						1,619,353
Mr. John W. Barter III	Ordinary voting shares	201,823	–	–	–	201,823
	Share awards	1,436,667	–	–	–	1,436,667
						1,638,490
Dr. Tian Suning	Share awards	202,600	–	–	–	202,600

Notes:

(1) Share options represent underlying shares convertible into ordinary voting shares. Particulars of directors' interests in the share options of the Company are set out under the section "Share Option Schemes".

(2) Share awards represent underlying shares convertible into ordinary voting shares. Details of share awards are set out under the section "Remuneration Policy" in Corporate Governance section.

(3) Mr. James G. Coulter has a deemed corporate interest in these underlying shares derived from the preferred shares and warrants convertible into ordinary voting shares by virtue of his shareholding in TPG Advisors IV, Inc., Tarrant Capital Advisors, Inc., TPG Advisors III, Inc. and T^3 Advisors II, Inc..

(4) Mr. Shan Weijian resigned as a non-executive director on May 23, 2008.

Save as disclosed above, as at March 31, 2008, 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.

Substantial shareholders' interests in securities of the Company

As at March 31, 2008, the following persons (not being a director or chief executive of the Company) had an interests in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

Name	Nature of interests in long position	Capacity and number of shares/ underlying shares held: Beneficial owner	Corporate interests	Aggregate long position	Percentage *(Note 14)*
Legend Holdings Limited *(Note 1)*	Ordinary voting shares	2,667,636,724	1,525,203,247 *(Note 2)*	4,192,839,971	46.88%
Employees' Shareholding Society of Legend Holdings Limited *(Note 3)*	Ordinary voting shares	–	4,192,839,971	4,192,839,971	46.88%
International Business Machines Corporation *(Note 4)*	Ordinary voting and non-voting shares	668,101,963	–	668,101,963	7.46%
TPG Advisors IV, Inc.	Preferred Shares	–	628,921	628,921	35.43%
TPG GenPar IV, L.P.	Preferred Shares	–	628,921	628,921	35.43%

Substantial shareholders' interests in securities of the Company *(continued)*

Name	Nature of interests in long position	Capacity and number of shares/ underlying shares held — Beneficial owner	Capacity and number of shares/ underlying shares held — Corporate interests	Aggregate long position	Percentage *(Note 14)*
TPG IV Acquisition Company LLC *(Note 5)*	Preferred Shares	628,921	–	628,921	35.43%
Mr. David Bonderman *(Note 6)*	Underlying shares	–	634,721,524	634,721,524	7.09%
	Preferred Shares	–	1,267,500	1,267,500	71.41%
T³ II Acquisition Company, LLC *(Note 7)*	Preferred Shares	182,279	–	182,279	10.27%
T³ Partners II, L.P. *(Note 7)*	Preferred Shares	–	182,279	182,279	10.27%
T³ GenPar II, L.P. *(Note 7)*	Preferred Shares	–	182,279	182,279	10.27%
T³ Advisors II, Inc.	Preferred Shares	–	182,279	182,279	10.27%
TPG III Acquisition Company, LLC *(Note 8)*	Preferred Shares	202,800	–	202,800	11.43%
TPG Partners III, L.P. *(Note 8)*	Preferred Shares	–	202,800	202,800	11.43%
TPG Partners IV, L.P. *(Note 8)*	Preferred Shares	628,921	–	628,921	35.43%
TPG GenPar III, L.P. *(Note 8)*	Preferred Shares	–	202,800	202,800	11.43%
TPG Advisors III, Inc.	Preferred Shares	–	202,800	202,800	11.43%
Newbridge Asia Acquisition Company LLC *(Note 9)*	Preferred Shares	253,500	–	253,500	14.28%
Newbridge Asia III, L.P. *(Note 9)*	Preferred Shares	–	253,500	253,500	14.28%
Newbridge Asia GenPar III, L.P. *(Note 9)*	Preferred Shares	–	253,500	253,500	14.28%
Newbridge Asia Advisors III, Inc. *(Note 9)*	Preferred Shares	–	253,500	253,500	14.28%
Tarrant Advisors, Inc.	Preferred Shares	–	253,500	253,500	14.28%
GAP (Bermuda) Ltd.	Preferred Shares	–	426,244	426,244	24.01%
General Atlantic Partners (Bermuda) L.P. *(Note 10)*	Preferred Shares	426,244	–	426,244	24.01%
GAPCO GmbH & Co. KG *(Note 11)*	Preferred Shares	793	–	793	0.04%
GAPCO Management GmbH	Preferred Shares	–	793	793	0.04%

Substantial shareholders' interests in securities of the Company *(continued)*

Name	Nature of interests in long position	Capacity and number of shares/ underlying shares held: Beneficial owner	Corporate interests	Aggregate long position	Percentage *(Note 14)*
General Atlantic Partners 81, L.P. *(Note 12)*	Preferred Shares	39,202	–	39,202	2.21%
Gapstar, LLC *(Note 13)*	Preferred Shares	6,343	–	6,343	0.36%
General Atlantic LLC	Preferred Shares	–	45,545	45,545	2.57%
GAP Coinvestments IV, LLC	Preferred Shares	7,222	–	7,222	0.41%
GAP Coinvestments III, LLC	Preferred Shares	27,695	–	27,695	1.56%

Notes:

1. The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name.
2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested in any shares in which they are interested.
4. International Business Machines Corporation ("IBM") had an interest in an aggregate of 668,101,963 ordinary shares, comprising 292,819,207 ordinary voting shares and 375,282,756 ordinary non-voting shares as at March 31, 2008. The ordinary non-voting shares have the same rights as the ordinary voting shares save that the ordinary non-voting shares shall not carry any voting rights until they are converted into listed ordinary voting shares.
5. TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.
6. Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisors III, Inc., T^3 Advisors II, Inc. and Tarrant Capital Advisors, Inc.
7. These companies are directly/indirectly owned by T^3 Advisors II, Inc.
8. These companies are directly/indirectly owned by TPG Advisors III, Inc.
9. These companies are directly/indirectly owned by Tarrant Advisors, Inc.
10. GAP (Bermuda) Ltd. is the general partner of General Atlantic Partners (Bermuda), L.P.
11. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.
12. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.
13. GapStar, LLC is directly wholly owned by General Atlantic LLC.
14. The percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital 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.

Save as disclosed above, as at March 31, 2008, no other interest or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

Retirement scheme arrangements

The Company provides defined benefit pension plans and defined contribution plans for its employees. 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

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 percent of their compensations (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation). The employer's contribution will increase from 5 percent to 7.5 percent and 10 percent respectively after completion of five and ten years of service by the relevant employees. Details of the cost charged to the income statement and forfeited contributions are set out in note 11.

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 percent 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 China. 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 Lenovo 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.

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, 2008, an amount of US$2,255,541 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, 2008 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:	5.00%
- Expected return on plan assets:	6.00%
- Future salary increases:	3.00%

- The plan was 40% funded at the actuarial valuation date.
- There was a deficit of US$27,336,238 under this plan for this reason at the actuarial valuation date.

Retirement scheme arrangements *(continued)*

Defined benefit pensions plans *(continued)*

Japan - Pension Plan

The Company operates a hybrid plan that consists of a defined contribution up to the annual tax-deductible limit (Yen 216,000) plus a cash balance plan with contributions of 7% of pay. The plan is funded by company contributions to a qualified pension fund and an irrevocable trust fund which is held for the sole benefit of participants and beneficiaries.

For the year ended March 31, 2008, an amount of US$4,544,000 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, 2008 were the following:

- The actuarial valuation was prepared by Mitsubishi Trust Bank. 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:	2.25%
- Expected return on plan assets:	3.50%
- Future salary increases:	3.10%

- The plan was 70% funded at the actuarial valuation date.

- There was a deficit of US$27,054,295 under this plan at the actuarial valuation date.

Germany - Pension Plan

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

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

The plan is partially funded by company and employee contributions to an insured support fund with DBV-Winterthur up to the maximum tax-deductible limits. In line with standard practice in Germany, the remainder is unfunded (book reserve).

For the year ended March 31, 2008, an amount of US$333,000 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, 2008 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:	4.75%
- Future salary increases:	2.20%
- Future pension increases:	1.75%

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

- There was a deficit of US$9,621,958 under this plan at the actuarial valuation date.

Retirement scheme arrangements *(continued)*

Defined Contribution Plans

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

U.S. regular, full-time and part-time employees are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. The Company matches 50 percent of the employee's contribution up to the first 6 percent 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 percent of eligible compensation. Some prior employees of IBM receive additional company contributions varying from 1% to 4% of eligible compensation depending on their age and service as defined under the prior IBM plan they participated in. 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 3 year vesting. Forfeitures of Company contributions arising from employees who leave before they are fully vested in Company contributions are used to reduce future Lenovo contributions. For the period April 1, 2007 to March 31, 2008, the amount of forfeitures was US$62,560, none of which had been used to reduce Lenovo contributions, leaving US$191,574 at March 31, 2008 to be used to reduce Lenovo contributions in the future.

US Lenovo Executive Deferred Compensation Plan

The Company also maintains an unfunded, non-qualified, defined contribution plan, the Lenovo Executive Deferred Compensation Plan ("EDCP"), 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 Savings Plan

UK regular, full-time and part-time employees are eligible to participate in the Lenovo Stakeholder Plan, which is a tax-qualified defined contribution "stakeholder" plan. For employees hired after April 30, 2005, the Company contributes 6% of an employee's eligible compensation to the employee's account each year until he is 35, and then contributes 8% of his eligible compensation after that age. 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.

Company contributions to the plan are immediately vested and there are no forfeitures.

Canada - Lenovo Savings Plan

Canadian regular, full-time and part-time employees are eligible to participate in the Lenovo Savings 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, including the Company match, are made in cash, in accordance with the participants' investment elections.

Facility agreement with covenant on controlling shareholder

The Company entered into a facility agreement with a syndicate of banks on March 13, 2006 (the "Facility Agreement") for a term loan facility of up to US$400 million (the "Facility"). The Facility is repayable on the 42nd, 48th, 54th and 60th months after March 13, 2006. The Facility Agreement includes, inter alia, terms to the effect that it will be an event of default if Legend Holdings Limited, the controlling shareholder of the Company: (i) is not or ceases to be the direct or indirect beneficial owner of 35% or more of the issued share capital of the Company; (ii) does not or ceases to control the Company; or (iii) is not or ceases to be the single largest shareholder of the Company. As at March 31, 2008, the Facility has been fully drawn by the Company.

Connected transactions

During the year, the following transactions constitute connected transactions of the Company and require disclosure in the annual report pursuant to rule 14A.45 of the Listing Rules.

Continuing connected transactions with connected persons other than IBM

1. On March 27, 2006, the Company and Digital China Holdings Limited ("DCHL") entered into (1) a Supplemental Master Sales Agreement (amending a Master Sales Agreement dated May 17, 2004) to govern the sale of IT products and provision of technical services to the Group by DCHL and its subsidiaries ("DC Group") (the "DCHL Sales Arrangement") and (2) a Supplemental Master Purchases Agreement (amending a Master Purchases Agreement dated May 17, 2004) to govern the purchase of computers and IT products (including IBM Products) from the Group by the DC Group (the "DCHL Purchases Arrangement") both for a term of three years. DCHL was an associate of the controlling shareholder of the Company at that time and thus a connected person within the meaning of the Listing Rules.

   For the purpose of rule 14A.35(2) of the Listing Rules, maximum aggregate annual values for such transactions were set. The cap amount of purchases under DCHL Sales Arrangement for each of the three financial years ending March 31, 2007, 2008 and 2009 is HK$118 million. The cap amount of sales under DCHL Purchases Arrangement for the three financial years ending March 31, 2007, 2008 and 2009 is HK$1,837.56 million, HK$2,136.23 million and HK$2,404.85 million respectively. Details of the DCHL Sales Arrangement and the DCHL Purchases Arrangement are set out in the Company's announcement dated March 27, 2006 and circular dated May 4, 2006. The abovementioned Supplemental Master Purchases Agreement and the transactions contemplated thereunder were approved by the independent shareholders at an extraordinary general meeting of the Company on May 24, 2006. DCHL ceased to be an associate of the controlling shareholder of the Company on November 20, 2007 and thus ceased as a connected person within the meaning of the Listing Rules.

2. On May 23, 2007, the Company entered into a service agreement (the "Service Agreement") with Mr. Wong Wai Ming ("Mr. Wong") for an initial term of 3 years in respect of the appointment of Mr. Wong as its chief financial officer and senior vice president with effect from July 15, 2007. Pursuant to the Service Agreement, the total annual compensation of Mr. Wong shall not exceed HK$40,000,000. Mr. Wong was an independent non-executive director of the Company within the preceding 12 months prior to May 23, 2007 and thus a connected person within the meaning of the Listing Rules. Details of the Service Agreement are set out in the Company's announcement dated May 23, 2007.

3. On January 30, 2008, Lenovo Manufacturing Limited ("Lenovo Manufacturing") and Lenovo Beijing Limited ("Lenovo Beijing"), the Company's wholly-owned subsidiaries (collectively the "Vendors"), entered into a conditional agreement (the "S&P Agreement") with Jade Ahead Limited ("Jade Ahead"), Ample Growth Enterprises Limited ("Ample Growth") and others (collectively the "Purchasers"), pursuant to which the Vendors agreed to dispose of and the Purchasers agreed to purchase the entire registered capital of 聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.) ("Lenovo Mobile") at an aggregate consideration of US$100,000,000 subject to adjustment (the "Consideration") (the "Disposal"). Both Jade Ahead and Ample Growth are regarded as associates of the controlling shareholder of the Company and thus connected persons within the meaning of the Listing Rules. Details of the Disposal are set out in the Company's announcement dated January 30, 2008 and circular dated February 20, 2008. The S&P Agreement and the transactions contemplated thereunder were approved by the independent shareholders at an extraordinary general meeting of the Company on March 17, 2008. The Disposal was completed on March 31, 2008 (the "Completion").

   Pursuant to the S&P Agreement, the Purchasers and the Vendors have agreed to, inter alia, the following:

   (a) Lenovo Manufacturing or its designee shall have a right to subscribe from Lenovo Mobile for up to 5% of its total registered capital on a fully-diluted basis (the "Option") exercisable at any time within four years following the Completion of the Disposal, provided that the Option shall be terminated upon the listing of the business or operations of Lenovo Mobile on a PRC or an internationally recognized stock exchange. The exercise price of the Option shall equal to the pro rata portion of the Consideration subject to adjustment for the interest to be purchased or subscribed. The Option was granted to Lenovo Manufacturing as part of the transactions contemplated under the S&P Agreement at nil consideration.

   (b) Lenovo Beijing agreed to grant an entrusted loan in the principal amount of US$25,000,000 to Lenovo Mobile at the prevailing base lending rate published by the People's Bank of China as at the date of entering into of the relevant loan agreement(s) for a term of up to three years as its working capital after Completion (the "Entrusted Loan"). The Entrusted Loan will be secured by a charge over the assets (including the receivables and inventories) of Lenovo Mobile equivalent to principal amount of the Entrusted Loan.

   (c) Lenovo Beijing agreed to provide certain transition services include sharing of office spaces, provision of logistic, administrative and information technology services to Lenovo Mobile on an allocated fee plus tax basis up to March 31, 2009 pursuant to the transition services agreement to be entered for such purpose (the "TSA"). It was estimated that the aggregate annual transaction amount for the provision of the transition services under the TSA will not exceed HK$40,000,000. Lenovo Beijing and Lenovo Mobile entered into the TSA on March 25, 2008.

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates

1. *Ancillary Agreements*

   Pursuant to the Asset Purchase Agreement entered into by the Company and IBM on December 7, 2004, the Company entered into a range of ancillary agreements and arrangements with IBM. According to such agreements and arrangements, the parties thereto will upon the Initial Closing (i.e. April 30, 2005) provide to each other certain transitional services. Details of the ancillary agreements and arrangements ("Ancillary Agreements") are set out in the circular issued by the Company to the shareholders on December 31, 2004 (the "Circular").

   Because IBM was deemed by the Stock Exchange to be a connected person of the Company under the Listing Rules, the Ancillary Agreements constitute continuing connected transactions of the Company under the Listing Rules. The Ancillary Agreements were approved by the independent shareholders at an extraordinary general meeting of the Company on January 27, 2005 and are subject to reporting requirements under the Listing Rules and the Circular. On May 22, 2007, the Stock Exchange confirmed that IBM would no longer be deemed as a connected person of the Company under the Listing Rules.

   (a) Transition Services Agreement and its Amendment Agreement

Services provided:	Transition services in certain finance and accounting function support and certain marketing and sales support, general procurement, human resources and real estate facilities etc. provided by IBM to the Company subject to annual caps below. Pursuant to an Amendment Agreement dated September 22, 2006, the information technology services ("Existing IT Services") will cease to be provided under the Transition Services Agreement but services which are not Existing IT Services shall continue to be provided under the Transition Services Agreement subject to revised annual caps below.
Term:	From the date of the Initial Closing (i.e. April 30, 2005) and range in duration from 12 to 36 months.
Annual caps:	US$285 million, US$223 million and US$197 million for each of the three 12 months period ending April 29, 2006, 2007 and 2008 respectively.
Revised annual caps:	US$12 million for the period from November 7, 2006 to March 31, 2007 and US$10 million and US$2 million for each of the two financial years ending March 31, 2008 and 2009 respectively.
Transaction value:	US$98.02 million (April 30, 2006 to April 29, 2007) US$0.74 million (April 1, 2007 to May 31, 2007 under the Amendment Agreement)

   (b) Strategic Financing and Asset Disposition Services Agreement

Services provided:	Strategic financing and asset disposition services including customer financing services, distribution channel financing services and excess surplus disposition services.
Term:	For a period of five years from respective applicable closing date for the relevant country.
Annual caps:	(i) Customer Financing Services If the Company refers customers to IBM to provide financing and leasing services, the aggregate amount of fees payable by IBM to the Company will not exceed US$8 million from April 30, 2005 to April 29, 2006 and US$9 million for each of the four 12 months period ending April 29, 2007, 2008, 2009 and 2010. (ii) Distribution Channel Financing Services If IBM finances resellers purchase of inventory from the Company, the aggregate amount of fees payable by the Company to IBM will not exceed US$84 million, US$86 million, US$87 million, US$89 million and US$90 million for each of the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates *(continued)*

1. *Ancillary Agreements (continued)*

(b) Strategic Financing and Asset Disposition Services Agreement *(continued)*

(iii) Excess Surplus Disposition Services

If IBM purchases any used personal computing products returned to resellers, the maximum amount of fees payable by IBM to the Company will not exceed US$58 million, US$60 million, US$61 million, US$62 million and US$63 million for each of the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.

Transaction value:

(i) Customer Financing Services

US$4.18 million (April 30, 2006 to April 29, 2007)

US$0.40 million (April 1, 2007 to May 31, 2007)

(ii) Distribution Channel Financing Services

US$59.10 million (April 30, 2006 to April 29, 2007)

US$7.70 million (April 1, 2007 to May 31, 2007)

(iii) Excess Surplus Disposition Services

US$14.01 million (April 30, 2006 to April 29, 2007)

US$1.00 million (April 1, 2007 to May 31, 2007)

(c) IGS Services Agreement

Services provided: Maintenance and warranty services provided by IBM to the Company or its customers.

Term: For a period of five years from April 30, 2005 and automatically extend for additional one-year periods each unless written notice of termination was given.

Annual caps:

(i) If the Company engages IBM to perform services, the aggregate amount payable by the Company to IBM will not exceed US$273 million, US$318 million, US$188 million, US$191 million and US$195 million for each of the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.

(ii) If the Company refers customers to purchase IBM's services, the aggregate amount of fees payable by IBM to the Company will not exceed US$15 million for each of the three 12 months period ending April 29, 2006, 2007 and 2008 and US$16 million for each of the two 12 months period ending April 29, 2009 and 2010.

Transaction value:

(i) US$209.40 million (April 30, 2006 to April 29, 2007)

US$51.20 million (April 1, 2007 to May 31, 2007)

(ii) US$0.48 million (April 30, 2006 to April 29, 2007)

US$1.00 million (April 1, 2007 to May 31, 2007)

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates *(continued)*

1. *Ancillary Agreements (continued)*

(d) Marketing Support Agreement and its Amendment Agreement

Services provided:	IBM provides client team support to the Company to assist it in its post-initial closing sales coverage of the Company's customers by providing various services. Pursuant to an Amendment Agreement dated September 22, 2006, the information technology services ("Existing IT Services") will cease to be provided under the Marketing Support Agreement but services which are not Existing IT Services shall continue to be provided under the Marketing Support Agreement.
Term:	For a period of five years from April 30, 2005.
Annual caps:	US$291 million, US$278 million, US$194 million, US$77 million and US$26 million for each of the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.
Revised annual caps:	US$53 million for the period from November 7, 2006 to March 31, 2007 and US$1 million for the financial year ending March 31, 2008.
Transaction value:	US$105.12 million (April 30, 2006 to April 29, 2007)
	Nil (April 1, 2007 to May 31, 2007 under the Amendment Agreement)

(e) Internal Use Purchase Agreement

Services provided:	IBM agreed to purchase from the Company of not less than 95% of the personal computers IBM requires worldwide for internal use. IBM also has the right to buy personal computers from the Company for resale in certain cases.
Term:	For a period of five years from April 30, 2005.
Annual caps:	US$500 million, US$512 million, US$520 million, US$530 million and US$541 million for each of the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.
Transaction value:	US$276.13 million (April 30, 2006 to April 29, 2007)
	US$64.04 million (April 1, 2007 to May 31, 2007)

(f) Master Distribution Agreement

Services provided:	The Company provides IBM with personal computers and certain services when the relevant customers have previously entered into non-assignable purchase agreements with IBM or insist on purchasing products and services directly from IBM.
Term:	For a period of two years from April 30, 2005.
Annual caps:	Nil
Transaction value:	US$15 million (April 30, 2006 to April 29, 2007)
	Nil (April 1, 2007 to May 31, 2007)

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates *(continued)*

1. *Ancillary Agreements (continued)*

(g) Real Estate Arrangements

Services provided:	Real Estate Arrangements between the Company and IBM including the acquisition of leasehold interests held by IBM, sublease of portions of properties currently leased and to be retained by IBM and occupancy of certain additional properties for a transitional period, option to elect either short term licence or longer term lease with respect to certain sites, option to elect either short term licence or assumption of lease for balance of lease term etc.
Term:	Up to a maximum period of five years from the applicable closing date for the relevant country.
Annual caps:	US$78 million, US$54 million, US$30 million, US$30 million and US$31 million for the five 12 months period ending April 29, 2006, 2007, 2008, 2009 and 2010 respectively.
Transaction value:	US$3.03 million (April 30, 2006 to April 29, 2007)
	US$0.06 million (April 1, 2007 to May 31, 2007)

2. *Continuing Connected Transctions other than the Ancillary Agreements entered into between the Company and IBM (or between their respective associates)*

(a) A Reverse Transition Services Agreement dated April 30, 2005 ("Reverse TSA") pursuant to which the Company agreed to provide certain transition services including after sales services, procurement, programming, sales, marketing and sharing of Global Market View client data provided by the Group to IBM and its affiliates for a term ranging from approximately 7 months to 5 years from August 9, 2005. The annual cap for each of the three financial years ending March 31, 2008 is US$45,400,000, US$29,800,000 and US$7,600,000 respectively. No transaction amount was booked from April 1, 2007 to May 31, 2007.

Details of the Reverse TSA are set out in the circular issued by the Company to the shareholders on July 23, 2005. The Reverse TSA was approved by the independent shareholders at an extraordinary general meeting of the Company on August 9, 2005.

(b) A Master Services Agreement dated December 30, 2005 ("HR-MSA") pursuant to which IBM agreed to provide certain human resources related information technology services to the Group for a term of three years with an option to the Company to extend for two more years. Details of the HR-MSA are set out in an announcement published by the Company on January 17, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$0.50 million.

(c) An IBM International Customer Agreement dated May 26, 2006 ("IICA") pursuant to which IBM agreed to license, sell or provide certain IT products and services to the Group for a term of three years. The IT products include programs and machines while the IT services include the performance of task and provision of advice and counsel, assistance, support or access to a resource. Details of the IICA are set out in an announcement published by the Company on June 26, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$0.20 million.

(d) A Software License Agreement dated June 1, 2006 ("Software Agreement") pursuant to which the Group agreed to license to IBM the use of certain software programs related to the Lenovo ThinkVantage Technologies client application for a fixed term of three years with an option of extension exercisable by the Group to extend the term for another two years. Details of the Software Agreement are set out in an announcement published by the Company on June 26, 2006. No transaction amount was booked from April 1, 2007 to May 31, 2007.

(e) A Sub-lease Agreement dated June 30, 2006 ("Sub-lease Agreement") pursuant to which IBM agreed to sub-lease the laboratory space in Yamato, Japan to the Group for a term of three years from July 1, 2006. Details of the Sub-lease Agreement are set out in an announcement published by the Company on July 17, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$0.44 million.

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates *(continued)*

2. *Continuing Connected Transctions other than the Ancillary Agreements entered into between the Company and IBM (or between their respective associates) (continued)*

   (f) A Facilities Maintenance Services Agreement dated June 30, 2006 ("Facilities Maintenance Services Agreement") pursuant to which the Group agreed to retain IBM to perform facilities maintenance services for its office and laboratory space at Yamato, Japan for a fixed term of nine months commencing from July 1, 2006 and expiring on March 31, 2007, with an option of renewal exercisable by the Group to extend the term for up to three years. The Facilities Maintenance Services Agreement was subsequently extended. Facilities maintenance services include building security services; general maintenance services; planning and management services in respect of internal relocation; management of chemicals and industrial waste; and certain administrative and other related facilities services. Details of the Facilities Maintenance Services Agreement are set out in an announcement published by the Company on July 17, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$0.15 million.

   (g) A Maintenance Agreement dated July 6, 2006 ("Maintenance Agreement") pursuant to which the Group agreed to provide IBM of maintenance and warranty services in the PRC on IBM logoed, other logoed and non-logoed products sold by IBM prior to Initial Closing (i.e. April 30, 2005) for a term of 20.5 months commencing from October 1, 2006 till June 15, 2008. Details of the Maintenance Agreement are set out in an announcement published by the Company on July 17, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$1.95 million.

   (h) A Master Services Agreement dated September 22, 2006 ("IT-MSA") pursuant to which IBM agreed to provide certain IT services worldwide to the Group for a term of not exceeding seven years commencing from November 7, 2006 and expiring on August 31, 2013 and the Group may, at its option, extend the term for two additional periods of one year each. The IT-MSA provides the framework for the transition to, and ongoing operation of, a new IT infrastructure and architecture for the Group. The new IT infrastructure and architecture will replace the current IT infrastructure and architecture which is part of IBM's legacy IT systems. The Company has also on the same date entered into Amendment Agreements ("Amendment Agreements") amending the Transition Services Agreement and the Marketing Support Agreement entered into on December 7, 2004. Details of the IT-MSA and the Amendment Agreements are set out in the circular issued by the Company to the shareholders on October 19, 2006. IT-MSA and the Amendment Agreements were approved by the independent shareholders at an extraordinary general meeting of the Company on November 7, 2006. The transaction amount from April 1, 2007 to May 31, 2007 is US$27.12 million.

   (i) A Master End-User Services Agreement dated January 23, 2007 ("EUS Agreement") pursuant to which IBM agreed to provide project based technical support services to the Group for the benefit of its customers for a term of five years commencing from February 5, 2007. Such services include fee-based technical support services in respect of the Group's new service offerings to its customers, and include additional services as such as PC installation, deployment, help desk, recycling and other related services to be delivered to the Group's customers. Details of the EUS Agreement are set out in an announcement published by the Company on February 5, 2007. The transaction amount from April 1, 2007 to May 31, 2007 is US$0.17 million.

In accordance with rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with 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.

Auditor

The financial statements 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 percent of the Company's issued shares as required under the Listing Rules.

On behalf of the Board

Yang Yuanqing

Yang Yuanqing
Chairman

Hong Kong, May 22, 2008

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders 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 (together, the "Group") set out on pages 76 to 143, which comprise the consolidated and company balance sheets as at March 31, 2008, and the consolidated income statement, 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 notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 141 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 22, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2008

	Note	**2008 US$'000**	2007 US$'000
Continuing operations			
Sales	5	**16,351,503**	13,978,309
Cost of sales		**(13,901,523)**	(12,091,433)
Gross profit		**2,449,980**	1,886,876
Other income – net	6	**17,261**	8,187
Selling and distribution expenses		**(1,103,713)**	(1,033,296)
Administrative expenses		**(595,902)**	(488,150)
Research and development expenses		**(229,759)**	(196,225)
Other operating expenses – net		**(38,823)**	(15,906)
Operating profit		**499,044**	161,486
Finance income	7	**52,048**	26,329
Finance costs	8	**(38,366)**	(35,133)
Share of profits of associated companies		**124**	1,869
Profit before taxation	9	**512,850**	154,551
Taxation	10	**(47,613)**	(26,197)
Profit from continuing operations		**465,237**	128,354
Discontinued operations			
Profit from discontinued operations	13(a)	**19,920**	32,784
Profit for the year		**485,157**	161,138
Profit attributable to shareholders of the Company			
– Continuing operations		**464,343**	128,354
– Discontinued operations		**19,920**	32,784
		484,263	161,138
Minority interests		**894**	–
		485,157	161,138
Dividends	14	**186,753**	59,331
Basic earnings per share attributable to shareholders of the Company	15(a)		
– Continuing operations		**US5.29 cents**	US1.49 cents
– Discontinued operations		**US0.22 cents**	US0.38 cents
		US5.51 cents	US1.87 cents
Diluted earnings per share attributable to shareholders of the Company	15(b)		
– Continuing operations		**US4.86 cents**	US1.47 cents
– Discontinued operations		**US0.20 cents**	US0.37 cents
		US5.06 cents	US1.84 cents

BALANCE SHEETS

At March 31, 2008

		Group		Company	
	Note	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Non-current assets					
Property, plant and equipment	16	**364,778**	326,058	**617**	613
Prepaid lease payments	17	**6,099**	5,807	**–**	–
Construction-in-progress	18	**51,237**	20,438	**13,893**	16,500
Intangible assets	19	**1,838,368**	1,867,689	**8,243**	5,413
Investments in subsidiaries	20(a)	**–**	–	**1,187,893**	1,145,721
Investments in associated companies	21	**2,690**	3,908	**–**	–
Deferred tax assets	22	**156,440**	101,551	**–**	–
Available-for-sale financial assets	23	**67,697**	42,938	**–**	361
Other non-current assets		**7,172**	20,000	**–**	–
		2,494,481	2,388,389	**1,210,646**	1,168,608
Current assets					
Inventories	24	**471,557**	357,663	**–**	–
Trade receivables	25(a)	**860,543**	641,593	**–**	–
Notes receivable	25(b)	**371,126**	190,857	**–**	–
Derivative financial assets		**3,392**	1,616	**–**	–
Deposits, prepayments and other receivables	25(c)	**767,268**	784,963	**6,679**	7,168
Amounts due from subsidiaries	20(b)	**–**	–	**1,369,267**	855,145
Income tax recoverable		**40,002**	22,041	**–**	–
Bank deposits	26	**540,058**	–	**–**	–
Cash and cash equivalents	26	**1,651,420**	1,063,716	**338,122**	92,626
		4,705,366	3,062,449	**1,714,068**	954,939
Total assets		**7,199,847**	5,450,838	**2,924,714**	2,123,547
Share capital	30	**29,699**	28,504	**29,699**	28,504
Reserves	31	**1,583,390**	1,105,028	**2,066,469**	1,532,040
Shareholders' funds		**1,613,089**	1,133,532	**2,096,168**	1,560,544
Minority interests		**174**	744	**–**	–
Total equity		**1,613,263**	1,134,276	**2,096,168**	1,560,544
Non-current liabilities	29	**1,098,123**	789,058	**684,399**	428,514
Current liabilities					
Trade payables	27(a)	**2,282,199**	1,977,206	**–**	–
Notes payable	27(b)	**46,421**	49,154	**–**	–
Derivative financial liabilities		**18,197**	2,464	**1,991**	106
Provisions, accruals and other payables	28	**1,944,724**	1,412,122	**13,955**	12,799
Amounts due to subsidiaries	20(b)	**–**	–	**93,201**	121,584
Income tax payable		**87,209**	60,013	**–**	–
Short-term bank loans		**61,130**	18,028	**–**	–
Current portion of non-current liabilities		**48,581**	8,517	**35,000**	–
		4,488,461	3,527,504	**144,147**	134,489
Total liabilities		**5,586,584**	4,316,562	**828,546**	563,003
Total equity and liabilities		**7,199,847**	5,450,838	**2,924,714**	2,123,547
Net current assets/(liabilities)		**216,905**	(465,055)	**1,569,921**	820,450
Total assets less current liabilities		**2,711,386**	1,923,334	**2,780,567**	1,989,058

On behalf of the Board

Yang Yuanqing
Director

William J. Amelio
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2008

	Note	2008 US$'000	2007 US$'000
Continuing operations			
Cash flows from operating activities			
Net cash generated from operations	36	**1,131,804**	524,732
Interest paid		**(41,197)**	(26,342)
Tax paid		**(81,759)**	(61,411)
Net cash generated from operating activities		**1,008,848**	436,979
Cash flows from investing activities			
Purchase of property, plant and equipment		**(124,561)**	(124,200)
Sale of property, plant and equipment		**4,975**	3,456
Payment for construction-in-progress		**(67,142)**	(39,601)
Payment for intangible assets		**(75,575)**	(60,533)
Net proceeds from disposal of investments		**13,523**	9,814
Proceeds from partial disposal of interest in an associated company		**–**	22,181
Net cash outflow from discontinued operations		**(5,371)**	–
Increase in bank deposits		**(540,058)**	–
Dividend received		**223**	–
Interest received		**60,049**	26,328
Net cash used in investing activities		**(733,937)**	(162,555)
Cash flows from financing activities			
Exercise of share options		**34,829**	9,865
Repurchase of shares		**(42,583)**	(10,445)
Contributions to employee share trusts		**(63,177)**	(84,892)
Dividends paid		**(67,087)**	(57,724)
Increase/(decrease) in bank borrowings		**428,683**	(110,330)
Net cash generated from/(used in) financing activities		**290,665**	(253,526)
Increase in cash and cash equivalents		**565,576**	20,898
Discontinued operations			
(Decrease)/increase in cash and cash equivalents from discontinued operations	13(b)	**(12,695)**	32,137
Effect of foreign exchange rate changes		**34,823**	5,700
Cash and cash equivalents at the beginning of the year		**1,063,716**	1,004,981
Cash and cash equivalents at the end of the year	26	**1,651,420**	1,063,716

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2008

	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	–	–	–	–	–	–	–	–	(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)
Contribution 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended March 31, 2007

	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	**(Accumulated losses)/ retained earnings** US$'000	**Minority interests** US$'000	**Total** US$'000
At April 1, 2006	28,504	1,043,260	10,769	(3,313)	(3,579)	396	(51,043)	22,791	(3,882)	744	1,044,647
Fair value change on available-for-sale financial assets	–	–	–	–	21,560	–	–	–	–	–	21,560
Profit for the year	–	–	–	–	–	–	–	–	161,138	–	161,138
Exchange differences	–	–	–	(19,443)	–	–	–	–	–	–	(19,443)
Reserve realized on disposal of available-for-sale financial assets	–	–	–	–	(2,903)	–	–	–	–	–	(2,903)
Transfer of warrants from non-current liabilities at fair value	–	–	35,210	–	–	–	–	–	–	–	35,210
Vesting of shares under long-term incentive program	–	–	–	–	–	–	8,634	(8,372)	–	–	262
Exercise of share options	101	9,764	–	–	–	–	–	–	–	–	9,865
Share-based compensation	–	–	–	–	–	–	–	37,001	–	–	37,001
Repurchase of shares	(101)	(10,445)	–	–	–	101	–	–	–	–	(10,445)
Contributions to employee share trusts	–	–	–	–	–	–	(84,892)	–	–	–	(84,892)
Dividends paid	–	–	–	–	–	–	–	–	(57,724)	–	(57,724)
At March 31, 2007	28,504	1,042,579	45,979	(22,756)	15,078	497	(127,301)	51,420	99,532	744	1,134,276

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

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.

The Group has disposed of the entire interests in its Greater China mobile handset operations; and accordingly, the results of the Group's Greater China mobile handset operations are presented as discontinued operations with prior period figures reclassified in the financial statements.

The Group has adopted those new standards, amendments to standards and interpretations that are mandatory for the year ended March 31, 2008. The adoption of these new standards, amendments to standards and interpretations do not result in substantial changes to the Group's accounting policies or financial results except that new and revised disclosures, in particular those in connection with HKFRS 7, "Financial instruments: Disclosures" and amendment to HKAS 1 "Presentation of financial statements – Capital disclosures", have been made in the financial statements. Certain comparative figures have been reclassified to conform to the current year's presentation.

At the date of approval of these financial statements, the following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended March 31, 2008 and have not been early adopted:

- 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 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
- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 1, 2008
- HK(IFRIC)-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after July 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 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 standards, amendments to standards and interpretations above that are applicable to the Group in future periods.

2 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of consolidation

(i) The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to March 31.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies 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.

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2(f)(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

(ii) Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(iii) In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associated companies

(i) An associated company is an entity, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence, but not control, is exercised in its management, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(ii) The results and assets and liabilities of associated companies are incorporated into the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associated companies are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associated companies, less any identified impairment loss. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

(iii) Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(iv) In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

2 Significant accounting policies *(continued)*

(c) 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 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. 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 or qualifying net investment hedges.

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 profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss 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 included in the investment revaluation reserve in equity.

(iii) The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the 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 a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

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.

(d) Property, plant and equipment

(i) Buildings and leasehold improvements
Buildings comprise mainly factory and office premises. Buildings and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of buildings is calculated to write off their cost to their estimated residual value on the straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group of 50 years whichever is shorter. The principal annual rates used for this purpose are 2 to 5 percent.

Depreciation of leasehold improvements is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group of 5 to 10 years or unexpired periods of the leases whichever is shorter. The principal annual rates used for this purpose are 10 to 20 percent.

2 Significant accounting policies *(continued)*

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

(ii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other property, plant and equipment is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery	5 – 10%
Furniture and fixtures	20 – 33%
Office equipment	10 – 20%
Motor vehicles	20 – 33%

(iii) Carrying value of property, plant and equipment

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.

(iv) Gain or loss on disposal of property, plant and equipment

Gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the income statement.

(v) Subsequent costs

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 costs are charged to the income statement during the financial period in which they are incurred.

(e) Construction-in-progress

Construction-in-progress is stated at cost. 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 put into use, less any accumulated impairment losses. No depreciation or amortization is provided for on construction-in-progress. On completion, the buildings, plant and machinery or internal use software are transferred to property, plant and equipment or intangible assets at cost less accumulated impairment losses.

(f) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries and associated companies at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each geographical segment in which it operates.

2 Significant accounting policies *(continued)*

(f) Intangible assets *(continued)*

(ii) Trademarks and trade names

Trademarks and trade names are shown at historical cost.

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. The costs incurred to acquire trademarks and trade names are amortized over their estimated useful lives.

(iii) Internal use software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of up to 5 years.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

(iv) Customer relationships

Customer relationships represent the fair value attributed to the customer base or existing contractual bids with customers taken over as a result of business combinations. The amount is amortized over the transition period until the customer relationships are fully transferable to the Group.

(v) Patents, technology and marketing rights

Expenditure on acquired patents, technology and marketing rights is capitalized and amortized on a systematic basis over their useful lives.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets 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.

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and 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 and evaluates this designation at every reporting date.

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

This category has two sub-categories: 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. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

2 Significant accounting policies *(continued)*

(h) Financial assets *(continued)*

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables in the balance sheet (Note 2(k)).

(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 management intends to dispose of the asset within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 carried at amortized cost using the effective interest method.

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss, while translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains or losses from investment 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.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

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. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, 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. Impairment testing of trade receivables is described in Note 2(k).

2 Significant accounting policies *(continued)*

(i) 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 remeasured at their fair value. 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: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or (2) 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 hedge 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.

(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 are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(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.

(j) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis, and in the case of work-in-progress and finished goods (except for trading products), cost comprises direct materials, direct labour 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.

(k) Trade and other receivables

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. A provision for impairment of trade and other receivables is made to the extent that they are considered to be doubtful. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the income statement. When trade and other receivables become uncollectible, they are written off against the allowance account. Subsequent recovery of amounts previously written off are credited to the income statement.

2 Significant accounting policies *(continued)*

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks and highly liquid investments which are subject to an insignificant risk of changes in value.

(m) Share capital

Ordinary shares, both voting and non-voting, are classified as equity. The unlisted non-voting ordinary shares have the same rights as the listed voting ordinary shares save that the non-voting ordinary shares shall not carry any voting rights until they are converted into listed ordinary shares.

Convertible preferred shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these convertible preferred shares are recognized in the income statement as interest expense.

The fair value of the liability portion of convertible preferred shares is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the convertible preferred shares. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Incremental costs directly attributable to the issue of new shares or exercise of 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.

(n) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(p) 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognized for any expected reimbursement that would be virtually certain if a claim were to be settled.

2 Significant accounting policies *(continued)*

(p) Provisions *(continued)*

(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 labour 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 can be reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

(q) Deferred taxation

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 amounts in the financial statements. However, 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 the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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, associated companies, except 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.

(r) 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.

(s) 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

Revenue from the sale of goods comprises the sale of hardware, software and peripherals, and services and mobile devices, and 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 of a sales arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and delivery has occurred. Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, generally of three 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. In-transit product shipments to customers of US$30 million as at March 31, 2008 (2007: US$129 million) are included in deposits, prepayments and other receivables in the balance sheet.

2 Significant accounting policies *(continued)*

(s) Revenue *(continued)*

(ii) Other income

Interest income is recognized on a time-proportion basis 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 loans is recognized using the original effective interest rate.

Dividend income is recognized when the right to receive payment is established.

(t) 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 changes, storage and warehousing cost, 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.

(u) 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 that 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. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The benefit payable to the employee is the amount of the contributions plus the accumulated investment returns.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. 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 or government 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 liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the income statement in the year they occur.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by 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.

2 Significant accounting policies *(continued)*

(u) Employee benefits *(continued)*

(ii) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The method of accounting, assumptions and the frequency of valuations for material schemes are similar to those used for defined benefit pension schemes. 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 in the income statement in the year they occur. These obligations 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 three types of awards, namely share appreciation rights, restricted share units and performance 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. Non-market vesting conditions (for example, profitability and sales growth targets) are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested.

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, and a corresponding adjustment to equity over the remaining vesting period.

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 trustee 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 by the employees, the corresponding amounts in the share-based compensation reserve will be transferred to share capital (nominal value) and share premium for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Share options

In accordance with the transitional provision of HKFRS 2, share options granted after November 7, 2002 and were unvested on April 1, 2005 was 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 (nominal value) and share premium when the options are exercised.

(v) 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. Rental applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

3 Financial risk management

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall 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.

Risk management is carried out by a central treasury department ("Group Treasury") under approved policies. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group has the overall risk management such as foreign exchange risk, credit risk, interest rate risk, price risk, use of derivative financial instruments and investing excess liquidity.

(a) Financial risk factors

(i) *Foreign currency risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi, Euro, Pound Sterling, Canadian dollar, Japanese Yen and Australian dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations.

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group's foreign exchange forward 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 subsidiary/region, as appropriate.

(ii) *Price risk*

The Group is also exposed to commodity price risk on key component prices and raw material costs. However, the Group does not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of key components and raw materials.

(iii) *Cash flow and fair value interest rate risk*

During the years ended March 31, 2007 and 2008, the Group's substantial long-term borrowings are denominated in United States dollar. Borrowings denominated in other currencies for the years ended March 31, 2007 and 2008 are insignificant. 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 a global channel financing program. The Group is exposed to fluctuation of interest rates of all the currencies covered by the global channel financing program.

(iv) *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 during the reporting period, and management does not expect any losses from non-performance by these counterparties.

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility by maintaining availability of funding under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve comprises undrawn borrowing facility (Note 33), bank deposits and cash and cash equivalents (Note 26) on the basis of expected cash flows.

The tables below analyze the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

	Group				
	Repayable on demand US$'000	**3 months or less but not repayable on demand** US$'000	**Over 3 months to 1 year** US$'000	**Over 1 to 5 years** US$'000	**Total** US$'000
At March 31, 2008					
Amount payable for marketing rights	**–**	**–**	**11,443**	**5,417**	**16,860**
Bank loans	**–**	**–**	**96,130**	**465,000**	**561,130**
Derivative financial liabilities	**–**	**–**	**18,197**	**1,788**	**19,985**
Trade payables	**1,922**	**2,105,276**	**175,001**	**–**	**2,282,199**
Notes payable	**–**	**46,421**	**–**	**–**	**46,421**
Provisions, accruals and other payables	**316,183**	**1,130,886**	**497,655**	**209,071**	**2,153,795**
Convertible preferred shares	**–**	**–**	**–**	**227,564**	**227,564**
Share-based compensation	**–**	**–**	**–**	**6,430**	**6,430**
Deferred revenue	**–**	**–**	**–**	**88,701**	**88,701**
Others	**–**	**–**	**2,138**	**25,045**	**27,183**
At March 31, 2007					
Amount payable for marketing rights	–	–	8,517	18,123	26,640
Bank loans	–	–	18,028	100,000	118,028
Derivative financial liabilities	–	–	2,464	–	2,464
Trade payables	572,407	1,303,861	100,938	–	1,977,206
Notes payable	–	49,154	–	–	49,154
Provisions, accruals and other payables	130,235	873,724	408,163	166,525	1,578,647
Convertible preferred shares	–	–	–	350,000	350,000
Share-based compensation	–	–	–	11,019	11,019
Deferred revenue	–	–	–	57,166	57,166
Others	–	–	–	15,782	15,782

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(v) Liquidity risk (continued)

	Company				
	Repayable on demand US$'000	**3 months or less but not repayable on demand** US$'000	**Over 3 months to 1 year** US$'000	**Over 1 to 5 years** US$'000	**Total** US$'000
At March 31, 2008					
Bank loans	**–**	**–**	**35,000**	**465,000**	**500,000**
Derivative financial liabilities	**–**	**–**	**1,991**	**1,788**	**3,779**
Provisions, accruals and other payables	**–**	**–**	**13,955**	**–**	**13,955**
Convertible preferred shares	**–**	**–**	**–**	**227,564**	**227,564**
Share-based compensation	**–**	**–**	**–**	**6,430**	**6,430**
At March 31, 2007					
Bank loans	–	–	–	100,000	100,000
Derivative financial liabilities	–	–	106	–	106
Provisions, accruals and other payables	–	–	12,799	–	12,799
Convertible preferred shares	–	–	–	350,000	350,000
Share-based compensation	–	–	–	11,019	11,019

The tables below analyze the Group's and the Company's derivative financial instruments that will be settled on a gross basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

	Group				
	Repayable on demand US$'000	**3 months or less but not repayable on demand** US$'000	**Over 3 months to 1 year** US$'000	**Over 1 to 5 years** US$'000	**Total** US$'000
At March 31, 2008					
Forward foreign exchange contracts cash flow hedges:					
– outflow	**–**	**1,117,419**	**–**	**–**	**1,117,419**
– inflow	**–**	**1,105,808**	**–**	**–**	**1,105,808**
Interest rate swaps contracts – cash flow hedges:					
– outflow	**–**	**2,805**	**8,865**	**13,966**	**25,636**
– inflow	**–**	**2,931**	**6,608**	**13,845**	**23,384**
At March 31, 2007					
Forward foreign exchange contracts cash flow hedges:					
– outflow	–	725,163	–	–	725,163
– inflow	–	724,294	–	–	724,294

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(v) Liquidity risk (continued)

	Company				
	Repayable on demand US$'000	**3 months or less but not repayable on demand** US$'000	**Over 3 months to 1 year** US$'000	**Over 1 to 5 years** US$'000	**Total** US$'000
At March 31, 2008					
Forward foreign exchange contracts					
cash flow hedges:					
– outflow	**–**	**31,246**	**–**	**–**	**31,246**
– inflow	**–**	**29,255**	**–**	**–**	**29,255**
Interest rate swaps					
contracts – cash flow hedges:					
– outflow	**–**	**2,805**	**8,865**	**13,966**	**25,636**
– inflow	**–**	**2,931**	**6,608**	**13,845**	**23,384**
At March 31, 2007					
Forward foreign exchange contracts					
cash flow hedges:					
– outflow	–	30,916	–	–	30,916
– inflow	–	30,810	–	–	30,810

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, 2008, if United States dollar had weakened/strengthened by 1 percent against all other currencies the Group exposed to, and with all other variables held constant, post-tax profit for the year would have been US$2.13 million (2007: US$0.01 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of receivable and payable balances. Profit is more sensitive to movement in United States dollar/Renminbi exchange rates for the year ended March 31, 2008 among all the currencies due to the net exposure is highest in the whole portfolio.

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, 2008, if interest rates on United States dollar-denominated borrowings had been 25 basis points higher/lower with all other variables held constant, other components of equity would have been US$2.17 million (2007: Nil) higher/lower mainly as a result of the increase/decrease in the fair value of the interest rate swaps.

At March 31, 2008, if interest rates on the global channel financing program had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$1.28 million (2007: US$1.24 million) lower/higher. The calculation is based on the assumption that the interest rates of all the currencies covered by the global channel financing program 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 risk 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 the 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 the net cash position of the Group as at March 31, 2007 and 2008 are as follows:

	2008 **US$ million**	2007 US$ million
Bank deposits and cash and cash equivalents (Note 26)	**2,191**	1,064
Less: total borrowings	**(561)**	(118)
Net cash position	**1,630**	946
Total equity	**1,613**	1,134
Gearing ratio	**0.35**	0.10

3 Financial risk management *(continued)*

(d) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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 a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 is 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 amount of an asset or a cash-generating unit has 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 five-year financial budgets 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, effective tax rate, 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.

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. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation 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.

4 Critical accounting estimates and judgments *(continued)*

(b) Income taxes *(continued)*

Deferred 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 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 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 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 and deferred tax provisions and deferred tax assets 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 arrangement with the suppliers. These amounts are recognized as a seperate 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) Future billing adjustments

Estimates that further impact revenue recognition relate primarily to customer sales returns and allowance for future volume discounts and price rebates. Both estimates are relatively predictable based on historical experience. The primary factors affecting the Group's accrual for estimated customer returns include estimated return rates as well as the number of units shipped that still have a right of return as of the balance sheet date.

(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 analysis for various available-for-sale financial assets that are not traded in active markets.

5 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.

Segment assets consist primarily of inventories and accounts receivable, and exclude assets not dedicated to a particular segment, including mainly deferred tax assets, available-for-sale financial assets and centrally managed cash and cash equivalents and inventories. Segment liabilities comprise mainly accounts payable and exclude liabilities not dedicated to a particular segment, including mainly long-term bank borrowings, convertible preferred shares and income tax payable. Capital expenditure mainly comprises additions to property, plant and equipment, intangible assets and construction-in-progress.

5 Segment information *(continued)*

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

There were no material sales or other transactions among the business segments for the years ended March 31, 2007 and 2008.

(a) Primary reporting format – geographical segments

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

	Continuing operations						Discontinued operations (Note 13(a))
	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	Greater China US$'000
Sales	4,506,451	3,606,048	2,113,250	6,125,754	–	16,351,503	436,369
Segment operating results	88,915	122,549	(2,701)	426,248	(153,228)	481,783	(42,867)
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/(loss) before taxation						512,850	(42,867)
Taxation						(47,613)	4,564
Profit/(loss) for the year						465,237	(38,303)
Capital expenditure	53,261	8,259	27,179	78,162	117,182	284,043	5,837

Other significant segment items included in the income statement 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	Greater China US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	40,775	9,091	11,320	18,656	8,183	88,025	8,231
Amortization of intangible assets	–	–	–	28,140	99,173	127,313	97
Employee benefit costs (Note 11)	380,105	314,907	191,310	250,901	56,973	1,194,196	62,396
Rental expenses under operating leases	6,628	8,068	10,423	9,429	155	34,703	4,117
Restructuring costs (amount net of reversal of unused restructuring costs provision)							
– Staff related costs (included in employee benefit costs)	12,926	14,955	15,207	982	–	44,070	8,352
– Others	3,558	(98)	(119)	229	–	3,570	–

Note:

Segment operating profit/(loss) presented above include the impact of restructuring costs of US$47,640,000. The segment operating profit/(loss) before restructuring costs 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) respectively.

5 Segment information *(continued)*

(a) Primary reporting format – geographical segments *(continued)*

The segment assets and liabilities at 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
Segment assets	**1,472,775**	**788,664**	**1,213,620**	**2,715,799**		**6,190,858**
Investments in associated companies					**2,690**	
Deferred tax assets					**156,440**	
Available-for-sale financial assets					**67,697**	
Derivative financial assets					**3,392**	
Income tax recoverable					**40,002**	
Cash and cash equivalents					**449,576**	
Other unallocated assets					**289,192**	**1,008,989**
Consolidated total assets						**7,199,847**
Segment liabilities	**1,384,307**	**1,029,253**	**933,348**	**1,414,180**		**4,761,088**
Bank borrowings					**500,000**	
Convertible preferred shares					**211,181**	
Share-based compensation					**6,430**	
Derivative financial liabilities					**19,985**	
Income tax payable					**87,209**	
Other unallocated liabilities					**691**	**825,496**
Consolidated total liabilities						**5,586,584**

5 Segment information *(continued)*

(a) Primary reporting format – geographical segments *(continued)*

The segment results and capital expenditure information for the year ended March 31, 2007 are as follows:

	Continuing operations						Discontinued operatons (Note 13(a))
	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	Greater China US$'000
Sales	4,119,481	3,056,723	1,833,243	4,968,862	–	13,978,309	611,895
Segment operating results	(27,538)	25,856	(1,278)	294,150	(137,891)	153,299	33,178
Finance income						26,329	–
Finance costs						(35,133)	–
Impairment of assets						(8,990)	–
Fair value change on warrants						(171)	–
Gain on disposal of investments and available-for-sale financial assets						17,348	–
Share of profits of associated companies						1,869	–
Profit before taxation						154,551	33,178
Taxation						(26,197)	(394)
Profit for the year						128,354	32,784
Capital expenditure	84,745	13,520	20,245	44,646	60,545	223,701	19,400

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

	Americas	Europe, Middle East and Africa	Asia Pacific (excluding Greater China)	Greater China	Corporate or unallocated	Total	Greater China (Discontinued)
Depreciation of property, plant and equipment and amortization of prepaid lease payments	32,231	6,257	9,521	16,724	3,086	67,819	5,389
Amortization of intangible assets	–	–	–	17,478	87,359	104,837	1,154
Employee benefit costs (Note 11)	320,442	214,979	136,837	172,319	59,674	904,251	55,174
Rental expenses under operating leases	6,469	7,006	10,069	9,374	475	33,393	1,916
Restructuring costs (amount net of reversal of unused restructuring costs provision)							
– Onerous contracts	(2,922)	(1,032)	9,184	743	–	5,973	–
– Impairment of trademarks and trade names (Note 19)	2,526	713	1,052	4,686	–	8,977	–

Note:

Segment operating profit/(loss) presented above include the impact of restructuring costs of US$11,794,000. The segment operating profit/(loss) before restructuring costs are: Americas (US$29,270,000); Europe, Middle East and Africa US$20,633,000; Asia Pacific (excluding Greater China) US$5,403,000; Greater China US$297,240,000; and corporate or unallocated (US$128,913,000) respectively.

5 Segment information *(continued)*

(a) Primary reporting format – geographical segments *(continued)*

The segment assets and liabilities at March 31, 2007 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	1,188,004	589,350	847,038	2,050,866		4,675,258
Investments in associated companies					3,908	
Deferred tax assets					101,551	
Available-for-sale financial assets					42,938	
Derivative financial assets					1,616	
Income tax recoverable					22,041	
Cash and cash equivalents					439,212	
Other unallocated assets					164,314	775,580
Consolidated total assets						5,450,838
Segment liabilities	1,228,160	904,054	587,436	1,066,939		3,786,589
Bank borrowings					100,000	
Convertible preferred shares					317,495	
Share-based compensation					11,019	
Derivative financial liabilities					2,464	
Income tax payable					60,013	
Other unallocated liabilities					38,982	529,973
Consolidated total liabilities						4,316,562

5 Segment information *(continued)*

(b) Secondary reporting format – business segments

The following tables present sales, assets and capital expenditure information for the Group's business segments:

	Continuing operations					Discontinued operations
	Personal computer					
	Desktop US$'000	**Notebook** US$'000	**Total** US$'000	**Others** US$'000	**Total** US$'000	**Mobile handset** US$'000
Year ended March 31, 2008						
Sales	**6,698,677**	**9,422,297**	**16,120,974**	**230,529**	**16,351,503**	**436,369**
Capital expenditure			**278,334**	**5,709**	**284,043**	**5,837**
At March 31, 2008						
Total segment assets			**4,397,096**	**115,144**	**4,512,240**	**–**
Year ended March 31, 2007						
Sales	6,115,089	7,653,172	13,768,261	210,048	13,978,309	611,895
Capital expenditure			221,213	2,488	223,701	19,400
At March 31, 2007						
Total segment assets			3,938,006	45,237	3,983,243	91,757

Business segment assets comprise mainly property, plant and equipment, intangible assets, accounts receivable and inventories that are directly attributable to the activities of the business segment.

6 Other income – net

	2008 **US$'000**	2007 US$'000
Fair value change on warrants	**–**	(171)
Gain on disposal of investments and available-for-sale financial assets	**19,791**	17,348
Impairment of assets	**(2,530)**	(8,990)
	17,261	8,187

7 Finance income

	2008 **US$'000**	2007 US$'000
Interest on bank deposits	**37,100**	17,962
Interest on money market funds	**14,808**	8,258
Others	**140**	109
	52,048	26,329

8 Finance costs

	2008 US$'000	2007 US$'000
Interest on bank loans and overdrafts	**11,500**	9,776
Dividend and relevant finance costs on convertible preferred shares (Note 29(d))	**18,700**	21,941
Others	**8,166**	3,416
	38,366	35,133

9 Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	2008 US$'000	2007 US$'000
Amortization of intangible assets		
– Trademarks and trade names (including accelerated amortization of US$30,682,000 (2007: Nil))	**50,051**	43,634
– Internal use software	**26,854**	12,895
– Customer relationships	**1,698**	3,934
– Patent and technology	**26,180**	28,089
– Marketing rights	**22,530**	16,285
Auditor's remuneration		
– Current year	**4,868**	4,200
– Underprovision in previous year	**1,289**	1,919
Cost of inventories sold	**12,881,240**	11,292,215
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**88,025**	67,819
Employee benefit costs (Note 11)	**1,194,196**	904,251
(Gain)/loss on		
– Disposal of available-for-sale financial assets	**(19,791)**	2,249
– Disposal of intangible assets	**7,210**	–
– Disposal of property, plant and equipment	**8,299**	(1,726)
– Partial disposal of associated companies	**–**	(19,597)
Impairment of		
– Goodwill	**–**	4,288
– Investments	**2,530**	–
– Other receivables	**–**	4,702
Rental expenses under operating leases	**34,703**	33,393
Restructuring costs (net of reversal of unused provision) (Note 28)		
– Impairment of trademarks and trade names (Note 19)	**–**	8,977
– Staff related costs (included in employee benefit costs)	**44,070**	(3,156)
– Others	**3,570**	5,973
Net exchange gain	**(52,607)**	(39,508)
Loss on foreign exchange forward contracts	**49,646**	29,141

10 Taxation

The amount of taxation in the consolidated income statement represents:

	2008 US$'000	2007 US$'000
Current taxation		
– Hong Kong profits tax	**408**	334
– Taxation outside Hong Kong	**94,123**	65,160
Deferred taxation (Notes 13(a) and 22)	**(46,918)**	(39,297)
	47,613	26,197

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) 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 preferential tax treatment.

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 were as follows:

	2008 US$'000	2007 US$'000
Profit before taxation	**512,850**	154,551
Tax calculated at domestic rates applicable in countries concerned	**107,552**	60,964
Income not subject to taxation	**(81,171)**	(27,176)
Expenses not deductible for taxation purposes	**1,820**	1,956
Utilization of previously unrecognized tax losses	**(21,610)**	(666)
Effect on opening deferred tax assets due to change in tax rates	**(16,202)**	(12,007)
Under provision in prior years	**9,356**	3,126
Deferred tax assets not recognized	**47,868**	–
	47,613	26,197

The weighted average applicable tax rate was 9.3% (2007: 17.0%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries that are entitled to preferential tax treatment.

11 Employee benefit costs

	2008 US$'000	2007 US$'000
Wages and salaries (including restructuring costs provision US$44,070,000 (2007: reversal of unused restructuring costs provision US$3,156,000))	**929,106**	668,655
Social security costs	**85,201**	60,425
Long-term incentive awards granted to directors and employees (Note 30(a))	**53,328**	37,001
Pension costs		
– defined contribution plans	**19,017**	18,959
– defined benefit plans	**6,931**	22,399
Others	**100,613**	96,812
	1,194,196	904,251

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 a Mandatory Provident Fund ("MPF") for all qualified Hong Kong employees. Employees are required to contribute, to the MPF, 5 percent of their basic salaries plus cash allowances, subject to the ceiling under the requirements set out in the MPF legislation, whereas the Group's contribution increases from 5 percent to 7.5 percent and 10 percent after completion of five and ten years of service respectively by the relevant employees. When employees leave the Group prior to vesting fully, a portion of the Group's contributions may be forfeited. These forfeitures are used by the Group to reduce contributions for the current year. Forfeited contributions totaling US$24,614 (2007: US$24,955) were utilized during the year leaving US$2,469 (2007: US$2,491) available at the year end to reduce future contributions. The assets of the MPF are held separately from those of the Group in an independently administered fund.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 37.

12 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 for the years ended March 31, 2007 and 2008 is set out below:

	2008							
Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Inducement fees (note i) US$'000	Long-term incentives awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive directors								
Mr. Yang Yuanqing	–	894	1,084	–	2,979	83	18	5,058
Mr. William J. Amelio	–	790	1,000	1,500	4,526	–	3,571	11,387
Non-executive directors								
Mr. Liu Chuanzhi	40	–	–	–	94	465	–	599
Mr. Zhu Linan	40	–	–	–	94	–	–	134
Ms. Ma Xuezheng	30	114	403	–	537	1,033	–	2,117
Mr. James G. Coulter	40	–	–	–	75	–	–	115
Mr. William O. Grabe	50	–	–	–	94	–	–	144
Mr. Shan Weijian	40	–	–	–	94	–	–	134
Independent non-executive directors								
Professor Woo Chia-Wei	40	–	–	–	94	–	–	134
Mr. Ting Lee Sen	40	–	–	–	94	–	–	134
Mr. John W. Barter III	60	–	–	–	94	–	–	154
Mr. Tian Suning	27	–	–	–	29	–	–	56
Mr. Wong Wai Ming	9	–	–	–	7	–	–	16
	416	1,798	2,487	1,500	8,811	1,581	3,589	20,182

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

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

	2007							
Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Inducement fees (note i) US$'000	Long-term incentives awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive directors								
Mr. Yang Yuanqing	–	626	1,968	–	1,440	66	63	4,163
Mr. William J. Amelio	–	750	250	1,500	2,623	15	1,573	6,711
Ms. Ma Xuezheng	–	328	763	–	511	65	–	1,667
Non-executive directors								
Mr. Liu Chuanzhi	40	–	–	–	95	463	–	598
Mr. Zhu Linan	40	–	–	–	95	–	–	135
Mr. James G. Coulter	40	–	–	–	51	–	–	91
Mr. William O. Grabe	45	–	–	–	95	–	–	140
Mr. Shan Weijian	40	–	–	–	95	–	–	135
Independent non-executive directors								
Mr. Wong Wai Ming	50	–	–	–	95	–	–	145
Professor Woo Chia-Wei	40	–	–	–	95	–	–	135
Mr. Ting Lee Sen	40	–	–	–	95	–	–	135
Mr. John W. Barter III	40	–	–	–	95	–	–	135
	375	1,704	2,981	1,500	5,385	609	1,636	14,190

Notes:

(i) Inducement fees paid to Mr. Amelio represent payment made to his former employer pursuant to an agreement entered into between the Company, Mr. Amelio and his former employer (the "Agreement"). Under the terms of the Agreement, the Company made a payment in the amount of US$7.5 million to his former employer. This amount reflects benefits realized by Mr. Amelio under the long-term incentive plans of his former employer that were subject to certain repayment conditions. Inducement fees for the year ended March 31, 2008 represent the annual amortized amount at US$1.5 million (2007: US$1.5 million) over a five-year period to December 2010 pursuant to the Agreement.

(ii) Details of the long-term incentive program of the Company are set out in note 30(a). The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2007 and 2008.

(iii) Mr. William O. Grabe, Professor Woo Chia-Wei, Mr. Ting Lee Sen and Mr. John W. Barter III have elected to defer their receipts of the cash of director's fee into fully vested share units under the long-term incentive program (Note 30(a)).

(iv) Mr. Justin T. Chang (alternate director to Mr. James G. Coulter), and Mr. Daniel A. Carroll (alternate director to Mr. Shan Weijian) did not receive any fees or remuneration during the years ended March 31, 2007 and 2008.

12 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 two (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2007: three) individuals during the year are as follows:

	2008 US$'000	2007 US$'000
Basic salaries, allowances, and benefits in kind	**1,349**	2,953
Discretionary bonuses	**1,163**	558
Employer's contribution to pension scheme	**–**	58
Long-term incentive awards	**4,841**	3,840
Others	**1,163**	–
	8,516	7,409

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
US$2,248,404 – US$2,312,643	**–**	1
US$2,312,644 – US$2,376,883	**–**	1
US$2,633,844 – US$2,698,083	**1**	–
US$2,762,325 – US$2,826,564	**–**	1
US$2,826,565 – US$2,890,804	**1**	–
US$2,955,045 – US$3,019,284	**1**	–

13 Discontinued operations

On January 30, 2008, the Company's wholly-owned subsidiaries, Lenovo (Beijing) Limited[1] ("Lenovo Beijing") and Lenovo Manufacturing Limited ("Lenovo Manufacturing") entered into an agreement to sell their entire interests in Lenovo Mobile Communication Technology Ltd.[1] ("Lenovo Mobile"), a company which held all of the Group's direct and indirect interests in its Greater China mobile handset operations for a cash consideration of approximately US$100 million to be adjusted by the amount of net working capital of Lenovo Mobile as at the date of completion. Accordingly, the results of the Group's Greater China mobile handset operations are presented as discontinued operations in the financial statements. The presentation of comparative information in respect of the year ended March 31, 2007 has been reclassified to conform to the current year's presentation. The disposal transaction was completed on March 31, 2008.

(a) An analysis of the results of the discontinued operations and the profit on disposal of discontinued operations is as follows:

	2008 US$'000	2007 US$'000
Sales	**436,369**	611,895
Cost of sales	**(364,029)**	(462,134)
Gross profit	**72,340**	149,761
Selling and distribution expenses	**(70,743)**	(81,328)
Administrative expenses	**(11,259)**	(10,506)
Research and development expenses	**(31,595)**	(31,137)
Other operating (expenses)/income – net	**(1,610)**	6,388
(Loss)/profit before taxation	**(42,867)**	33,178
Taxation	**4,564**	(394)
(Loss)/profit of discontinued operations	**(38,303)**	32,784
Gain on disposal of discontinued operations	**64,702**	–
Taxation on disposal gain	**(6,479)**	–
Profit on disposal of discontinued operations	**58,223**	–
Profit from discontinued operations	**19,920**	32,784

13 Discontinued operations *(continued)*

(a) *(continued)*

(i) (Loss)/profit of discontinued operations is stated after charging/(crediting) the following:

	2008 US$'000	2007 US$'000
Amortization of intangible assets	**97**	1,154
Auditor's remuneration	**14**	14
Cost of inventories sold	**316,582**	439,719
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**8,231**	5,389
Employee benefit costs	**62,396**	55,174
Loss on disposal of property, plant and equipment	**103**	192
Rental expenses under operating leases	**4,117**	1,916
Restructuring costs (Note 28)	**8,352**	–
Net exchange gain	**(1,923)**	(1,446)

(ii) Disposal of discontinued operations

	US$'000
Net assets disposed of	
Property, plant and equipment	**22,675**
Construction-in-progress	**121**
Goodwill	**2,169**
Deferred tax assets	**4,902**
Inventories	**17,079**
Trade receivables and notes receivable	**16,507**
Deposits, prepayments and other receivables	**390**
Cash and cash equivalents	**61,371**
Trade payables	**(58,355)**
Provisions, accruals and other payables	**(49,936)**
Bank loans	**(14,419)**
	2,504
Costs related to disposal	**2,974**
Gain on disposal of discontinued operations	**64,702**
	70,180
Satisfied by :	
Consideration	**100,000**
Less: Net working capital adjustment	**(22,680)**
Consideration attributable to licence value granted to acquirer	**(7,140)**
Net consideration for the disposal	**70,180**
Amount receivable at the year end	**(14,180)**
Consideration settled in cash	**56,000**
Less: Cash and cash equivalents sold	**(61,371)**
Net cash outflow on disposal	**(5,371)**

13 Discontinued operations *(continued)*

(b) An analysis of the cash flows of the discontinued operations is as follows:

	2008 US$'000	2007 US$'000
Net cash (used in)/generated from operating activities	**(26,469)**	47,898
Net cash used in investing activities	**(645)**	(15,761)
Net cash generated from financing activities	**14,419**	–
(Decrease)/increase in cash and cash equivalents	**(12,695)**	32,137

The company whose English name ends with a "1" is a direct translation of its Chinese registered name.

14 Dividends

	2008 US$'000	2007 US$'000
Interim dividend of HK3.0 cents per ordinary share (2007: HK2.4 cents)	**34,715**	27,454
Proposed final dividend of HK12.8 cents per ordinary share (2007: HK2.8 cents)	**152,038**	31,877
	186,753	59,331

At a board meeting held on May 22, 2008, the directors recommended a final dividend of HK12.8 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending March 31, 2009.

15 Earnings per share

(a) Basic

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

	2008	2007
Weighted average number of shares for the purpose of basic earnings per share	**8,781,101,650**	8,625,392,946
	US$'000	US$'000
Profit attributable to shareholders of the Company		
– Continuing operations	**464,343**	128,354
– Discontinued operations	**19,920**	32,784
	484,263	161,138

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

The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs.

For the year ended March 31, 2007, 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.

	2008	2007
Weighted average number of ordinary shares in issue	**8,781,101,650**	8,625,392,946
Adjustments for assumed conversion of convertible preferred shares	**857,246,554**	–
Adjustments for share options, long-term incentive awards and warrants	**294,887,296**	115,393,814
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**9,933,235,500**	8,740,786,760

	US$'000	US$'000
Profit from continuing operations attributable to shareholders of the Company	**464,343**	128,354
Interest expense on convertible preferred shares	**18,700**	–
	483,043	128,354
Profit from discontinued operations attributable to shareholders of the Company	**19,920**	32,784
	502,963	161,138

16 Property, plant and equipment

(a) Group

	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, 2006							
Cost	89,497	36,681	97,279	8,659	134,756	3,732	370,604
Accumulated depreciation	13,876	20,442	34,227	3,744	73,631	2,320	148,240
Net book amount	75,621	16,239	63,052	4,915	61,125	1,412	222,364
Year ended March 31, 2007							
Opening net book amount	75,621	16,239	63,052	4,915	61,125	1,412	222,364
Exchange adjustment	3,600	987	337	(539)	1,108	40	5,533
Additions	1,769	10,655	49,431	22,185	58,713	214	142,967
Transfer from construction-in-progress	5,579	14,457	864	39	12,242	–	33,181
Disposals	(443)	–	(858)	(25)	(3,366)	(236)	(4,928)
Depreciation	(2,273)	(8,375)	(30,481)	(2,587)	(28,992)	(351)	(73,059)
Closing net book amount	83,853	33,963	82,345	23,988	100,830	1,079	326,058
At March 31, 2007							
Cost	100,336	64,447	144,348	30,327	199,664	3,547	542,669
Accumulated depreciation	16,483	30,484	62,003	6,339	98,834	2,468	216,611
Net book amount	83,853	33,963	82,345	23,988	100,830	1,079	326,058
Year ended March 31, 2008							
Opening net book amount	83,853	33,963	82,345	23,988	100,830	1,079	326,058
Exchange adjustment	8,054	3,105	5,776	1,311	5,332	87	23,665
Reclassification	(742)	3,825	3,605	(128)	(6,560)	–	–
Additions	3,119	17,224	46,048	9,677	51,863	644	128,575
Transfer from construction-in-progress	–	2,019	1,224	78	11,091	–	14,412
Disposals	–	(68)	(1,497)	9	(7,430)	(165)	(9,151)
Disposal of discontinued operations (Note 13(a))	–	(8,739)	(7,378)	(182)	(6,345)	(31)	(22,675)
Depreciation	(2,600)	(14,025)	(35,086)	(5,073)	(38,981)	(341)	(96,106)
Closing net book amount	91,684	37,304	95,037	29,680	109,800	1,273	364,778
At March 31, 2008							
Cost	112,494	74,347	181,406	40,581	233,823	3,730	646,381
Accumulated depreciation	20,810	37,043	86,369	10,901	124,023	2,457	281,603
Net book amount	91,684	37,304	95,037	29,680	109,800	1,273	364,778

16 Property, plant and equipment *(continued)*

(b) Company

	Leasehold improvements US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2006					
Cost	1,944	92	6,756	246	9,038
Accumulated depreciation	1,102	69	6,114	121	7,406
Net book amount	842	23	642	125	1,632
Year ended March 31, 2007					
Opening net book amount	842	23	642	125	1,632
Exchange adjustment	(1)	–	(1)	–	(2)
Additions	48	26	42	–	116
Depreciation	(711)	(16)	(362)	(44)	(1,133)
Closing net book amount	178	33	321	81	613
At March 31, 2007					
Cost	1,991	118	6,797	246	9,152
Accumulated depreciation	1,813	85	6,476	165	8,539
Net book amount	178	33	321	81	613
Year ended March 31, 2008					
Opening net book amount	178	33	321	81	613
Exchange adjustment	(1)	–	2	1	2
Additions	–	9	440	–	449
Disposals	–	–	(1)	–	(1)
Depreciation	(119)	(17)	(279)	(31)	(446)
Closing net book amount	58	25	483	51	617
At March 31, 2008					
Cost	1,996	127	7,247	247	9,617
Accumulated depreciation	1,938	102	6,764	196	9,000
Net book amount	58	25	483	51	617

17 Prepaid lease payments

	Group	
	2008 **US$'000**	2007 US$'000
At the beginning of the year	**5,807**	6,412
Exchange adjustment	**588**	308
Disposals	**(146)**	(764)
Amortization	**(150)**	(149)
At the end of the year	**6,099**	5,807

Prepaid lease payments represent the payments for land use rights held by the Group in the Chinese Mainland under medium leases (less than 50 years but not less than 10 years).

18 Construction-in-progress

	Group								Company	
	Buildings under construction		Internal use software		Others		Total		Internal use software	
	2008 **US$'000**	2007 US$'000	**2008** **US$'000**	2007 US$'000	**2008** **US$'000**	2007 US$'000	**2008** **US$'000**	2007 US$'000	**2008** **US$'000**	2007 US$'000
At the beginning of the year	**1,032**	8,462	**16,868**	18,100	**2,538**	1,403	**20,438**	27,965	**16,500**	18,100
Exchange adjustment	**110**	289	**117**	(32)	**299**	190	**526**	447	**74**	(32)
Reclassification	**(262)**	–	**43**	–	**219**	–	**–**	–	**–**	–
Additions	**3,029**	2,435	**50,015**	12,980	**14,098**	24,186	**67,142**	39,601	**187**	4,032
Transfer to property, plant and equipment	**(2,094)**	(9,972)	**–**	–	**(12,318)**	(23,209)	**(14,412)**	(33,181)	**–**	–
Transfer to intangible assets	**–**	–	**(17,494)**	(14,180)	**–**	–	**(17,494)**	(14,180)	**(2,868)**	(5,600)
Disposals	**(944)**	(182)	**(121)**	–	**(3,777)**	(32)	**(4,842)**	(214)	**–**	–
Disposal of discontinued operations (Note 13(a))	**–**	–	**(121)**	–	**–**	–	**(121)**	–	**–**	–
At the end of the year	**871**	1,032	**49,307**	16,868	**1,059**	2,538	**51,237**	20,438	**13,893**	16,500

No interest expenses were capitalized in construction-in-progress as at March 31, 2007 and 2008.

19 Intangible assets

(a) Group

	Goodwill US$'000	Trademarks and trade names US$'000	Internal use software US$'000	Customer relationships US$'000	Patent and technology US$'000	Marketing rights US$'000	Total US$'000
At April 1, 2006							
Cost	1,321,431	510,000	22,717	17,000	86,072	65,000	2,022,220
Accumulated amortization and impairment losses	4,980	42,643	4,158	11,231	29,091	20,312	112,415
Net book amount	1,316,451	467,357	18,559	5,769	56,981	44,688	1,909,805
Year ended March 31, 2007							
Opening net book amount	1,316,451	467,357	18,559	5,769	56,981	44,688	1,909,805
Exchange adjustment	25	–	(2)	–	31	(4)	50
Reclassification	(15,328)	15,305	–	23	–	–	–
Additions	4,430	–	49,903	–	6,200	–	60,533
Transfer from construction-in-progress	–	–	14,180	–	–	–	14,180
Impairment	(1,911)	(8,977)	–	–	–	–	(10,888)
Amortization	–	(43,634)	(12,895)	(3,934)	(29,243)	(16,285)	(105,991)
Closing net book amount	1,303,667	430,051	69,745	1,858	33,969	28,399	1,867,689
At March 31, 2007							
Cost	1,310,657	525,305	86,799	17,023	92,690	64,887	2,097,361
Accumulated amortization and impairment losses	6,990	95,254	17,054	15,165	58,721	36,488	229,672
Net book amount	1,303,667	430,051	69,745	1,858	33,969	28,399	1,867,689
Year ended March 31, 2008							
Opening net book amount	1,303,667	430,051	69,745	1,858	33,969	28,399	1,867,689
Exchange adjustment	(560)	–	694	–	–	543	677
Adjustment on purchase consideration	(4,000)	–	–	–	–	–	(4,000)
Additions	–	–	61,422	–	641	32,100	94,163
Transfer from construction-in-progress	–	–	17,494	–	–	–	17,494
Disposals	–	–	(6,955)	–	(1,121)	–	(8,076)
Disposal of discontinued operations (Note 13(a))	(2,169)	–	–	–	–	–	(2,169)
Amortization	–	(50,051)	(26,854)	(1,698)	(26,277)	(22,530)	(127,410)
Closing net book amount	1,296,938	380,000	115,546	160	7,212	38,512	1,838,368
At March 31, 2008							
Cost	1,300,837	525,305	161,038	17,023	92,220	98,001	2,194,424
Accumulated amortization and impairment losses	3,899	145,305	45,492	16,863	85,008	59,489	356,056
Net book amount	1,296,938	380,000	115,546	160	7,212	38,512	1,838,368

19 Intangible assets *(continued)*

(b) Company

	Internal use software US$'000
At April 1, 2006	
Cost	–
Accumulated amortization	–
Net book amount	–
Year ended March 31, 2007	
Transfer from construction-in-progress	5,600
Amortization	(187)
Closing net book amount	5,413
At March 31, 2007	
Cost	5,600
Accumulated amortization	187
Net book amount	5,413
Year ended March 31, 2008	
Opening net book amount	5,413
Exchange adjustment	18
Transfer from construction-in-progress	2,868
Additions	1,757
Amortization	(1,813)
Closing net book amount	8,243
At March 31, 2008	
Cost	10,243
Accumulated amortization	2,000
Net book amount	8,243

19 Intangible assets *(continued)*

As explained in Note 5, the Group uses geographical segment as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and trademarks and trade names with indefinite useful lives are allocated to the Group's cash-generating units (CGUs). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives as at March 31, 2008 are presented below:

	Americas US$'million	**Europe, Middle East and Africa US$'million**	**Asia Pacific (excluding Greater China) US$'million**	**Greater China US$'million**	**Total US$'million**
Goodwill	364	102	152	679	1,297
Trademarks and trade names	107	30	45	198	380

The recoverable amount of a CGU is determined based on fair value less costs to sell. These assessments use cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future earnings potential of the CGU beyond the next five years. Future cash flows are discounted at the rate of 11 percent (2007: 13 percent). This growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2008 arising from the review.

These assumptions have been used for the analysis of each CGU within the geographical segment.

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.

A one percentage point increase or decrease in the discount rate would result in a decrease or increase in the recoverable amount of 13 percent respectively. A one percentage point increase or decrease in forecasted growth rates would result in an increase or decrease in the recoverable amount of 3 percent respectively. A one percentage point increase or decrease in forecasted operating margins would result in an increase or decrease in the recoverable amount of 25 percent respectively.

20 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2008 US$'000	2007 US$'000
Unlisted investments, at cost	**1,187,893**	1,145,721

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

(b) Amounts due from/(to) subsidiaries

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

21 Investments in associated companies

	Group	
	2008 **US$'000**	2007 US$'000
Share of net assets	**2,548**	3,754
Unsecured, interest-free loan repayable on demand	**142**	154
	2,690	3,908

The following is a list of the principal associated companies as at March 31, 2008:

Company name	Place of establishment	Interest held indirectly 2008	Interest held indirectly 2007	Principal activities
北京聯想傳奇信息技術有限公司 (Beijing Lenovo Parasaga Information Technology Co. Limited) (Chinese equity enterprise)	Chinese Mainland	45%	45%	Distribution and development of software
武漢東浦信息技術有限公司 (Wuhan Dawnpro Information Technology Limited) (Chinese-foreign equity joint venture)	Chinese Mainland	40%	40%	Provision of system integration services
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (wholly foreign-owned enterprise)	Chinese Mainland	23%	23%	Distribution and development of IT technology

Notes:

(i) The associated companies operate principally in their respective places of establishment.

(ii) The English name of each company is a direct translation or transliteration of its Chinese registered name.

22 Deferred tax assets

Deferred taxation is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

The movements in deferred tax assets/(liabilities) are as follows:

	Group	
	2008 US$'000	2007 US$'000
At the beginning of the year	**101,551**	62,345
Exchange and reclassification adjustments	**8,309**	(91)
Credited to consolidated income statement	**51,482**	39,297
Disposal of discontinued operations (Note 13(a))	**(4,902)**	–
At the end of the year	**156,440**	101,551

Closing net book amount analyzed into:

	Group	
	2008 US$'000	2007 US$'000
Current	**92,171**	30,029
Non-current	**64,269**	71,522
	156,440	101,551

Deferred tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. At March 31, 2008, the Group has unrecognized tax losses of approximately US$62,529,000 (2007: US$28,054,000) that can be carried forward against future taxable income. Unrecognized tax losses of US$38.7 million (2007: US$1.0 million) can be carried forward indefinitely. The remaining balances of US$7.4 million (2007: US$7.4 million), US$19.7 million (2007: US$19.7 million) and US$11.6 million (2007: Nil) expire in 2014, 2015 and 2016 respectively.

The movements in deferred tax assets and liabilities, analyzed by major component, during the year are as follows:

	Provisions US$'000	**Tax losses** US$'000	**Tax depreciation allowances** US$'000	**Deferred revenue** US$'000	**Others** US$'000	**Total** US$'000
Year ended March 31, 2007						
At the beginning of the year	53,759	2,829	5,757	–	–	62,345
Exchange and reclassification adjustments	(9,373)	(2,787)	57	8,100	3,912	(91)
Credited to consolidated income statement	15,693	7,862	4,038	5,457	6,247	39,297
At the end of the year	60,079	7,904	9,852	13,557	10,159	101,551
Year ended March 31, 2008						
At the beginning of the year	**60,079**	**7,904**	**9,852**	**13,557**	**10,159**	**101,551**
Exchange and reclassification adjustments	**6,586**	**2,922**	**241**	**1,609**	**(3,049)**	**8,309**
Credited/(debited) to consolidated income statement	**37,559**	**(3,168)**	**(4,118)**	**14,468**	**6,741**	**51,482**
Disposal of discontinued operations	**(4,902)**	**–**	**–**	**–**	**–**	**(4,902)**
At the end of the year	**99,322**	**7,658**	**5,975**	**29,634**	**13,851**	**156,440**

23 Available-for-sale financial assets

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
At the beginning of the year	**42,938**	30,250	**361**	469
Exchange adjustment	**214**	(87)	**–**	–
Transfer of interests in an associated company	**–**	2,124	**–**	–
Net gain transfer to equity	**26,058**	18,657	**–**	438
Disposals	**(1,513)**	(8,006)	**(361)**	(546)
At the end of the year	**67,697**	42,938	**–**	361
Equity securities, at fair value				
Listed in Hong Kong	**21,911**	2,444	**–**	–
Listed outside Hong Kong	**43,928**	28,618	**–**	361
	65,839	31,062	**–**	361
Unlisted	**1,858**	11,876	**–**	–
	67,697	42,938	**–**	361

Available-for-sale financial assets are denominated in the following currencies:

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Hong Kong dollar	**22,914**	13,906	**–**	361
Renminbi	**855**	775	**–**	–
United States dollar	**43,928**	28,257	**–**	–
	67,697	42,938	**–**	361

The maximum exposure to credit risk at the reporting date is the fair value of the investment securities classified as available for sale.

24 Inventories

	Group	
	2008 US$'000	2007 US$'000
Raw materials	**209,815**	190,299
Work-in-progress	**56,440**	28,748
Finished goods	**205,302**	138,616
	471,557	357,663

25 Receivables

(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:

	Group	
	2008 US$'000	2007 US$'000
0 – 30 days	**788,126**	532,247
31 – 60 days	**32,240**	69,188
61 – 90 days	**21,729**	14,816
Over 90 days	**32,333**	49,281
	874,428	665,532
Less: provision for impairment	**(13,885)**	(23,939)
Trade receivables – net	**860,543**	641,593

At March 31, 2008, no trade receivables (2007: Nil) were past due but not impaired.

At March 31, 2008, trade receivables of US$86,302,000 (2007: US$133,285,000) were impaired and provided for. It was assessed that a proportion of the receivables is expected to be recovered, and the amount of the provision was US$13,885,000 as at March 31, 2008 (2007: US$23,939,000). The ageing of these receivables is as follows:

	Group	
	2008 US$'000	2007 US$'000
31 – 60 days	**32,240**	69,188
61 – 90 days	**21,729**	14,816
Over 90 days	**32,333**	49,281
	86,302	133,285

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

	Group	
	2008 US$'000	2007 US$'000
At the beginning of the year	**23,939**	9,481
Provisions made	**–**	14,458
Receivables written off during the year as uncollectible	**(8,167)**	–
Unused amounts reversed	**(597)**	–
Disposal of discontinued operations	**(1,290)**	–
At the end of the year	**13,885**	23,939

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

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

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Deposits	**2,640**	2,940	**153**	181
Prepayments	**182,534**	328,090	**5,588**	6,187
Other receivables	**582,094**	453,933	**938**	800
	767,268	784,963	**6,679**	7,168

25 Receivables *(continued)*

(d) The carrying amounts of trade receivables, notes receivable, deposits, prepayments and other receivables approximate their fair value. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of receivables are denominated in the following currencies:

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Euro	**283,667**	245,299	**–**	–
Hong Kong dollar	**36,793**	37,981	**4,740**	6,510
Renminbi	**253,653**	97,251	**–**	–
United States dollar	**1,421,545**	1,234,882	**1,936**	658
Other currencies	**3,279**	2,000	**3**	–
	1,998,937	1,617,413	**6,679**	7,168

(e) During the year, the Group sold or otherwise transferred certain trade receivable balances to banks pursuant to which they do not qualify for derecognition. The proceeds received therefrom are recognized as short-term bank loans in the balance sheet. At March 31, 2008, the carrying amount of the respective trade receivable balances transferred and their associated short-term bank loans were approximately US$50 million (2007: Nil).

26 Bank deposits and cash and cash equivalents

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Bank deposits matured within one year	**540,058**	–	**–**	–
Cash and cash equivalents				
– Cash at bank and in hand	**1,040,233**	699,957	**133,122**	2,626
– Money market funds	**611,187**	363,759	**205,000**	90,000
	1,651,420	1,063,716	**338,122**	92,626
	2,191,478	1,063,716	**338,122**	92,626
Maximum exposure to credit risk	**2,191,478**	1,063,716	**338,122**	92,626

Bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Euro	**48,001**	49,393	**–**	–
Japanese Yen	**62,675**	41,937	**–**	–
Renminbi	**446,154**	216,114	**–**	–
United States dollar	**1,400,068**	628,428	**337,810**	92,459
Other currencies	**234,580**	127,844	**312**	167
	2,191,478	1,063,716	**338,122**	92,626

27 Payables

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

	Group	
	2008 US$'000	2007 US$'000
0 – 30 days	**1,618,188**	1,484,771
31 – 60 days	**466,068**	298,943
61 – 90 days	**176,094**	178,380
Over 90 days	**21,849**	15,112
	2,282,199	1,977,206

Trade payables are denominated in the following currencies:

	Group	
	2008 US$'000	2007 US$'000
Euro	**34,120**	441,812
Hong Kong dollar	**5,631**	28,931
Renminbi	**571,896**	455,488
United States dollar	**1,670,541**	1,039,852
Other currencies	**11**	11,123
	2,282,199	1,977,206

(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.

28 Provisions, accruals and other payables

Details of provisions, accruals and other payables are as follows:

	Group		Company	
	2008 **US$'000**	2007 US$'000	**2008** **US$'000**	2007 US$'000
Provisions	**496,432**	296,146	**–**	–
Accruals	**742,269**	681,634	**8,472**	12,131
Other payables	**706,023**	434,342	**5,483**	668
	1,944,724	1,412,122	**13,955**	12,799

The carrying amounts of provisions, accruals and other payables approximate their fair value.

Included in provisions are warranty, restructuring costs and battery recall provisions as follows:

	Group			
	Warranty US$'000	**Restructuring costs** US$'000	**Battery recall** US$'000	**Total** US$'000
Year ended March 31, 2007				
At the beginning of the year	326,124	69,584	–	395,708
Exchange adjustment	–	(460)	–	(460)
Provisions made	410,356	–	23,750	434,106
Amounts utilized	(288,147)	(44,059)	(15,057)	(347,263)
Unused amounts reversed	–	(19,420)	–	(19,420)
	448,333	5,645	8,693	462,671
Long-term portion classified as non-current liabilities *(Note 29)*	(166,525)	–	–	(166,525)
At the end of the year	281,808	5,645	8,693	296,146
Year ended March 31, 2008				
At the beginning of the year	448,333	5,645	8,693	462,671
Exchange adjustment	–	1,227	–	1,227
Provisions made	665,912	50,820	–	716,732
Amounts utilized	(411,661)	(34,136)	(8,693)	(454,490)
Unused amounts reversed	–	(7,616)	–	(7,616)
Disposal of discontinued operations	(4,669)	(8,352)	–	(13,021)
	697,915	7,588	–	705,503
Long-term portion classified as non-current liabilities *(Note 29)*	(209,071)	–	–	(209,071)
At the end of the year	488,844	7,588	–	496,432

(a) 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.

(b) The Group announced a voluntary recall of battery packs that shipped in some of the products. Under the arrangement with the suppliers, majority of the costs associated with the recall were reimbursed by the suppliers.

29 Non-current liabilities

	Group		Company	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Amount payable for marketing rights *(Note 29(a))*	**5,417**	18,123	**–**	–
Interest-bearing bank loans repayable within five years *(Note 29(b))*	**465,000**	100,000	**465,000**	100,000
Share-based compensation *(Note 29(c))*	**6,430**	11,019	**6,430**	11,019
Convertible preferred shares *(Note 29(d))*	**211,181**	317,495	**211,181**	317,495
Warranty provision *(Note 28)*	**209,071**	166,525	**–**	–
Retirement benefit obligations *(Note 37)*	**85,490**	102,948	**–**	–
Deferred revenue	**88,701**	57,166	**–**	–
Derivative financial liabilities	**1,788**	–	**1,788**	–
Other non-current liabilities	**25,045**	15,782	**–**	–
	1,098,123	789,058	**684,399**	428,514

(a) On February 5, 2004, the Group entered into an agreement with the International Olympic Committee and the United States Olympic Committee regarding participation in The Olympic Partner Program. Pursuant to the agreement, the Group has to pay a total amount of US$65,000,000 in cash and value in kind to obtain marketing rights which include the use of Olympic intellectual property rights and exclusive worldwide marketing opportunities in its products, technology and service categories from January 1, 2005 to December 31, 2008.

(b) These comprise a US$400 million (2007: Nil) 5-year revolving term loan with syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum; and a 5-year fixed rate loan of US$100 million (2007: US$100 million) repayable by two equal installments of US$35 million payable in 2009 and 2010, and a final repayment of US$30 million in 2011. The carrying amounts approximate their fair value as the impact of discounting is not significant. The current portion of the loan of US$35 million is classified as current portion of non-current liabilities.

(c) This represents deferred share-based compensation in relation to replacement shares granted to legacy IBM employees as compensation of IBM vested stock options forfeited by them, and were treated as assumed liabilities of the acquisition.

(d) 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 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 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 28, 2006, amendment was made to the investment agreement whereby the right granted to the warrant holders, upon the exercise of warrants, to settle the payment of the exercise price by way of surrendering part of the warrants was cancelled and terminated. Accordingly, the warrants previously treated as a financial liability at a fair value of US$35,210,000 on the same day have been transferred to equity. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share. The warrants will expire on May 17, 2010.

Movements of the liability component of the convertible preferred shares and warrants during the year are as follows:

	Convertible preferred shares US$'000	**Warrants** US$'000	**Total** US$'000
At April 1, 2006	311,895	34,957	346,852
Exchange adjustment	(591)	82	(509)
Interest charged	21,941	–	21,941
Interest paid	(15,750)	–	(15,750)
Fair value change	–	171	171
Transfer to equity	–	(35,210)	(35,210)
At March 31, 2007	317,495	–	317,495
At April 1, 2007	317,495	–	317,495
Exchange adjustment	1,720	–	1,720
Interest charged	18,700	–	18,700
Interest paid	(13,500)	–	(13,500)
Conversion to voting ordinary shares	(113,234)	–	(113,234)
At March 31, 2008	211,181	–	211,181

30 Share capital

	2008		2007	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorized:				
At the beginning and end of the year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	Number of shares	**US$'000**	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**8,517,981,022**	**27,301**	8,517,920,623	27,301
Conversion from Series A cumulative convertible preferred shares	**350,459,078**	**1,130**	–	–
Exercise of share options *(Note 30(b)(ii))*	**90,436,550**	**290**	31,450,399	101
Repurchase of shares *	**(70,090,000)**	**(225)**	(31,390,000)	(101)
At the end of the year	**8,888,786,650**	**28,496**	8,517,981,022	27,301
Non-voting ordinary shares:				
At the beginning and end of the year	**375,282,756**	**1,203**	375,282,756	1,203
Total issued and fully paid ordinary shares	**9,264,069,406**	**29,699**	8,893,263,778	28,504
Total issued and fully paid Series A cumulative convertible preferred shares *(Note 29(d))*:				
At the beginning of the year	**2,730,000**	**3,211**	2,730,000	3,211
Conversion to voting ordinary shares	**(955,001)**	**(1,130)**	–	–
	1,774,999	**2,081**	2,730,000	3,211

* Included in the 70,090,000 shares were 18,936,000 shares repurchased in March 2008 that were subsequently cancelled in April 2008.

(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.

30 Share capital *(continued)*

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

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the three types of equity-based compensation: (i) share appreciation rights, (ii) restricted share units and (iii) performance 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 is equal to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

(iii) Performance Share Units ("PSUs")

Each PSU is assigned a value equal to a number of the Company's shares based on the Company's performance against specified targets over a three-year period. The equivalent number of shares for each PSU can range from 0 to 2, depending on the Company's performance.

Under all three 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 awards granted during the year and their related average fair values are as follows:

	Number of units		
	SARs	**RSUs**	**PSUs**
Outstanding at April 1, 2006	172,593,863	101,344,852	11,456,187
Granted during the year	231,476,496	92,845,045	–
Vested during the year	(56,766,466)	(28,965,940)	–
Lapsed/cancelled during the year	(35,276,205)	(18,327,444)	(143,139)
Outstanding at March 31, 2007	312,027,688	146,896,513	11,313,048
Outstanding at April 1, 2007	312,027,688	146,896,513	11,313,048
Granted during the year#	98,847,054	94,393,041	–
Vested during the year	(88,579,926)	(35,687,810)	–
Lapsed/cancelled during the year#	(22,476,983)	(11,344,452)	(330,130)
Outstanding at March 31, 2008	299,817,833	194,257,292	10,982,918
Average fair value per unit (HK$)			
– At March 31, 2007	0.89	2.67	2.42
– At March 31, 2008	1.05	3.31	2.39

\# Included in the 94,393,041 RSUs granted and 11,344,452 RSUs lapsed/cancelled during the year were 38,439,124 RSUs and 230,087 RSUs respectively in connection with the additional awards made based on the performance of the Group for the year ended March 31, 2008.

The fair value of the SARs awarded under the long-term incentive program for the year ended March 31, 2008 was calculated by applying a Black-Scholes pricing model. 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 38.42 percent (2007: 38.84 percent), expected dividends during the vesting periods, contractual life of 4.75 (2007: 7) years, and a risk-free interest rate of 4.44 (2007: 4.37) percent.

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2008 ranged from 0.08 to 3.92 years (2007: 0.17 to 3.17 years).

30 Share capital *(continued)*

(b) Share options

Under the Company's employee share option scheme adopted on January 18, 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent of the issued share capital of the Company from time to time. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the higher of the nominal value of the ordinary shares and an amount which is 80 percent of the average of the closing prices of the listed ordinary shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on April 26, 2002. Despite the fact that no further options may be granted thereunder, all other provisions of the Old Option Scheme will remain in force to govern the exercise of all the options previously granted.

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.

	2008 Number of outstanding share options	2007 Number of outstanding share options
At the beginning of the year	**373,395,601**	404,846,000
Exercised during the year *(ii)*	**(90,436,550)**	(31,450,399)
At the end of the year *(iii)*	**282,959,051**	373,395,601

(i) No share options were granted, lapsed or cancelled by the Company during the years ended March 31, 2007 and 2008.

(ii) Details of share options exercised during the year are as follows:

Year ended March 31, 2008

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$
06.18.2007 to 06.25.2007	2.170	4.87-4.93	1,302,000	2,825,340
07.03.2007 to 07.31.2007	2.170	4.71-5.26	1,428,000	3,098,760
08.07.2007 to 08.27.2007	2.170	4.91-5.26	850,000	1,844,500
09.04.2007 to 09.25.2007	2.170	5.16-5.47	1,034,000	2,243,780
10.08.2007 to 10.30.2007	2.170	6.67-8.04	900,000	1,953,000
11.05.2007 to 11.06.2007	2.170	8.26-8.73	266,000	577,220
04.02.2007 to 04.30.2007	2.245	2.82-3.15	264,000	592,680
05.08.2007 to 05.29.2007	2.245	3.13-3.99	2,062,000	4,629,190
06.04.2007 to 06.26.2007	2.245	4.08-4.62	3,968,000	8,908,160
07.03.2007 to 07.31.2007	2.245	4.71-5.26	664,000	1,490,680
08.06.2007 to 08.28.2007	2.245	4.84-5.13	440,000	987,800
09.03.2007 to 09.25.2007	2.245	5.14-5.47	1,908,000	4,283,460
10.08.2007 to 10.30.2007	2.245	6.67-8.04	1,036,000	2,325,820
11.05.2007 to 11.27.2007	2.245	6.58-8.26	1,314,000	2,949,930
12.04.2007 to 12.24.2007	2.245	6.84-7.17	440,000	987,800
01.07.2008 to 01.08.2008	2.245	6.56-6.90	168,000	377,160
02.04.2008 to 02.25.2008	2.245	5.25-5.60	174,000	390,630
03.03.2008 to 03.31.2008	2.245	5.00-5.41	402,000	902,490
04.17.2007 to 04.30.2007	2.435	2.77-3.12	124,000	301,940
05.08.2007 to 05.29.2007	2.435	3.09-3.95	1,032,000	2,512,920
06.04.2007 to 06.26.2007	2.435	4.08-4.62	1,344,000	3,272,640
07.10.2007 to 07.31.2007	2.435	4.49-5.26	332,000	808,420
08.06.2007 to 08.28.2007	2.435	4.84-5.13	442,000	1,076,270

30 Share capital *(continued)*

(b) Share options *(continued)*

(ii) Details of share options exercised during the year are as follows: *(continued)*

Year ended March 31, 2008 *(continued)*

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$
09.03.2007 to 09.25.2007	2.435	5.14-5.47	1,006,000	2,449,610
10.08.2007 to 10.30.2007	2.435	6.67-8.04	682,000	1,660,670
11.05.2007 to 11.20.2007	2.435	7.42-8.26	658,000	1,602,230
12.04.2007 to 12.24.2007	2.435	6.84-7.17	152,000	370,120
01.08.2008	2.435	6.56	26,000	63,310
02.25.2008	2.435	5.25	8,000	19,480
03.03.2008 to 03.25.2008	2.435	4.85-5.41	104,000	253,240
04.17.2007 to 04.30.2007	2.545	2.80-3.15	542,000	1,379,390
05.08.2007 to 05.29.2007	2.545	3.13-3.99	5,446,000	13,860,070
06.04.2007 to 06.26.2007	2.545	4.08-4.62	9,372,000	23,851,740
07.03.2007 to 07.31.2007	2.545	4.71-5.26	1,540,000	3,919,300
08.06.2007 to 08.28.2007	2.545	4.84-5.13	920,000	2,341,400
09.04.2007 to 09.25.2007	2.545	5.16-5.47	2,350,000	5,980,750
10.08.2007 to 10.30.2007	2.545	6.67-8.04	2,212,000	5,629,540
11.05.2007 to 11.27.2007	2.545	6.58-8.26	1,158,550	2,948,510
12.03.2007 to 12.24.2007	2.545	6.73-7.17	258,000	656,610
01.07.2008 to 01.29.2008	2.545	4.71-6.90	268,000	682,060
02.04.2008 to 02.25.2008	2.545	5.25-5.60	142,000	361,390
03.03.2008 to 03.31.2008	2.545	5.00-5.41	1,488,000	3,786,960
04.24.2007 to 04.30.2007	2.876	3.15-3.18	132,000	379,632
05.08.2007 to 05.29.2007	2.876	3.13-3.99	3,160,000	9,088,160
06.04.2007 to 06.26.2007	2.876	4.08-4.62	4,540,000	13,057,040
07.03.2007 to 07.31.2007	2.876	4.71-5.26	1,044,000	3,002,544
08.06.2007 to 08.28.2007	2.876	4.84-5.13	956,000	2,749,456
09.03.2007 to 09.25.2007	2.876	5.14-5.47	968,000	2,783,968
10.08.2007 to 10.30.2007	2.876	6.67-8.04	1,718,000	4,940,968
11.05.2007 to 11.26.2007	2.876	6.80-8.26	328,000	943,328
12.03.2007 to 12.31.2007	2.876	6.73-7.01	308,000	885,808
01.07.2008 to 01.28.2008	2.876	4.55-6.90	1,468,000	4,221,968
02.04.2008 to 02.26.2008	2.876	5.23-5.60	136,000	391,136
03.17.2008 to 03.31.2008	2.876	4.59-5.00	240,000	690,240
06.25.2007	4.038	4.93	160,000	646,080
07.23.2007 to 07.30.2007	4.038	4.98-5.13	468,000	1,889,784
08.27.2007 to 08.28.2007	4.038	5.13-5.50	88,000	355,344
10.08.2007 to 10.09.2007	4.038	6.67-6.97	194,000	783,372
11.05.2007	4.038	8.26	2,000	8,076
12.24.2007	4.038	7.17	64,000	258,432
03.18.2008	4.038	4.34	40,000	161,520
06.18.2007 to 06.25.2007	4.072	4.87-4.93	740,000	3,013,280
08.27.2007 to 08.28.2007	4.072	5.50-5.13	1,060,000	4,316,320
09.03.2007 to 09.25.2007	4.072	5.14-5.47	1,840,000	7,492,480
11.05.2007 to 11.06.2007	4.072	8.26-8.73	628,000	2,557,216
12.24.2007	4.072	7.17	100,000	407,200
02.04.2008 to 02.25.2008	4.072	5.25-5.60	260,000	1,058,720
03.04.2008	4.072	5.20	100,000	407,200
06.11.2007 to 06.26.2007	4.312	4.35-4.62	3,108,000	13,401,696
07.03.2007 to 07.31.2007	4.312	4.71-5.26	1,750,000	7,546,000
08.07.2007 to 08.28.2007	4.312	4.91-5.13	1,448,000	6,243,776
09.03.2007 to 09.25.2007	4.312	5.14-5.47	4,236,000	18,265,632
10.08.2007 to 10.30.2007	4.312	6.67-8.04	4,734,000	20,413,008
11.05.2007 to 11.27.2007	4.312	6.58-8.26	1,726,000	7,442,512
12.03.2007 to 12.31.2007	4.312	6.73-7.01	1,576,000	6,795,712
01.07.2008 to 01.29.2008	4.312	4.71-6.90	212,000	914,144
02.04.2008 to 02.19.2008	4.312	5.27-5.60	348,000	1,500,576
03.03.2008 to 03.31.2008	4.312	5.00-5.41	330,000	1,422,960
			90,436,550	271,592,258

30 Share capital *(continued)*

(b) Share options *(continued)*

(ii) Details of share options exercised during the year are as follows: *(continued)*

Year ended March 31, 2007

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$
07.11.2006 to 07.18.2006	2.170	2.48-2.63	1,880,000	4,079,600
04.04.2006 to 04.25.2006	2.245	2.78-3.08	416,000	933,920
05.08.2006 to 05.16.2006	2.245	2.63-2.83	142,000	318,790
06.05.2006 to 06.27.2006	2.245	2.33-2.60	646,000	1,450,270
07.03.2006 to 07.31.2006	2.245	2.50-2.63	136,000	305,320
08.01.2006 to 08.29.2006	2.245	2.52-2.99	586,000	1,315,570
09.04.2006 to 09.26.2006	2.245	2.72-3.14	896,000	2,011,520
10.09.2006 to 10.23.2006	2.245	3.04-3.45	2,144,000	4,813,280
11.06.2006 to 11.20.2006	2.245	3.10-3.46	1,996,000	4,481,020
12.11.2006 to 12.19.2006	2.245	3.05-3.07	434,000	974,330
01.22.2007 to 01.30.2007	2.245	3.10-3.44	1,494,000	3,354,030
02.05.2007 to 02.26.2007	2.245	3.09-3.44	1,224,000	2,747,880
03.19.2007	2.245	2.95	18,000	40,410
04.18.2006 to 04.25.2006	2.435	2.78-3.03	44,000	107,140
05.08.2006 to 05.16.2006	2.435	2.63-2.83	42,000	102,270
06.20.2006 to 06.27.2006	2.435	2.45-2.60	344,000	837,640
07.10.2006 to 07.31.2006	2.435	2.50-2.63	64,000	155,840
08.22.2006 to 08.29.2006	2.435	2.92-2.99	110,000	267,850
09.04.2006 to 09.26.2006	2.435	2.93-3.14	186,000	452,910
10.09.2006 to 10.23.2006	2.435	3.04-3.45	704,000	1,714,240
11.06.2006 to 11.14.2006	2.435	3.09-3.46	442,000	1,076,270
12.11.2006 to 12.19.2006	2.435	3.05-3.07	166,000	404,210
01.22.2007 to 01.29.2007	2.435	3.10-3.44	950,000	2,313,250
02.05.2007 to 02.26.2007	2.435	3.09-3.44	1,114,000	2,712,590
03.19.2007	2.435	2.95	2,000	4,870
04.04.2006 to 04.25.2006	2.545	2.78-3.08	450,000	1,145,250
05.08.2006 to 05.16.2006	2.545	2.63-2.83	218,000	554,810
06.27.2006	2.545	2.60	184,000	468,280
07.10.2006 to 07.25.2006	2.545	2.59-2.63	172,000	437,740
08.07.2006 to 08.29.2006	2.545	2.63-2.99	818,000	2,081,810
09.04.2006 to 09.26.2006	2.545	2.85-3.14	1,454,399	3,701,445
10.09.2006 to 10.23.2006	2.545	3.04-3.45	2,696,000	6,861,320
11.06.2006 to 11.14.2006	2.545	3.09-3.46	1,216,000	3,094,720
12.12.2006 to 12.18.2006	2.545	3.03-3.07	644,000	1,638,980
01.22.2007 to 01.29.2007	2.545	3.10-3.44	2,012,000	5,120,540
02.05.2007 to 02.26.2007	2.545	3.09-3.44	1,638,000	4,168,710
03.26.2007	2.545	2.97	12,000	30,540
04.18.2006 to 04.24.2006	2.876	2.90-3.03	152,000	437,152
08.28.2006 to 08.29.2006	2.876	2.92-2.99	64,000	184,064
09.04.2006 to 09.26.2006	2.876	2.93-3.14	554,000	1,593,304
10.09.2006 to 10.23.2006	2.876	3.04-3.45	830,000	2,387,080
11.06.2006 to 11.14.2006	2.876	3.09-3.46	532,000	1,530,032
12.11.2006 to 12.19.2006	2.876	3.05-3.07	34,000	97,784
01.22.2007 to 01.30.2007	2.876	3.10-3.44	988,000	2,841,488
02.05.2007 to 02.26.2007	2.876	3.09-3.44	602,000	1,731,352
			31,450,399	77,081,421

30 Share capital *(continued)*

(b) Share options *(continued)*

(iii) Details of share options at the balance sheet date were as follows:

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2008 Number of outstanding share options**	2007 Number of outstanding share options
Old Option Scheme			
01.28.2000 to 01.27.2010	4.038	**6,696,000**	7,712,000
01.15.2001 to 01.14.2011	4.312	**55,012,000**	74,480,000
04.16.2001 to 04.15.2011	4.072	**30,822,000**	35,550,000
08.29.2001 to 08.28.2011	2.904	**832,000**	832,000
08.31.2001 to 08.30.2011	2.876	**44,416,000**	59,414,000
		137,778,000	177,988,000
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	**21,478,000**	27,388,000
04.26.2003 to 04.25.2013	2.245	**42,596,000**	55,436,000
04.27.2004 to 04.26.2014	2.545	**79,367,051**	105,063,601
07.08.2004 to 07.07.2014	2.170	**1,740,000**	7,520,000
		145,181,051	195,407,601
		282,959,051	373,395,601

31 Share capital and reserves

The changes in the share capital and reserves of the Company during the year are as follows:

	Share capital US$'000	**Share premium** US$'000	**Convertible rights in respect of convertible preferred shares and warrants** US$'000	**Exchange reserve** US$'000	**Share redemption reserve** US$'000	**Investment revaluation reserve** US$'000	**Share-based compensation reserve** US$'000	**Hedging reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000
At April 1, 2006	28,504	1,043,260	10,769	–	396	(619)	22,791	–	325,193	1,430,294
Fair value change on available-for-sale financial assets	–	–	–	–	–	438	–	–	–	438
Profit for the year	–	–	–	–	–	–	–	–	128,499	128,499
Exchange differences	–	–	–	(2,497)	–	–	–	–	–	(2,497)
Vesting of shares under long-term incentive program	–	–	–	–	–	–	(8,372)	–	–	(8,372)
Transfer of warrants from non-current liabilities at fair value *(Note 29(d))*	–	–	35,210	–	–	–	–	–	–	35,210
Exercise of share options	101	9,764	–	–	–	–	–	–	–	9,865
Share-based compensation	–	–	–	–	–	–	37,001	–	–	37,001
Repurchase of shares	(101)	(10,445)	–	–	101	–	–	–	–	(10,445)
Dividends paid	–	–	–	–	–	–	–	–	(59,449)	(59,449)
At March 31, 2007	28,504	1,042,579	45,979	(2,497)	497	(181)	51,420	–	394,243	1,560,544
At April 1, 2007	28,504	1,042,579	45,979	(2,497)	497	(181)	51,420	–	394,243	1,560,544
Fair value change on interest rate swap	–	–	–	–	–	–	–	(1,788)	–	(1,788)
Profit for the year	–	–	–	–	–	–	–	–	466,767	466,767
Exchange differences	–	–	–	5,743	–	–	–	–	–	5,743
Reserve realized on disposal of available-for-sale financial assets	–	–	–	–	–	181	–	–	–	181
Conversion of Series A cumulative convertible preferred shares	1,130	115,924	(3,820)	–	–	–	–	–	–	113,234
Vesting of shares under long-term incentive program	–	–	–	–	–	–	(26,011)	–	–	(26,011)
Exercise of share options	290	34,539	–	–	–	–	–	–	–	34,829
Share-based compensation	–	–	–	–	–	–	53,328	–	–	53,328
Repurchase of shares	(225)	(42,358)	–	–	–	–	–	–	–	(42,583)
Dividends paid	–	–	–	–	–	–	–	–	(68,076)	(68,076)
At March 31, 2008	29,699	1,150,684	42,159	3,246	497	–	78,737	(1,788)	792,934	2,096,168

32 Significant related party transactions

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

	2008 US$'000	2007 US$'000
北京聯想利泰軟件有限公司		
(Beijing Legendsoft International Technology Company Limited)		
(an associated company)		
– Purchase of goods	**8**	220
– Service income	**686**	–
聯想網絡（深圳）有限公司		
(Lenovo Networks (Shenzhen) Limited) (an associated company)		
– Purchase of goods	**–**	917
– Sale of goods	**963**	1,043
– Service income	**69**	–

Note: The English name of each company is a direct translation of its Chinese registered name.

The directors are of the opinion that the above transactions were conducted on normal commercial terms and in the ordinary course of business of the Group.

(b) Key management compensation

Details on key management compensation are set out in Note 12.

33 Bank facilities

Total bank facilities of the Group are as follows:

	Total facilities		**Utilized amounts**	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Term loan	**100,000**	100,000	**100,000**	100,000
Short-term syndicated loans	**400,000**	400,000	**400,000**	–
Short-term loans	**406,000**	291,000	**61,130**	18,028
Foreign exchange contracts	**1,838,000**	1,735,000	**1,127,000**	896,000
Other trade finance facilities	**384,000**	476,000	**150,000**	104,000
	3,128,000	3,002,000	**1,838,130**	1,118,028

The effective annual interest rates at March 31, 2008 were as follows:

	US$	Other currencies
Term loan	5.16%	–
Short-term syndicated loans	3.26%	–
Short-term loans	–	3.37%-20%

34 Commitments

(a) Capital commitments

	Group	
	2008 US$'000	2007 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**15,854**	26,496
– Intangible assets	**13,584**	–
– Investment	**5,216**	5,600
	34,654	32,096
Authorized but not contracted for:		
– Property, plant and equipment	**74,184**	102,633
– Intangible assets	**44,976**	86,000
– Investment	**25,247**	–
	144,407	188,633

At March 31, 2008, the Company did not have any capital commitments (2007: Nil).

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancelable operating leases as follows:

	2008 US$'000	2007 US$'000
Not later than one year	**35,225**	33,141
Later than one year but not later than five years	**82,539**	106,964
Later than five years	**60,399**	72,693
	178,163	212,798

At March 31, 2008, the Company did not have any operating lease commitments (2007: Nil).

(c) Other commitments

Pursuant to the agreement entered into on December 17, 2002 with an independent third party in connection with the purchase of a business and the relevant assets, the Group paid an initial consideration of approximately US$7,820,000, and an additional consideration is payable which is dependent on, inter alia, proper completion of certain reorganization procedures, and the level of operating results of the acquired business up to March 31, 2008. The maximum amount of additional consideration is approximately US$1,971,000 and will be settled in phases before October 31, 2008.

35 Contingent liabilities

(a) 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.

(b) The Company has executed guarantees with respect to bank facilities made available to its subsidiaries. At March 31, 2008, such facilities granted and utilized amounted to approximately US$1,166,542,000 and US$326,402,000 (2007: US$1,202,392,000 and US$298,815,000) respectively.

(c) The Company has issued letters of guarantee to certain suppliers and vendors of its subsidiaries. At March 31, 2008, the guarantees granted and utilized amounted to approximately US$512,500,000 and US$123,281,000 (2007: US$547,500,000 and US$124,000,000) respectively.

36 Notes to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash generated from operations

	2008 US$'000	2007 US$'000
Profit before taxation	**512,850**	154,551
Share of profits of associated companies	**(124)**	(1,869)
Finance income	**(52,048)**	(26,329)
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**88,025**	67,819
Amortization of intangible assets and share-based compensation	**180,641**	141,838
Loss/(gain) on disposal of property, plant and equipment	**8,299**	(1,726)
Loss on disposal of intangible assets	**7,210**	–
Impairment of assets	**2,530**	8,990
Fair value change on warrants	**–**	171
Gain on disposal of investments	**(19,791)**	(17,348)
Decrease in inventories	**(152,473)**	(26,180)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(463,631)**	(174,151)
Increase in trade payables, notes payable, provisions, accruals and other payables	**981,950**	363,833
Finance costs	**38,366**	35,133
Net cash generated from operations	**1,131,804**	524,732

37 Retirement benefit obligations

	Group	
	2008 US$'000	2007 US$'000
Pension obligation included in other non-current liabilities *(Note 29)*		
Pension benefits	**77,264**	95,970
Post-employment medical benefits	**8,226**	6,978
	85,490	102,948
Expensed in income statement		
Pension benefits	**6,931**	22,399
Post-employment medical benefits	**1,253**	4,411
	8,184	26,810

On the acquisition of the personal computer business of IBM, the Group assumed a cash balance pension liability for substantially all former IBM employees in Japan, and final salary defined benefit obligations for selected employees in other countries.

In the United States, the Group operates a final-salary pension plan that covers approximately 25% of all employees. These were former participants in the IBM US pension plan. In addition, the Group operates a supplemental defined benefit plan that covers certain executives transferred from IBM and is intended to provide benefits in excess of certain US tax and labour law limits that apply to the pension plan. Both plans are frozen to new participation. However, benefits continue to accrue.

In Germany, the Group operates a hybrid plan that contains both a defined contribution feature and a defined benefit feature that contains a final-pay formula. This plan is closed to new entrants.

Participant benefits under the Group plans depend on the provisions of the former IBM plan under which the participant had been covered. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

37 Retirement benefit obligations *(continued)*

(a) Pension benefits

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

	Group	
	2008 US$'000	2007 US$'000
Present value of funded obligations	**197,210**	189,832
Fair value of plan assets	**(127,142)**	(103,907)
	70,068	85,925
Present value of unfunded obligations	**7,196**	10,045
Liability in the balance sheet	**77,264**	95,970
Pension plan asset in the balance sheet	**–**	3,197

The movements in the liability recognized in the balance sheet are as follows:

	Group	
	2008 US$'000	2007 US$'000
At the beginning of the year	**95,970**	143,428
Exchange adjustment	**6,330**	2,923
Reclassification	**(12,595)**	–
Pension expenses	**6,931**	22,399
Contributions by employer	**(19,595)**	(81,110)
Others	**223**	8,330
At the end of the year	**77,264**	95,970

The amounts recognized in the income statement are as follows:

	Group	
	2008 US$'000	2007 US$'000
Current service costs	**8,273**	10,633
Interest costs	**6,027**	5,876
Expected return on plan assets	**(4,219)**	(2,441)
Net actuarial (gains)/losses	**(2,954)**	7,976
Past service costs	**–**	355
Curtailment gain	**(196)**	–
Total expense recognized in the income statement	**6,931**	22,399

The principal actuarial assumptions used are as follows:

	Group	
	2008	2007
Discount rate	**2.25% – 5.25%**	2.0% – 5.25%
Expected return on plan assets	**3.5% – 6.0%**	3.5% – 6.0%
Future salary increases	**2.2% – 3.1%**	2.0% – 3.1%
Future pension increases	**0% – 2.0%**	0% – 1.5%
Cash balance crediting rate	**2.5% – 5.0%**	2.5% – 5.0%
Life expectancy of a male aged 60	**82**	82

The expected return on plan assets is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at the balance sheet date and adjusted for experience adjustment in the income statement.

37 Retirement benefit obligations *(continued)*

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

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

	Group	
	2008 US$'000	2007 US$'000
Present value of funded obligations	**16,065**	12,884
Fair value of plan assets	**(8,018)**	(6,920)
Underfunded status	**8,047**	5,964
Present value of unfunded obligations	**179**	1,014
Liability at the end of year	**8,226**	6,978

Movements in the liability recognized in the balance sheet are as follows:

	Group	
	2008 US$'000	2007 US$'000
At the beginning of the year	**6,978**	2,559
Exchange adjustment	**991**	8
Reclassification	**(178)**	–
Post-retirement expenses	**1,253**	4,411
Others	**(818)**	–
At the end of the year	**8,226**	6,978

The amounts recognized in the income statement are as follows:

	Group	
	2008 US$'000	2007 US$'000
Current service costs	**1,765**	1,667
Interest costs	**638**	552
Expected return on plan assets	**(334)**	(394)
Net actuarial losses	**487**	2,586
Curtailment gain	**(1,303)**	–
Total expense recognized in income statement	**1,253**	4,411

The actual return on plan assets was US$343,000 (2007: US$343,000).

37 Retirement benefit obligations *(continued)*

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

Reconciliation of fair value of plan assets of the Group:

	Pensions		Medical	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Opening fair value	**103,907**	25,989	**6,920**	6,592
Exchange adjustment	**15,837**	749	**–**	–
Reclassification	**2,925**	–	**–**	–
Expected return on plan assets	**4,219**	2,441	**334**	394
Actuarial (losses)/gains	**(11,384)**	2,202	**9**	(51)
Contributions by the employer	**19,595**	81,110	**–**	–
Contributions by plan participants	**117**	64	**–**	–
Benefits paid	**(8,074)**	(8,648)	**(63)**	(15)
Others	**–**	–	**818**	–
Closing fair value	**127,142**	103,907	**8,018**	6,920
Actual return on plan assets	**(7,165)**	4,643	**343**	343

Contributions to the plans during the year ended March 31, 2008 include amounts paid into the plans following the transfer of assets from IBM.

Contributions of US$25,962,000 are estimated to be made for the year ending March 31, 2009, excluding amounts due to be transferred from IBM plans.

Plan assets comprise:

	Pensions		Medical	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Equities	**49,977**	33,860	**8,018**	6,920
Bonds	**62,978**	40,504	**–**	–
Properties	**–**	592	**–**	–
Others	**14,187**	28,951	**–**	–
Total	**127,142**	103,907	**8,018**	6,920

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

	Pensions		Medical	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Opening defined benefit obligations	**199,877**	169,417	**13,898**	9,151
Exchange adjustment	**22,167**	3,672	**991**	8
Reclassification	**(9,670)**	–	**(178)**	–
Current service costs	**8,273**	10,633	**1,765**	1,667
Interest costs	**6,027**	5,876	**638**	552
Contributions by plan participants	**117**	64	**–**	–
Actuarial (gains)/losses	**(14,338)**	10,178	**496**	2,535
Benefits paid	**(8,074)**	(8,648)	**(63)**	(15)
Past service costs	**–**	355	**–**	–
Curtailments and settlements	**(196)**	–	**(1,303)**	–
Others	**223**	8,330	**–**	–
Closing defined benefit obligations	**204,406**	199,877	**16,244**	13,898

37 Retirement benefit obligations *(continued)*

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

Summary of pensions and post-retirement medical benefits

	Group	
	2008 US$'000	2007 US$'000
Present value of defined benefit obligations	**220,650**	213,775
Fair value of plan assets	**135,160**	110,827
Deficit	**85,490**	102,948
Experience adjustments on plan assets		
Amount of gain	**(11,384)**	(2,152)
Percentage of the fair value of plan assets	**8.4%**	1.9%
Experience adjustments on plan liabilities		
Amount of losses	**10,081**	8,040
Percentage of the present value of the defined benefit obligations	**4.6%**	4.0%

38 Principal subsidiaries

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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2008	Effective holding 2007	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:					
Lenovo (Asia Pacific) Limited	Hong Kong	HK$1,225,130,734	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
惠陽聯想工業物業有限公司 (Huiyang Lenovo Industry Property Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	US$2,045,500	100%	100%	Property holding and property management

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2008	2007	Principal activities
聯想國際信息產品（深圳）有限公司 (International Information Products (Shenzhen) Co., Ltd)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$7,800,000	100%	100%	Manufacturing and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD36,272,716	100%	100%	Distribution of IT products
Lenovo (Belgium) Sprl	Belgium	EUR24,384,053	100%	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	100%	100%	Distribution of IT products
聯想（成都）有限公司 (Lenovo (Chengdu) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB12,000,000	100%	100%	Provision of IT services and distribution of IT products
聯想中望系統服務有限公司 (Lenovo ChinaWeal System & Service Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$6,024,000	95.1%	95.1%	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 (France) SAS	France	EUR1,837,000	100%	100%	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$23,640,611	100%	100%	Distribution of IT products
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$16,000,000	100%	100%	Manufacturing of IT products
Lenovo (India) Private Limited	India	INR326,969,990	100%	100%	Manufacturing and distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2008	Effective holding 2007	Principal activities
聯想信息產品（深圳）有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$80,000,000	100%	100%	Manufacturing and distribution of IT products
Lenovo (International) B.V.	Netherlands	EUR20,000	100%	100%	Investment holding and distribution of IT products
聯想工業實業發展（大亞灣）有限公司 (Lenovo Industrial Development Co., (Daya Bay) Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$10,000,000	100%	100%	Property holding and property management
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	JPY300,000,000	100%	100%	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	MXN101,158,469	100%	100%	Distribution of IT products
Lenovo PC HK Limited	Hong Kong	HK$2 ordinary and HK$1,000,000 non-voting deferred	100%	100%	Distribution of IT products
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	100%	100%	Distribution of IT products
聯想（瀋陽）有限公司 (Lenovo (Shenyang) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	US$1,200,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,314,573,749	100%	100%	Procurement agency, group treasury, supply chain management, intellectual property rights management and distribution of IT products

38 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2008	2007	Principal activities
Lenovo (South Africa) (Pty) Limited	South Africa	ZAR100	100%	100%	Distribution of IT products
Lenovo (Spain), SRL	Spain	EUR108,182	100%	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,000	100%	100%	Distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,507	100%	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	100%	100%	Distribution of IT products
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL112,298,654	100%	100%	Distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB50,000,000	100%	100%	Distribution of IT products
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
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 of IT products
上海聯想電子有限公司 (Shanghai Lenovo Electronic Co., Ltd.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB20,000,000	100%	100%	Manufacturing of IT products
陽光雨露信息技術服務（北京）有限公司 (Sunny Information Technology Service (Beijing) Co., Ltd.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB20,000,000	100%	100%	Provision of repair services for computer hardware and software systems
Think Products (Malaysia) Sdn Bhd	Malaysia	MYR251,000	100%	100%	Distribution of IT products

38 Principal subsidiaries *(continued)*

Notes:

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

(ii) All the Chinese Mainland subsidiaries 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 subsidiaries for the years ended March 31, 2007 and 2008 have been used.

(iii) The company whose English name ends with a "1" is a direct transliteration or translation of its Chinese registered name.

39 Subsequent events

On May 8, 2008, the Company received a written notice from IBM for the conversion of 375,282,756 non-voting shares. As a result of such conversion, the 375,282,756 non-voting shares have been converted into 375,282,756 voting shares on May 15, 2008.

40 Approval of financial statements

The financial statements were approved by the board of directors on May 22, 2008.

FIVE-YEAR FINANCIAL SUMMARY

	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000
Continuing operations					
Sales	**16,351,503**	13,978,309	12,685,726	2,609,198	2,708,433
Cost of sales	**(13,901,523)**	(12,091,433)	(10,967,415)	(2,294,346)	(2,363,777)
Gross profit	**2,449,980**	1,886,876	1,718,311	314,852	344,656
Other income/(expenses) – net	**17,261**	8,187	(7,739)	13,538	6,097
Selling and distribution expenses	**(1,103,713)**	(1,033,296)	(969,288)	(127,207)	(138,103)
Administrative expenses	**(595,902)**	(488,150)	(415,608)	(35,382)	(41,788)
Research and development expenses	**(229,759)**	(196,225)	(164,822)	(27,992)	(49,438)
Other operating (expenses)/ income – net	**(38,823)**	(15,906)	(85,275)	2,076	7,222
Operating profit	**499,044**	161,486	75,579	139,885	128,646
Finance income	**52,048**	26,329	24,229	13,548	11,970
Finance costs	**(38,366)**	(35,133)	(51,981)	(855)	(369)
Share of profits/(losses) of jointly controlled entities	**–**	–	138	(1,580)	(5,008)
Share of profits of associated companies	**124**	1,869	464	536	2,166
Profit before taxation	**512,850**	154,551	48,429	151,534	137,405
Taxation	**(47,613)**	(26,197)	(56,881)	(4,511)	2,583
Profit from continuing operations	**465,237**	128,354	(8,452)	147,023	139,988
Discontinued operations					
Profit/(loss) from discontinued operations	**19,920**	32,784	36,122	(6,982)	(9,860)
Profit for the year	**485,157**	161,138	27,670	140,041	130,128
Profit attributable to:					
Shareholders of the Company	**484,263**	161,138	22,210	143,608	134,985
Minority interests	**894**	–	5,460	(3,567)	(4,857)
	485,157	161,138	27,670	140,041	130,128
Dividends	**186,753**	59,331	59,198	49,847	42,911
Earnings per share					
Basic					
– Continuing operations	**US5.29 cents**	US1.49 cents	(US0.16 cents)	US2.02 cents	US1.94 cents
– Discontinued operations	**US0.22 cents**	US0.38 cents	US0.41 cents	(US0.09 cents)	(US0.13 cents)
	US5.51 cents	US1.87 cents	US0.25 cent	US1.93 cents	US1.81 cents
Diluted					
– Continuing operations	**US4.86 cents**	US1.47 cents	(US0.15 cents)	US2.01 cents	US1.92 cents
– Discontinued operations	**US0.20 cents**	US0.37 cents	US0.40 cents	(US0.09 cents)	(US0.13 cents)
	US5.06 cents	US1.84 cents	US0.25 cent	US1.92 cents	US1.79 cents
Total assets	**7,199,847**	5,450,838	5,040,558	1,157,943	1,069,492
Total liabilities	**5,586,584**	4,316,562	3,995,911	487,686	490,255
Net assets	**1,613,263**	1,134,276	1,044,647	670,257	579,237

CORPORATE INFORMATION

Board of Directors

Executive directors

Mr. Yang Yuanqing
Mr. William J. Amelio

Non-executive directors

Mr. Liu Chuanzhi
Mr. Zhu Linan
Ms. Ma Xuezheng
Mr. James G. Coulter
Mr. William O. Grabe
Mr. Shan Weijian*
Mr. Justin T. Chang
(Alternate director to Mr. James G. Coulter)
Mr. Daniel A. Carroll*
(Alternate director to Mr. Shan Weijian)

Independent non-executive directors

Professor Woo Chia-Wei
Mr. Ting Lee Sen
Mr. John W. Barter III
Mr. Tian Suning

Qualified Accountant

Mr. Wong Wai Ming

Company Secretary

Mr. Mok Chung Fu

Registered Office

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

Principal Bankers

BNP Paribas
Standard Chartered Bank (Hong Kong) Limited
ABN AMRO Bank N.V.
Industrial and Commercial Bank of China (Asia) Limited
China Merchants Bank
Citibank, N.A.
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited

Independent Auditor

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

Share Registrar

Tricor Abacus Limited
26th Floor, Tesbury Centre,
28 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

Website

www.lenovo.com

* Resigned as director or alternate director on May 23, 2008

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