



Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0992)

FY2007/08 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the nine months ended December 31, 2007 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

		3 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2007 (unaudited) US\$'000	3 months ended December 31, 2006 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
	<i>Note</i>				
Sales	2	4,601,688	12,960,174	3,997,797	11,173,915
Cost of sales		<u>(3,900,095)</u>	<u>(11,006,390)</u>	<u>(3,456,279)</u>	<u>(9,655,221)</u>
Gross profit		701,593	1,953,784	541,518	1,518,694
Other income/(expense) – net	3	8,894	11,036	(4,592)	10,229
Selling and distribution expenses		(301,585)	(898,245)	(287,012)	(851,086)
Administrative expenses		(174,453)	(451,601)	(129,589)	(357,438)
Research and development expenses		(67,365)	(186,891)	(62,584)	(169,694)
Other operating income/(expense) – net		<u>20,445</u>	<u>(42,536)</u>	<u>6,566</u>	<u>(23,950)</u>
Operating profit		187,529	385,547	64,307	126,755
Finance income		15,191	35,600	7,623	18,959
Finance costs	4	(12,997)	(30,603)	(8,267)	(25,845)
Share of profits of associated companies		<u>201</u>	<u>260</u>	<u>119</u>	<u>1,759</u>
Profit before taxation	5	189,924	390,804	63,782	121,628
Taxation	6	<u>(17,360)</u>	<u>(46,146)</u>	<u>(6,048)</u>	<u>(20,803)</u>
Profit for the period		<u>172,564</u>	<u>344,658</u>	<u>57,734</u>	<u>100,825</u>
Profit attributable to:					
Shareholders of the Company		171,748	343,842	57,734	100,825
Minority interests		816	816	-	-
		<u>172,564</u>	<u>344,658</u>	<u>57,734</u>	<u>100,825</u>
Dividend	7		<u>34,715</u>		<u>27,454</u>
Earnings per share					
– Basic	8(a)	<u>US1.93 cents</u>	<u>US3.95 cents</u>	US0.67 cents	US1.17 cents
– Diluted	8(b)	<u>US1.76 cents</u>	<u>US3.63 cents</u>	US0.64 cents	US1.14 cents

CONSOLIDATED BALANCE SHEET

		December 31, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
Non-current assets			
Property, plant and equipment		361,065	326,058
Prepaid lease payments		5,892	5,807
Construction-in-progress		25,834	20,438
Intangible assets		1,871,287	1,867,689
Investments in associated companies		4,026	3,908
Deferred tax assets		150,768	101,551
Available-for-sale financial assets		87,645	42,938
Other non-current assets		9,892	20,000
		2,516,409	2,388,389
Current assets			
Inventories		482,549	357,663
Trade receivables	9(a)	1,033,478	641,593
Notes receivable		312,340	190,857
Deposits, prepayments and other receivables		638,378	784,857
Income tax recoverable		14,000	22,041
Cash and cash equivalents		2,158,262	1,063,716
		4,639,007	3,060,727
Total assets		7,155,416	5,449,116
Share capital	11	29,905	28,504
Reserves		1,595,659	1,105,028
Shareholders' funds		1,625,564	1,133,532
Minority interests		147	744
Total equity		1,625,711	1,134,276
Non-current liabilities	12	734,348	789,058
Current liabilities			
Trade payables	9(b)	2,820,182	1,977,206
Notes payable		63,911	49,154
Provisions, accruals and other payables	10	1,774,323	1,412,864
Income tax payable		62,129	60,013
Short-term bank loans		61,567	18,028
Current portion of non-current liabilities		13,245	8,517
		4,795,357	3,525,782
Total liabilities		5,529,705	4,314,840
Total equity and liabilities		7,155,416	5,449,116
Net current liabilities		156,350	465,055
Total assets less current liabilities		2,360,059	1,923,334

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Net cash generated from operating activities	1,305,497	794,400
Net cash used in investing activities	(186,809)	(95,406)
Net cash used in financing activities	(7,338)	(255,056)
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Increase in cash and cash equivalents	1,111,350	443,938
Effect of foreign exchange rate changes	(16,804)	(18,251)
Cash and cash equivalents at the beginning of the period	1,063,716	1,004,981
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	2,158,262	1,430,668
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Retained earnings/ (accumulated losses) (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) 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	-	-	-	-	-	57,819	-	-	-	-	-	57,819
Transfer to statutory reserve	-	-	-	12,980	-	-	-	-	-	(12,980)	-	-
Profit for the period	-	-	-	-	-	-	-	-	343,842	-	816	344,658
Exchange differences	-	-	-	-	(7,316)	-	-	-	-	-	-	(7,316)
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	-	-	-	-	-	-	-	15,596	(21,631)	-	-	(6,035)
Exercise of share options	271	32,299	-	-	-	-	-	-	-	-	-	32,570
Share-based compensation	-	-	-	-	-	-	-	35,519	-	-	-	35,519
Dividend paid	-	-	-	-	-	-	-	-	(66,008)	(1,413)	-	(67,421)
At December 31, 2007	29,905	1,190,802	42,159	12,980	(30,072)	61,304	497	(111,705)	65,308	364,386	147	1,625,711
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	-	-	-	-	-	14,511	-	-	-	-	-	14,511
Profit for the period	-	-	-	-	-	-	-	-	100,825	-	-	100,825
Exchange differences	-	-	-	-	(39,992)	-	-	-	-	-	-	(39,992)
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	-	236	-	-	-	-	-	236
Transfer of warrants from non-current liabilities at fair value	-	-	35,210	-	-	-	-	-	-	-	-	35,210
Exercise of share options	74	6,616	-	-	-	-	-	-	-	-	-	6,690
Vesting of shares under long-term incentive program	-	-	-	-	-	-	-	8,297	(10,431)	-	-	(2,134)
Share-based compensation	-	-	-	-	-	-	-	26,782	-	-	-	26,782
Repurchase of shares	(50)	(4,602)	-	-	-	-	50	-	-	-	-	(4,602)
Contributions to employee share trusts	-	-	-	-	-	-	-	(84,892)	-	-	-	(84,892)
Dividend paid	-	-	-	-	-	-	-	-	(57,800)	-	-	(57,800)
At December 31, 2006	28,528	1,045,274	45,979	-	(43,305)	11,168	446	(127,638)	39,142	39,143	744	1,039,481

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's unaudited condensed quarterly financial statements. These unaudited condensed quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that available-for-sale financial assets are stated at fair value. These unaudited condensed quarterly financial statements should be read in conjunction with the 2006/07 annual financial statements.

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed quarterly financial statements are consistent with those used in the annual financial statements for the year ended March 31, 2007.

The following new standards, amendments to standards and interpretations are mandatory for the year ending March 31, 2008. The Group has adopted these new standards, amendments to standards and interpretations where considered appropriate and relevant to its operations.

- Amendment to HKAS 1, "Capital disclosures"
- HKFRS 7, "Financial instruments: Disclosures"
- HK(IFRIC)-Int 8, "Scope of HKFRS 2"
- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 10, "Interim financial reporting and impairment"
- HK(IFRIC)-Int 11, "HKFRS 2 – Group and treasury share transactions"

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending March 31, 2008 and have not been early adopted.

- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009
- 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 adoption of the above standards, amendments to standards and interpretations in future periods is not expected to result in substantial changes to the Group's accounting policies except that additional disclosures may be required.

2 Segment information

In accordance with the Group's internal financial reporting, the Group has adopted geographical segments as the primary reporting format and business segments as the secondary reporting format.

(a) Primary reporting format – geographical segments

The segment results for the nine months ended December 31, 2007 are as follows:

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	3,480,969	2,727,265	1,570,597	5,181,343	-	12,960,174
Segment operating results	72,964	104,984	(9,825)	308,785	(102,397)	374,511
Finance income						35,600
Finance costs						(30,603)
Gain on disposal of available-for-sale financial assets						11,036
Share of profits of associated companies						260
Profit before taxation						390,804
Taxation						(46,146)
Profit for the period						344,658

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

At December 31, 2007

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Segment assets	<u>1,463,229</u>	<u>777,545</u>	<u>960,010</u>	<u>3,301,527</u>		<u>6,502,311</u>
Investments in associated companies					4,026	
Available-for-sale financial assets					87,645	
Cash and cash equivalents					343,817	
Deferred tax assets					150,768	
Income tax recoverable					14,000	
Other unallocated assets					52,849	<u>653,105</u>
Consolidated total assets						<u>7,155,416</u>
Segment liabilities	<u>1,443,869</u>	<u>1,105,344</u>	<u>627,122</u>	<u>1,845,830</u>		<u>5,022,165</u>
Bank borrowings					100,000	
Convertible preferred shares					209,772	
Share-based compensation					7,293	
Income tax payable					62,129	
Other unallocated liabilities					128,346	<u>507,540</u>
Consolidated total liabilities						<u>5,529,705</u>
Capital expenditure	<u>38,799</u>	<u>6,575</u>	<u>14,102</u>	<u>65,539</u>	<u>100,269</u>	<u>225,284</u>

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

The segment results for the nine months ended December 31, 2006 are as follows:

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	<u>3,122,888</u>	<u>2,325,158</u>	<u>1,359,863</u>	<u>4,366,006</u>	<u>-</u>	<u>11,173,915</u>
Segment operating results	<u>(44,536)</u>	<u>627</u>	<u>(6,498)</u>	<u>255,119</u>	<u>(88,186)</u>	<u>116,526</u>
Finance income						18,959
Finance costs						(25,845)
Impairment of assets						(8,990)
Fair value change on warrants						(171)
Gain on disposal of investments and available-for-sale financial assets						19,390
Share of profits of associated companies						<u>1,759</u>
Profit before taxation						121,628
Taxation						<u>(20,803)</u>
Profit for the period						<u>100,825</u>

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

At March 31, 2007

	Americas (audited) US\$'000	Europe, Middle East and Africa (audited) US\$'000	Asia Pacific (excluding Greater China) (audited) US\$'000	Greater China (audited) US\$'000	Corporate or unallocated (audited) US\$'000	Total (audited) US\$'000
Segment assets	1,188,004	589,350	847,038	2,050,866		4,675,258
Investments in associated companies					3,908	
Available-for-sale financial assets					42,938	
Cash and cash equivalents					439,212	
Deferred tax assets					101,551	
Income tax recoverable					22,041	
Other unallocated assets					164,208	773,858
Consolidated total assets						5,449,116
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	
Income tax payable					60,013	
Other unallocated liabilities					39,724	528,251
Consolidated total liabilities						4,314,840
Capital expenditure	84,745	13,520	20,245	64,046	60,545	243,101

(b) Secondary reporting format – business segments

	Personal computer			Mobile handset US\$'000	Others US\$'000	Total US\$'000
	Desktop US\$'000	Notebook US\$'000	Total US\$'000			
For the nine months ended December 31, 2007 (unaudited)						
Sales	<u>5,286,537</u>	<u>7,148,007</u>	<u>12,434,544</u>	<u>342,764</u>	<u>182,866</u>	<u>12,960,174</u>
Capital expenditure			<u>218,093</u>	<u>4,758</u>	<u>2,433</u>	<u>225,284</u>
At December 31, 2007 (unaudited)						
Total segment assets			<u>4,531,920</u>	<u>67,338</u>	<u>129,047</u>	<u>4,728,305</u>
For the nine months ended December 31, 2006 (unaudited)						
Sales	<u>4,730,830</u>	<u>5,785,447</u>	<u>10,516,277</u>	<u>485,743</u>	<u>171,895</u>	<u>11,173,915</u>
Capital expenditure			<u>146,223</u>	<u>5,311</u>	<u>1,879</u>	<u>153,413</u>
At March 31, 2007 (audited)						
Total segment assets			<u>3,938,006</u>	<u>91,757</u>	<u>45,237</u>	<u>4,075,000</u>

3 Other income/(expense) – net

	3 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2007 (unaudited) US\$'000	3 months ended December 31, 2006 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Impairment of assets	-	-	(5,228)	(8,990)
Fair value change on warrants	-	-	184	(171)
Gain on disposal of investments and available-for-sale financial assets	<u>8,894</u>	<u>11,036</u>	452	19,390
	<u>8,894</u>	<u>11,036</u>	<u>(4,592)</u>	<u>10,229</u>

4 Finance costs

	3 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2007 (unaudited) US\$'000	3 months ended December 31, 2006 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Interest on bank loans and overdrafts	2,654	8,020	2,219	7,810
Dividend and relevant finance costs on convertible preferred shares	4,226	15,173	5,481	16,465
Others	6,117	7,410	567	1,570
	12,997	30,603	8,267	25,845

5 Profit before taxation

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

	3 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2007 (unaudited) US\$'000	3 months ended December 31, 2006 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Amortization of intangible assets (including accelerated amortization of US\$2,624,000 (2006/07: Nil) for three-month period and US\$30,682,000 (2006/07: Nil) for nine-month period)	25,763	106,625	27,135	77,545
Cost of inventories sold	3,611,898	10,186,820	3,217,315	9,038,757
Depreciation and amortization of prepaid lease payments	25,206	70,761	19,398	53,390
Employee benefit costs (including share-based compensation of US\$12,887,000 (2006/07: US\$10,220,000) for three-month period and US\$35,519,000 (2006/07: US\$26,782,000) for nine-month period)	330,040	959,702	253,755	712,081
Rental expenses under operating leases	9,988	28,109	8,541	26,154
Restructuring costs				
- Staff related costs (included in employee benefit costs)	2,254	42,186	2,975	8,661
- Others	(648)	5,981	(680)	14,995

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2007 (unaudited) US\$'000	3 months ended December 31, 2006 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Current taxation				
Hong Kong profits tax	200	360	24	20
Taxation outside Hong Kong	11,205	59,044	(4,162)	72
Deferred taxation	5,955	(13,258)	10,186	20,711
	17,360	46,146	6,048	20,803

7 Dividend

	9 months ended December 31, 2007 (unaudited) US\$'000	9 months ended December 31, 2006 (unaudited) US\$'000
Interim dividend, for the six months ended September 30, 2007, of HK3.0 cents (2006/07: HK2.4 cents) per ordinary share, paid on November 30, 2007	34,715	27,454

No dividend has been declared to the ordinary shareholders for the three months ended December 31, 2007 (2006/07: Nil).

8 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 period.

	9 months ended December 31, 2007 (unaudited)	9 months ended December 31, 2006 (unaudited)
Profit attributable to shareholders of the Company (US\$'000)	343,842	100,825
Weighted average number of ordinary shares in issue for the calculation of basic earnings per share	8,701,715,808	8,645,088,209

(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 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.

	9 months ended December 31, 2007 (unaudited)	9 months ended December 31, 2006 (unaudited)
Profit attributable to shareholders of the Company (US\$'000)	343,842	100,825
Interest expense on convertible preferred shares (US\$'000)	15,173	-
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Profit used to determine diluted earnings per share (US\$'000)	359,015	100,825
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Weighted average number of ordinary shares in issue	8,701,715,808	8,645,088,209
Adjustments for assumed conversion of convertible preferred shares	925,371,063	-
Adjustments for share options, long-term incentive awards and warrants	259,928,521	235,908,036
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Weighted average number of ordinary shares in issue for the calculation of diluted earnings per share	9,887,015,392	8,880,996,245
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9 Ageing analysis

(a) Ageing analysis of trade receivables is as follows:

	December 31, 2007 (unaudited) <i>US\$'000</i>	March 31, 2007 (audited) <i>US\$'000</i>
0 – 30 days	896,130	532,247
31 – 60 days	91,147	69,188
61 – 90 days	26,888	14,816
Over 90 days	19,313	25,342
	<hr/> 1,033,478 <hr/>	<hr/> 641,593 <hr/>

Customers are generally granted credit terms of 30 days.

(b) Ageing analysis of trade payables is as follows:

	December 31, 2007 (unaudited) <i>US\$'000</i>	March 31, 2007 (audited) <i>US\$'000</i>
0 – 30 days	1,797,573	1,484,771
31 – 60 days	802,635	298,943
61 – 90 days	176,869	178,380
Over 90 days	43,105	15,112
	<hr/> 2,820,182 <hr/>	<hr/> 1,977,206 <hr/>

10 Provisions, accruals and other payables

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

	December 31, 2007 (unaudited) <i>US\$'000</i>	March 31, 2007 (audited) <i>US\$'000</i>
(a) Warranty provision		
At the beginning of the period/year	448,333	326,124
Provisions made	404,371	410,356
Amounts utilized	(296,708)	(288,147)
	555,996	448,333
Long-term portion classified as non-current liabilities	(198,754)	(166,525)
At the end of the period/year	357,242	281,808
(b) Restructuring costs provision		
At the beginning of the period/year	5,645	69,584
Exchange adjustment	2,476	(460)
Provisions made	34,428	-
Amounts utilized	(23,571)	(44,059)
Unused amounts reversed	-	(19,420)
At the end of the period/year	18,978	5,645
(c) Battery recall provision		
At the beginning of the period/year	8,693	-
Provisions made	2,000	23,750
Amounts utilized	(5,953)	(15,057)
At the end of the period/year	4,740	8,693

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

11 Share capital

	December 31, 2007 (unaudited)		March 31, 2007 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>				
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
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the period/year	8,517,981,022	27,301	8,517,920,623	27,301
Conversion from Series A cumulative convertible preferred shares (Note 12)	350,459,078	1,130	-	-
Exercise of share options	84,522,550	271	31,450,399	101
Repurchase of shares	-	-	(31,390,000)	(101)
At the end of the period/year	8,952,962,650	28,702	8,517,981,022	27,301
Non-voting ordinary shares:				
At the beginning and the end of the period/year	375,282,756	1,203	375,282,756	1,203
Issued and fully paid ordinary shares	9,328,245,406	29,905	8,893,263,778	28,504
Total issued and fully paid Series A cumulative convertible preferred shares				
At the beginning of the period/year	2,730,000	3,211	2,730,000	3,211
Conversion to voting ordinary shares (Note 12)	(955,001)	(1,123)	-	-
At the end of the period/year	1,774,999	2,088	2,730,000	3,211

12 Non-current liabilities

	December 31, 2007 (unaudited) <i>US\$'000</i>	March 31, 2007 (audited) <i>US\$'000</i>
Amount payable for marketing rights	9,630	18,123
Interest-bearing bank loans repayable within five years	100,000	100,000
Share-based compensation	7,293	11,019
Convertible preferred shares	209,772	317,495
Warranty provision	198,754	166,525
Retirement benefit obligations	88,129	102,948
Other non-current liabilities	120,770	72,948
	<hr/> 734,348 <hr/>	<hr/> 789,058 <hr/>

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

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

FINANCIAL REVIEW

Results

For the nine months ended December 31, 2007, the Group achieved total sales of approximately US\$12,960 million representing a 16.0 percent year-on-year growth driven across all geographies. Profit attributable to shareholders of the Company was approximately US\$344 million during the period, representing an increase of US\$243 million as compared to the same period last year. Gross profit margin for the period was 15.1 percent up from 13.6 percent reported during the same period last year. The balance sheet position remained strong, cash and cash equivalents increased by US\$1,094 million as compared to March 31, 2007. Basic earnings per share and diluted earnings per share were US3.95 cents and US3.63 cents, representing an increase of US2.78 cents and US2.49 cents respectively as compared with the same period last year.

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

Analysis of Operating Expenses

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 nine months ended December 31, 2007 increased by 6 percent as compared to the same period 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 company 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 nine months ended December 31, 2007 of 26 percent as compared to the same period last year. The increase is driven by staff costs.

Research and development expenses

Research and development spending for the nine months ended December 31, 2007 increased by 10 percent as compared to the same period last year. This is a reflection of the continued investment the Group is making towards its commitment to deliver the most innovative products in the industry.

Other operating expenses

Other operating expenses for the nine months ended December 31, 2007 increased by 78 percent as compared to the same period 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 period under review amounted to US\$48 million (2006/07: US\$24 million).

Capital Expenditure

The Group incurred capital expenditures of US\$225 million (2006/07: US\$153 million) during the nine months ended December 31, 2007, mainly for the acquisition of fixed assets, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At December 31, 2007, total assets of the Group amounted to US\$7,155 million (March 31, 2007: US\$5,449 million), which was financed by shareholders' funds of US\$1,626 million (March 31, 2007: US\$1,134 million), minority interests of US\$147,000 (March 31, 2007: US\$744,000), and non-current and current liabilities of US\$5,529 million (March 31, 2007: US\$4,315 million). At December 31, 2007, the current ratio of the Group was 0.97 (March 31, 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 December 31, 2007, cash and cash equivalents totaled US\$2,158 million (March 31, 2007: US\$1,064 million), of which 45.9 (March 31, 2007: 59.1) percent was denominated in US dollars, 37.9 (March 31, 2007: 20.3) percent in Renminbi, 3.1 (March 31, 2007: 4.6) percent in Euros, 2.9 (March 31, 2007: 3.9) percent in Japanese Yen, and 10.2 (March 31, 2007: 12.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At December 31, 2007, 79.4 (March 31, 2007: 65.8) percent of cash are deposit in banks and 20.6 (March 31, 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 December 31, 2007, the Group had a US\$400 million (March 31, 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 (March 31, 2007: US\$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US\$100 million (March 31, 2007: US\$100 million) at December 31, 2007.

The Group has also arranged other short-term credit facilities. At December 31, 2007, the Group's total available credit facilities amounted to US\$2,712 million (March 31, 2007: US\$2,502 million), of which US\$496 million (March 31, 2007: US\$476 million) was in trade lines, US\$381 million (March 31, 2007: US\$291 million) in short-term and revolving money market facilities and US\$1,835 million (March 31, 2007: US\$1,735 million) in forward foreign exchange contracts. At December 31, 2007, the amount drawn down was US\$126 million (March 31, 2007: US\$104 million) in trade lines, US\$849 million (March 31, 2007: US\$896 million) being used for the currency forward contracts and US\$62 million (March 31, 2007: US\$18 million) in short-term bank loans.

At December 31, 2007, the Group's outstanding bank loan represented the term loan of US\$100 million (March 31, 2007: US\$100 million) and short-term bank loans of US\$62 million (March 31, 2007: US\$18 million). When compared with total equity of US\$1,626 million (March 31, 2007: US\$1,134 million), the Group's gearing ratio was 0.10 (March 31, 2007: 0.11). The net cash position of the Group at December 31, 2007 is US\$1,996 million (March 31, 2007: US\$946 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2007, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US\$849 million (March 31, 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. Any gain or loss on these contracts is offset by movements in the value of the underlying transactions or change in fair value of the identified assets or 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 December 31, 2007 amounted to approximately US\$210 million (March 31, 2007: US\$318 million), US\$7 million (March 31, 2007: US\$11 million) and US\$35 million (March 31, 2007: US\$35 million) respectively. The warrants will expire on May 17, 2010.

Contingent Liabilities

The Group had no material contingent liabilities at December 31, 2007 (March 31, 2007: Nil).

Human Resources

At December 31, 2007, the Group had a total of approximately 26,500 (2006/07 Q3: 24,500) employees, 20,200 (2006/07 Q3: 19,100) of whom were employed in Chinese mainland and 1,900 (2006/07 Q3: 2,000) in the U.S. and 4,400 (2006/07 Q3: 3,400) in other countries.

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

BUSINESS REVIEW AND PROSPECTS

Lenovo reported solid financial results for the three months ended December 31, 2007. The Group continues to deliver double-digit growth in PC unit shipments and sales across all the geographies. Lenovo's consolidated sales increased 15 percent year-on-year to approximately US\$4,602 million. Gross profit increased 30 percent to approximately US\$702 million with margin of 15.2 percent, representing 1.7 percentage points improvement from a year ago. Profit before taxation (excluding the cost of strategic restructuring actions) surged 190 percent year-on-year to US\$192 million as a result of improvement in both gross margin and operational efficiency. Profit attributable to shareholders increased 198 percent to US\$172 million. The Group also benefited from continued weakness in the US dollar during the period under review.

Personal Computer Business

During the three months ended December 31, 2007, Lenovo's worldwide PC shipments grew more than 22 percent in the quarter, well ahead of the industry average growth of approximately 16 percent. Lenovo's market share increased 0.4 percentage points year-on-year to 7.5 percent, based on preliminary industry data.

Lenovo posted strong growth in China with approximately 25 percent year-on-year increase in PC unit shipments for the three months ended December 31, 2007. Based on preliminary industry estimates, the Group further strengthened its leading position in the China's PC market by taking approximately 29.0 percent of the market, representing a year-on-year share increase of 0.3 percentage points. The outstanding performance once again demonstrated the strengths of Lenovo's dual business model which drove strong growth in its shipments to large enterprises and notebook shipments through channels during the quarter.

In Americas, Lenovo also outperformed the industry average growth by delivering a 15 percent year-on-year increase in PC shipments for the three months ended December 31, 2007. The solid performance was attributable to the expanded roll-out of Lenovo's transaction model in the geography and its strengths in desktop shipments. In EMEA (Europe, Middle East and Africa), Lenovo benefited from the robust PC market, posting a 24 percent year-on-year increase in unit shipments and showing profitability improvement. In Asia Pacific (excluding Greater China), Lenovo achieved 20 percent growth in PC unit shipments for the quarter, mainly driven by growth in the India market.

Looking at product segments, Lenovo gained share in both the notebook and desktop markets during the fiscal quarter ended December 31, 2007. The Group posted 38 percent and 12 percent year-on-year growth in the unit shipments of notebooks and desktops respectively. Lenovo's efforts to enhance the competitiveness of its desktop business continued to deliver desirable results.

Mobile Handset Business

For the quarter ended December 31, 2007, Lenovo's mobile handset business held its fourth position in the China market with approximately 5.9 percent share. Due to increased market competition, Lenovo's mobile handset shipments decreased 31 percent year-on-year.

Prospects

Despite the increasing economic uncertainties, industry analysts are forecasting the worldwide PC market to grow moderately by double digits, based on the strong market outlook for Asia and emerging markets.

Lenovo is uniquely positioned in the PC market with its strong track records in China and its presence in key high-growth emerging markets. Lenovo's implementation of its strategic initiatives, namely rolling out its transaction model, enhancing its global supply chain, improving desktop competitiveness, and building the Lenovo brand, has brought significant improvement on the Group's operational performance over the past several quarters. In view of the growing concerns over the worldwide economy, Lenovo has also increased its focus on operational efficiencies to ensure long-term growth and profit.

Looking forward, Lenovo will continue to implement its strategic initiatives, and invest in the building of new IT infrastructure and manufacturing facilities to enhance future operational efficiency. The Group is actively expanding into the consumer PC market outside China, most notably with the January 2008 launch of IdeaPad and IdeaCentre. The recent launch has received exceptionally good reviews from the industry. For example, IdeaPad U110 received the "Best of CES 2008" award by CNET.com. At the same time, Lenovo has also expanded its product offerings to include higher-margin products such as workstations and servers. The Group's expanded product portfolio will strengthen its ability to respond to demand from a number of important customer segments.

In order to focus our resources to capture growth opportunities in the core PC business, Lenovo has signed a conditional sales and purchase agreement to sell its entire interest in its mobile handset business to a private equity group led by Hony Capital. For more details, please refer to a separate announcement made today on the disposal transaction.

Lenovo remains confident in its ability to deliver higher-than-market growth as it is well-positioned to compete globally with a balanced customer portfolio and its strengths in both developed and emerging markets, particularly the high-growth China market. The Group is committed to creating enhanced returns for its shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
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There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the nine months ended December 31, 2007.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the nine months ended December 31, 2007. It meets regularly with the management, the external auditors and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

By order of the Board
Yang Yuanqing
Chairman

New York, January 30, 2008

As of the date of this announcement, the Executive Directors are Mr. Yang Yuanqing and Mr. William J. Amelio; the Non-Executive Directors are 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) and Mr. Daniel A. Carroll (alternate Director to Mr. Shan Weijian); and the Independent Non-Executive Directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. John W. Barter III and Dr. Tian Suning.