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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2010/11 FIRST 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 three months ended June 30, 2010, together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended June 30, 2010 (unaudited) US\$'000	3 months ended June 30, 2009 (unaudited) US\$'000
Sales	2	5,146,672	3,440,778
Cost of sales		(4,623,676)	(3,063,566)
Gross profit		522,996	377,212
Other income – net	3	89	1,527
Selling and distribution expenses		(222,016)	(189,422)
Administrative expenses		(153,177)	(139,191)
Research and development expenses		(76,853)	(49,220)
Other operating income – net		10,268	11,984
Operating profit		81,307	12,890
Finance income	4(a)	4,882	3,420
Finance costs	4(b)	(10,837)	(18,676)
Share of profit/(loss) of associated companies		47	(51)
Profit/(loss) before taxation	5	75,399	(2,417)
Taxation	6	(20,539)	(13,592)
Profit/(loss) for the period		54,860	(16,009)
Profit/(loss) attributable to:			
Equity holders of the Company		54,860	(16,009)
Minority interests		-	-
		54,860	(16,009)
Basic earnings/(loss) per share attributable to equity holders of the Company	7(a)	US0.57 cent	(US0.18 cent)
Diluted earnings/(loss) per share attributable to equity holders of the Company	7(b)	US0.54 cent	(US0.18 cent)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2010 (unaudited) US\$'000	3 months ended June 30, 2009 (unaudited) US\$'000
Profit/(loss) for the period	54,860	(16,009)
Other comprehensive income/(loss)		
Fair value change on available-for-sale financial assets	(16,042)	23,708
Fair value change on interest rate swap contracts	620	720
Fair value change on forward foreign exchange contracts	(10,348)	(3,424)
Currency translation differences	9,921	(16,498)
	(15,849)	4,506
Total comprehensive income/(loss)	39,011	(11,503)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	39,011	(11,503)
Minority interests	-	-
	39,011	(11,503)

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	June 30, 2010 (unaudited) US\$'000	March 31, 2010 (audited) US\$'000
Non-current assets			
Property, plant and equipment		231,879	248,261
Prepaid lease payments		3,749	3,748
Construction-in-progress		9,680	24,711
Intangible assets		2,079,725	2,066,337
Interests in associated companies		1,120	1,061
Deferred tax assets		260,441	254,978
Available-for-sale financial assets		83,175	112,520
Other non-current assets		13,231	8,699
		2,683,000	2,720,315
Current assets			
Inventories		1,096,851	878,887
Trade receivables	8(a)	1,343,650	1,021,062
Notes receivable		471,943	386,746
Derivative financial assets		10,062	13,283
Deposits, prepayments and other receivables		1,975,717	1,463,422
Income tax recoverable		30,500	33,562
Bank deposits		97,512	200,456
Cash and cash equivalents		2,617,464	2,238,195
		7,643,699	6,235,613
Total assets		10,326,699	8,955,928

CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	June 30, 2010 (unaudited) US\$'000	March 31, 2010 (audited) US\$'000
Share capital	10	31,294	31,388
Reserves		1,599,028	1,574,453
Equity attributable to owners of the Company		<u>1,630,322</u>	<u>1,605,841</u>
Minority interests		177	177
Total equity		<u>1,630,499</u>	<u>1,606,018</u>
Non-current liabilities			
Interest-bearing bank loans		200,000	200,000
Convertible preferred shares		95,145	94,980
Warranty provision	9	304,493	301,234
Deferred revenue		239,134	218,034
Retirement benefit obligations		88,268	80,867
Derivative financial liabilities		820	248
Deferred tax liabilities		11,299	10,331
Other non-current liabilities		26,741	24,863
		<u>965,900</u>	<u>930,557</u>
Current liabilities			
Trade payables	8(b)	3,210,107	3,141,426
Notes payable		120,558	94,427
Derivative financial liabilities		18,054	11,259
Provisions, accruals and other payables	9	3,823,922	2,585,850
Income tax payable		81,594	84,329
Short-term bank loans		47,546	64,706
Current portion of non-current liabilities		428,519	437,356
		<u>7,730,300</u>	<u>6,419,353</u>
Total liabilities		<u>8,696,200</u>	<u>7,349,910</u>
Total equity and liabilities		<u>10,326,699</u>	<u>8,955,928</u>
Net current liabilities		<u>(86,601)</u>	<u>(183,740)</u>
Total assets less current liabilities		<u>2,596,399</u>	<u>2,536,575</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2010 (unaudited) US\$'000	3 months ended June 30, 2009 (unaudited) US\$'000
Net cash generated from operating activities	315,237	237,429
Net cash generated from/(used in) investing activities	87,259	(210,970)
Net cash used in financing activities	(34,205)	(139)
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Increase in cash and cash equivalents	368,291	26,320
Effect of foreign exchange rate changes	10,978	9,092
Cash and cash equivalents at the beginning of the period	2,238,195	1,863,379
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Cash and cash equivalents at the end of the period	2,617,464	1,898,791
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												Total (unaudited) US\$'000
	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares and warrants (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Hedging reserve (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Minority interests (unaudited) US\$'000	
At April 1, 2010	31,388	1,341,118	2,836	72,366	497	(111,054)	76,054	6,069	(35,969)	34,430	188,106	177	1,606,018
Profit for the period	-	-	-	-	-	-	-	-	-	-	54,860	-	54,860
Other comprehensive income/(loss)	-	-	-	(16,042)	-	-	-	(9,728)	9,921	-	-	-	(15,849)
Total comprehensive income/(loss) for the period	-	-	-	(16,042)	-	-	-	(9,728)	9,921	-	54,860	-	39,011
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	22,181	(22,181)	-	-
Repurchase of shares	(111)	(19,255)	-	-	111	-	-	-	-	-	-	-	(19,255)
Vesting of shares under long-term incentive program	-	-	-	-	-	11,537	(19,207)	-	-	-	-	-	(7,670)
Exercise of share options	17	2,193	-	-	-	-	-	-	-	-	-	-	2,210
Share-based compensation	-	-	-	-	-	10,185	-	-	-	-	-	-	10,185
At June 30, 2010	31,294	1,324,056	2,836	56,324	608	(99,517)	67,032	(3,659)	(26,048)	56,611	220,785	177	1,630,499
At April 1, 2009	29,530	1,106,379	42,159	75,501	497	(157,461)	92,684	(16,576)	25,691	30,738	81,596	177	1,310,915
Loss for the period	-	-	-	-	-	-	-	-	-	-	(16,009)	-	(16,009)
Other comprehensive income/(loss)	-	-	-	23,708	-	-	-	(2,704)	(16,498)	-	-	-	4,506
Total comprehensive income/(loss) for the period	-	-	-	23,708	-	-	-	(2,704)	(16,498)	-	(16,009)	-	(11,503)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	37	(37)	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	14,961	(20,716)	-	-	-	-	-	(5,755)
Exercise of share options	4	345	-	-	-	-	-	-	-	-	-	-	349
Share-based compensation	-	-	-	-	-	10,660	-	-	-	-	-	-	10,660
At June 30, 2009	29,534	1,106,724	42,159	99,209	497	(142,500)	82,628	(19,280)	9,193	30,775	65,550	177	1,304,666

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed quarterly financial statements. The 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. The condensed quarterly financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. The condensed quarterly financial statements should be read in conjunction with the 2009/10 annual financial statements.

Except as described below, the principal accounting policies and methods of computation used in the preparation of these condensed quarterly financial statements are consistent with those used in the annual financial statements for the year ended March 31, 2010.

The following new and revised standards, new interpretations, and amendments to existing standards and interpretations (including certain amendments from improvements to Hong Kong Financial Reporting Standards ("HKFRSs") published in October 2008 and May 2009) are mandatory for the year ending March 31, 2011. The Group has adopted these new and revised standards, new interpretations, and amendments to existing standards and interpretations where considered appropriate and relevant to its operations.

(a) Major relevant revised standards adopted by the Group

HKFRS 3 (revised), "Business combinations" (effective for annual periods beginning on or after July 1, 2009) continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group applies HKFRS 3 (revised) prospectively. The adoption of HKFRS 3 (revised) does not result in a material impact on the Group's financial statements because there was no business combination during the quarter ended June 30, 2010.

HKAS 27 (revised), "Consolidated and separate financial statements" (effective for annual periods beginning on or after July 1, 2009) requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting requirements when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The amendment does not have a material impact on the Group's financial statements.

(b) Relevant new interpretations and amendments to existing standards and interpretations adopted by the Group

New interpretations

- HK(IFRIC)-Int 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, "Transfers of assets from customers", effective for annual periods beginning on or after July 1, 2009

Improvements to HKFRSs 2008 and 2009 published in October 2008 and May 2009

- HKFRS 2 (Amendment), “Share-based payment”, effective for annual periods beginning on or after July 1, 2009
- HKFRS 5 (Amendment), “Non-current assets held for sale and discontinued operations”, effective for annual periods beginning on or after July 1, 2009 and January 1, 2010
- HKFRS 8 (Amendment), “Operating segments”, effective for annual periods beginning on or after January 1, 2010
- HKAS 1 (Revised) (Amendment), “Presentation of financial statements”, effective for annual periods beginning on or after January 1, 2010
- HKAS 7 (Amendment), “Cash flow statements”, effective for annual periods beginning on or after January 1, 2010
- HKAS 17 (Amendment), “Leases”, effective for annual periods beginning on or after January 1, 2010
- HKAS 18 (Amendment), “Revenue”, effective for annual periods beginning on or after January 1, 2010
- HKAS 36 (Amendment), “Impairment of assets”, effective for annual periods beginning on or after January 1, 2010
- HKAS 38 (Amendment), “Intangible assets”, effective for annual periods beginning on or after July 1, 2009
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, effective for annual periods beginning on or after January 1, 2010
- HK(IFRIC)-Int 9 (Amendment), “Reassessment of embedded derivatives”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 16 (Amendment), “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after July 1, 2009

The adoption of the above new interpretations and amendments to existing standards and interpretations does not result in substantial changes to the Group’s accounting policies or financial results.

- (c) The following new and revised standards, new interpretation, and amendments to existing standards and interpretation have been issued but are not effective for the year ending March 31, 2011 and have not been early adopted:

New and revised standards and new interpretation

- HKFRS 9, “Financial instruments”, effective for annual periods beginning on or after January 1, 2013
- HKAS 24 (Revised), “Related party disclosures”, effective for annual periods beginning on or after January 1, 2011
- HK(IFRIC)-Int 19, “Extinguishing financial liabilities with equity instruments”, effective for annual periods beginning on or after July 1, 2010

Improvements to HKFRSs 2010 published in May 2010

- HKFRS 3 (Revised) (Amendment), “Business combinations”, effective for annual periods beginning on or after July 1, 2010
- HKFRS 7 (Amendment), “Financial instruments: Disclosures”, effective for annual periods beginning on or after January 1, 2011
- HKAS 1 (Revised) (Amendment), “Presentation of financial statements”, effective for annual periods beginning on or after January 1, 2011
- HKAS 21 (Amendment), “The effect of changes in foreign exchange rates”, effective for annual periods beginning on or after July 1, 2010
- HKAS 28 (Amendment), “Investments in associates”, effective for annual periods on or after July 1, 2010
- HKAS 31 (Amendment), “Interests in joint ventures”, effective for annual periods beginning on or after July 1, 2010

- HKAS 32 (Amendment), “Financial instruments: Presentation”, effective for annual periods beginning on or after July 1, 2010
- HKAS 34 (Amendment), “Interim financial reporting”, effective for annual periods beginning on or after January 1, 2011
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, effective for annual periods beginning on or after July 1, 2010
- HK(IFRIC)-Int 13 (Amendment), “Customer loyalty programmes”, effective for annual periods beginning on or after January 1, 2011

The Group is currently assessing the impact of the adoption of the new and revised standards, new interpretation, and amendments to existing standards and interpretation (from Improvements to HKFRSs 2010, published in May 2010) above to the Group in future periods. So far, it has concluded that the adoption of the above do not have material impact on the Group’s financial statements.

A reclassification among sales, cost of sales and other operating expenses - net has been made to the comparative income statement for the quarter ended June 30, 2009. The reclassification does not result in net impact on the comparative financial result of the Group.

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the “LEC”) that are used to make strategic decisions.

The LEC considers business from market perspective. The Group has three market segments, China, emerging markets (excluding China) and mature markets.

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

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the period ended June 30, 2010 and its comparatives are as follows:

	China <i>US\$’000</i>	Emerging Markets (excluding China) <i>US\$’000</i>	Mature Markets <i>US\$’000</i>	Total <i>US\$’000</i>
For the period ended June 30, 2010				
Sales to external customers	2,507,838	820,771	1,818,063	5,146,672
Adjusted pre-tax income/(loss)	137,910	(24,894)	89	113,105
Depreciation and amortization	15,126	4,331	26,686	46,143
Restructuring costs	(49)	(11)	1,277	1,217
Additions to non-current assets (other than financial instruments and deferred tax assets)	1,248	1,093	2,569	4,910
At June 30, 2010				
Total assets	3,928,132	2,235,895	1,418,336	7,582,363
Total liabilities	2,920,139	2,340,449	964,842	6,225,430

	China US\$'000	Emerging Markets (excluding China) US\$'000	Mature Markets US\$'000	Total US\$'000
For the period ended June 30, 2009				
Sales to external customers	1,670,962	456,833	1,312,983	3,440,778
Adjusted pre-tax income/(loss)	105,150	(32,351)	(37,044)	35,755
Depreciation and amortization	20,189	3,363	17,205	40,757
Restructuring costs	1,888	3,126	(2,339)	2,675
Additions to non-current assets (other than financial instruments and deferred tax assets)	15,001	1,308	10,410	26,719
At March 31, 2010				
Total assets	3,094,515	1,586,158	1,199,948	5,880,621
Total liabilities	2,190,074	1,929,730	1,258,603	5,378,407

(b) Reconciliation of adjusted pre-tax income for reportable segments to consolidated profit/(loss) before taxation is provided as follows:

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Adjusted pre-tax income	113,105	35,755
Unallocated headquarters and corporate expenses	(30,670)	(21,653)
Restructuring costs	(1,217)	(2,739)
Finance income	4,882	3,420
Finance costs	(10,837)	(18,676)
Net gain on disposal of investments and available-for-sale financial assets	89	-
Dividend income from available-for-sale financial assets	-	1,527
Share of profit/(loss) of associated companies	47	(51)
Consolidated profit/(loss) before taxation	75,399	(2,417)

- (c) Reconciliation of segment assets for reportable segments to total assets per consolidated balance sheet is provided as follows:

	June 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
Segment assets for reportable segments	7,582,363	5,880,621
Unallocated:		
Deferred tax assets	260,441	254,978
Available-for-sale financial assets	83,175	112,520
Interests in associated companies	1,120	1,061
Unallocated cash and cash equivalents	1,793,477	1,644,904
Unallocated inventories	290,816	311,455
Other unallocated assets	315,307	750,389
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Total assets per consolidated balance sheet	10,326,699	8,955,928
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- (d) Reconciliation of segment liabilities for reportable segments to total liabilities per consolidated balance sheet is provided as follows:

	June 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
Segment liabilities for reportable segments	6,225,430	5,378,407
Unallocated:		
Income tax payable	81,594	84,329
Derivative financial liabilities	18,054	11,259
Deferred tax liabilities	11,299	10,331
Bank borrowings	430,000	430,000
Convertible preferred shares	95,145	94,980
Other unallocated liabilities	1,834,678	1,340,604
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Total liabilities per consolidated balance sheet	8,696,200	7,349,910
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- (e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$1,854 million (2010: US\$1,854 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives at June 30, 2010 and March 31, 2010 are presented below:

	China US\$ million	REM * US\$ million	Latin America US\$ million	North America US\$ million	West Europe US\$ million	Japan, Australia, New Zealand US\$ million	Amounts pending allocation US\$ million	Total US\$ million
Goodwill	850	143	24	151	92	37	177	1,474
Trademarks and trade names	209	55	9	58	35	14	-	380

* Previously known as HARIE, includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan and Turkey

Goodwill attributable to the acquisition of Lenovo Mobile Communication Limited completed on January 31, 2010. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the development of the mobile internet device business of the Group. Management is in the process of determining the allocation of goodwill to the appropriate cash generating unit of the Group.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at June 30, 2010 (March 31, 2010: nil).

3 Other income – net

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Net gain on disposal of available-for-sale financial assets	89	-
Dividend income from available-for-sale financial assets	-	1,527
	89	1,527

4 Finance income and costs

(a) Finance income

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Interest on bank deposits	4,729	2,993
Interest on money market funds	135	249
Others	18	178
	4,882	3,420

(b) Finance costs

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Interest on bank loans and overdrafts	4,964	7,689
Dividend and relevant finance costs on convertible preferred shares	1,553	3,532
Factoring cost	3,518	3,000
Others	802	4,455
	<u>10,837</u>	<u>18,676</u>

5 Profit/(loss) before taxation

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

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	20,487	26,423
Amortization of intangible assets	25,656	14,334
Employee benefit costs, including	332,877	266,053
- long-term incentive awards	10,185	10,660
- severance and related costs	1,438	2,626
Rental expenses under operating leases	13,141	10,868
	<u>13,141</u>	<u>10,868</u>

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2010 US\$'000	3 months ended June 30, 2009 US\$'000
Current taxation		
Hong Kong profits tax	71	33
Taxation outside Hong Kong	23,736	11,108
Deferred taxation	(3,268)	2,451
	<u>20,539</u>	<u>13,592</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (2009/10: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Earnings/(loss) per share

(a) Basic

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

	3 months ended June 30, 2010	3 months ended June 30, 2009
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	9,549,812,711	8,871,888,920
	<i>US\$'000</i>	<i>US\$'000</i>
Profit/(loss) attributable to equity holders of the Company	54,860	(16,009)

(b) Diluted

Diluted earnings/(loss) 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 three categories of dilutive potential ordinary shares: convertible preferred shares, share options and long-term incentive awards.

	3 months ended June 30, 2010	3 months ended June 30, 2009
Weighted average number of ordinary shares in issue	9,549,812,711	8,871,888,920
Adjustments for convertible preferred shares	282,263,132	-
Adjustments for share options and long-term incentive awards	710,418,339	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	10,542,494,182	8,871,888,920
	<i>US\$'000</i>	<i>US\$'000</i>
Profit/(loss) attributable to equity holders of the Company	54,860	(16,009)
Interest expense on convertible preferred shares	1,553	-
	56,413	(16,009)

For the three months ended June 30, 2010, adjustments for the dilutive potential ordinary shares are as follows:

- 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 three months ended June 30, 2010.

- For the share options, 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. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options.
- For the long-term incentive awards, a calculation is done to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

For the three months ended June 30, 2009, all dilutive potential ordinary shares were antidilutive as the Group incurred a loss for the period.

8 Ageing analysis

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

	June 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
0 – 30 days	1,231,606	907,412
31 – 60 days	50,009	65,335
61 – 90 days	14,844	32,730
Over 90 days	66,674	32,904
	1,363,133	1,038,381
Less: provision for impairment	(19,483)	(17,319)
Trade receivables – net	1,343,650	1,021,062

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

	June 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
0 – 30 days	2,929,602	2,425,237
31 – 60 days	231,400	609,720
61 – 90 days	22,116	74,499
Over 90 days	26,989	31,970
	3,210,107	3,141,426

9 Provisions, accruals and other payables

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

	Warranty <i>US\$'000</i>	Restructuring <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2010			
At the beginning of the year	533,399	97,603	631,002
Exchange adjustment	(2,739)	2,673	(66)
Provisions made	480,402	6,631	487,033
Acquisition of subsidiaries	4,701	-	4,701
Amounts utilized	(451,065)	(81,943)	(533,008)
Unused amounts reversed	(14,009)	(13,623)	(27,632)
	<u>550,689</u>	<u>11,341</u>	<u>562,030</u>
Long-term portion classified as non-current liabilities	<u>(301,234)</u>	<u>-</u>	<u>(301,234)</u>
At the end of the year	<u><u>249,455</u></u>	<u><u>11,341</u></u>	<u><u>260,796</u></u>
Three months ended June 30, 2010			
At the beginning of the period	550,689	11,341	562,030
Exchange adjustment	(8,699)	(142)	(8,841)
Provisions made	143,310	1,760	145,070
Amounts utilized	(119,899)	(1,070)	(120,969)
Unused amounts reversed	-	(729)	(729)
	<u>565,401</u>	<u>11,160</u>	<u>576,561</u>
Long-term portion classified as non-current liabilities	<u>(304,493)</u>	<u>-</u>	<u>(304,493)</u>
At the end of the period	<u><u>260,908</u></u>	<u><u>11,160</u></u>	<u><u>272,068</u></u>

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

10 Share capital

	June 30, 2010		March 31, 2010	
	Number of shares	HK\$'000	Number of shares	HK\$'000
<i>Authorized:</i>				
At the beginning and the end of the period/year				
Ordinary shares	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares	3,000,000	27,525	3,000,000	27,525
		<u>527,525</u>		<u>527,525</u>
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the period/year	9,788,044,282	31,388	9,211,389,406	29,530
Issue of ordinary shares	-	-	111,668,936	359
Conversion from Series A cumulative convertible preferred shares	-	-	369,112,652	1,190
Exercise of share options	5,184,000	17	32,370,500	104
Exercise of warrants	-	-	63,502,788	205
Repurchase of shares	(34,456,000)	(111)	-	-
At the end of the period/year	<u>9,758,772,282</u>	<u>31,294</u>	<u>9,788,044,282</u>	<u>31,388</u>
Series A cumulative convertible preferred shares:				
At the beginning of the period/year	769,167	891	1,774,999	2,081
Conversion to voting ordinary shares	-	-	(1,005,832)	(1,190)
At the end of the period/year	<u>767,167</u>	<u>891</u>	<u>769,167</u>	<u>891</u>

FINANCIAL REVIEW

Results

For the period ended June 30, 2010, the Group achieved total sales of approximately US\$5,147 million. Profit attributable to equity holders for the period was approximately US\$55 million, representing an increase of US\$71 million as compared with corresponding period of last year. Gross profit margin for the period was 0.8 percent point down from 11.0 percent reported in the corresponding period of last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US\$276 million as compared to March 31, 2010. Basic earnings per share and diluted earnings per share were US0.57 cent and US0.54 cent, representing an increase of US0.75 cent and US0.72 cent respectively as compared with last year.

The Group has adopted market segments as the reporting format. Market segments comprise China, Emerging Markets (excluding China) and Mature Markets. Analyses of sales by segment are set out in Business Review and Outlook below.

For the period ended June 30, 2010, overall operating expenses across the board increased when compared to corresponding period of last year as current period includes Lenovo Mobile. Depreciation and amortization charges increased by 13.2 percent as compared to corresponding period of last year as a result of the roll out of the Group's information technology systems. Employee benefit costs increased by 25.1 percent as compared to corresponding period of last year due to increased performance-driven incentive payments.

Further analyses of income and expense by function are set out below:

Other income – net

Other income represents net gain on disposal of available-for-sale financial assets.

Selling and distribution expenses

Selling and distribution expenses for the period increased by 17.2 percent as compared to corresponding period of last year. This is principally attributable to US\$23 million increase in promotional activities and US\$11 million in employee benefit costs.

Administrative expenses

The Group experienced an increase in administrative expenses for the period of 10.0 percent as compared to corresponding period of last year. This is mainly attributable to the increased employee benefit costs of US\$32 million which is partially offset by savings in contracted services of US\$25 million.

Research and development expenses

Research and development spending for the period increased by 56.1 percent as compared to corresponding period of last year. Major increase is attributable to increase in employee benefit costs of US\$14 million, R&D spending on product development of US\$5 million and costs in relation to the relocation of R&D laboratory of US\$9 million.

Other operating income - net

Net other operating income for the period decreased by 14.3 percent as compared to corresponding period of last year. Other operating income or expense mainly comprises restructuring costs, gain or loss on foreign exchange and IP license fee income.

Capital Expenditure

The Group incurred capital expenditures of US\$35 million (2009/10: US\$28 million) during the period, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At June 30, 2010, total assets of the Group amounted to US\$10,327 million (March 31, 2010: US\$8,956 million), which were financed by equity attributable to owners of the Company of US\$1,631 million (March 31, 2010: US\$1,606 million), minority interests of US\$177,000 (March 31, 2010: US\$177,000), and non-current and current liabilities of US\$8,696 million (March 31, 2010: US\$7,350 million). At June 30, 2010, the current ratio of the Group was 0.99 (March 31, 2010: 0.97).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At June 30, 2010, bank deposits, cash and cash equivalents totaled US\$2,715 million (2009/10: US\$2,439 million), of which 44.9 (March 31, 2010: 42.9) percent was denominated in US dollars, 46.6 (March 31, 2010: 46.6) percent in Renminbi, 1.7 (March 31, 2010: 1.6) percent in Euros, 0.4 (March 31, 2010: 0.2) percent in Japanese Yen, and 6.4 (March 31, 2010: 8.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At June 30, 2010, 79.9 (March 31, 2010: 78.2) percent of cash are bank deposits, and 20.1 (March 31, 2010: 21.8) 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 June 30, 2010, the Group had a US\$200 million 5-Year revolving and term loan facility with syndicated banks; and a US\$30 million 5-Year fixed rate loan facility with a bank in China. These facilities were fully utilized at March 31 and June 30, 2010 and both of which will expire before the end of March 2011.

To secure more long-term funding, the Group obtained a new US\$300 million 3-year term loan facility with a bank in China in March 2009. This facility was utilized to the extent of US\$200 million at June 30, 2010 (March 31, 2010: US\$200 million). In addition, the Group has entered into another 5 years loan facility agreement with a bank of US\$300 million on July 17, 2009. The Group is confident that all the loan facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group has also arranged other short-term credit facilities. At June 30, 2010, the Group's total available credit facilities amounted to US\$5,161 million (March 31, 2010: US\$4,936 million), of which US\$278 million (March 31, 2010: US\$276 million) was in trade lines, US\$485 million (March 31, 2010: US\$485 million) in short-term and revolving money market facilities and US\$4,398 million (March 31, 2010: US\$4,175 million) in forward foreign exchange contracts. At June 30, 2010, the amounts drawn down were US\$165 million (March 31, 2010: US\$191 million) in trade lines, US\$3,231 million (March 31, 2010: US\$2,641 million) being used for the forward foreign exchange contracts; and US\$48 million (March 31, 2010: US\$65 million) in short-term bank loans.

At June 30, 2010, the Group's outstanding bank loans represented the term loans of US\$430 million (March 31, 2010: US\$430 million) and short-term bank loans of US\$48 million (March 31, 2010: US\$65 million). Short-term bank loans of US\$24 million (March 31, 2010: US\$28 million) are secured by the same amount of bank deposits. When compared with total equity of US\$1,631 million (March 31, 2010: US\$1,606 million), the Group's gearing ratio was 0.29 (March 31, 2010: 0.31). The net cash position of the Group at June 30, 2010 is US\$1,944 million (March 31, 2010: US\$1,944 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2010, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$3,231 million (March 31, 2010: US\$2,641 million).

The Group's forward foreign exchange 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.

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 ordinary shares of 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 at May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share.

All warrants were either exercised or repurchased by the Company.

At June 30, 2010, the outstanding number of convertible preferred shares was 769,167 (March 31, 2010: 769,167).

Under the general mandate authorized by the shareholders in the annual general meeting, the Company purchases ordinary shares in order to increase shareholder value. For the period ended June 30, 2010, the Company purchased 34,456,000 ordinary shares at par value of HK\$0.025 each in the capital of the Company at an aggregate consideration of approximately US\$19 million (2009/10: nil).

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 June 30, 2010, the Group had a total of 25,396 (2009/10 Q1: 21,296) employees.

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

BUSINESS REVIEW AND OUTLOOK

During the three months ended June 30, 2010, the worldwide PC market continued to extend the strong growth momentum started in the second half of last fiscal year to grow at 20.9 percent year-on-year according to industry estimates. This growth came despite rising worries over sovereign debt in Europe and the pace of economic recovery. Lenovo continued to demonstrate strong momentum during the quarter with growth in all its geographies including China, Emerging Markets and Mature Markets, as well as in all customer and product segments. The Group has surpassed the threshold of double-digit worldwide market share for the first time and achieved a historic high market share of 10.2 percent, a year-on-year increase of 1.9 percentage points, according to industry estimates. Lenovo has outperformed the worldwide PC market in the past five consecutive quarters, and in fact the Group has also been the fastest growing PC company among the top global PC companies for the past three consecutive quarters. Lenovo's overall PC unit shipments recorded 48.1 percent year-on-year growth during the quarter. In addition, Lenovo improved notebook PC unit shipments by 58.0 percent year-on-year, making Lenovo the fourth largest global notebook PC company for the first time with a market share of 10.5 percent. This strong performance can be attributed to the effective implementation and execution of the Group's "Protect and Attack" strategy established early last year. Meanwhile, the Group's mobile strategy has been well on track during the quarter. Lenovo Mobile, which the Group re-acquired in January 2010, demonstrated strong growth momentum, helped by the successful launch of the Group's first smartphone in mid May.

For the quarter ended June 30, 2010, the Group's sales increased by 49.6 percent year-on-year to US\$5,147 million. Sales of the Group's PC business were US\$4,965 million, representing a year-on-year increase of 44.3 percent. Sales of the mobile business were US\$182 million, representing a full quarter contribution after the Group re-acquired the mobile business. The Group's gross profit increased by 38.6 percent year-on-year from US\$377 million to US\$523 million. The Group's strategy to grow its high-end commercial business to maintain margins, and at the same time to accelerate volume growth through transaction model rollout to expand its SMB and consumer businesses especially in Emerging Markets, has helped to contribute to the Group's strong unit shipments growth. However the shift in the business mix towards the typically lower price and gross margin SMB and consumer products has also resulted in lower average selling price and gross margin for the Group. Moreover, higher component costs and volatility in foreign exchange rates against US Dollar (such as Euro) during the quarter also added further pressure on the gross margin. As a result, the Group's gross margin declined to 10.2 percent from 11.0 percent year-on-year or 10.4 percent quarter-on-quarter. However, the Group's continued stringent expense control and better scaling from the strong unit shipments growth have offset part of the gross margin decline. The Group's operating expenses increased by 20.8 percent to US\$442 million, which has already included operating expenses from the mobile operation. Increase in the total expenses was slower than the increase in sales, and therefore, the expenses-to-revenue ratio continued to fall to its historical low level at 8.6 percent. As a result, the profit before taxation margin improved to 1.5 percent during the quarter. The Group recorded profit before taxation of US\$75 million, and profit attributed to shareholders amounted to US\$55 million, both improved from the losses recorded in the same period last year.

Performance of Geographies

During the quarter ended June 30, 2010, performance of all geographies rebounded from the traditional low season in the quarter before. Lenovo not only further extended its leadership position in China and rapidly gained market share in Emerging Markets, but also achieved break-even in Mature Markets for the first time since the global financial crisis in late 2008.

China accounted for approximately 48.7 percent of the Group's total sales. Sales from the PC and mobile businesses accounted for approximately 45.2 and 3.5 percent respectively of the Group's sales in this region. During the quarter, the China PC market continued to show moderate growth despite the slower growth in consumption caused by the consolidation in the stock market and property prices. Nevertheless, Lenovo continued to record strong unit shipments growth by growing 42.8 percent year-on-year, mainly driven by its outstanding growth in the notebook PC. Lenovo continued to extend its leadership position in China, with market share rising 2.4 percentage points year-on-year to 28.7 percent, based on industry estimates. The market share differences between Lenovo and the second largest PC maker continued to widen. The Group's mobile business also posted a strong unit shipments growth after its integration into the Group.

Emerging Markets (Excluding China) accounted for approximately 16.0 percent of the Group's total sales. During the quarter, Lenovo continued to show strong growth in unit shipments by growing 69.0 percent year-on-year. The strong growth was largely driven by the economic growth in most of the markets in the region, as well as the Group's solid execution of its strategy. Growth and share gains were recorded across in all key markets such as RUCIS (+325%), ASEAN (+55%), India (+91%), LA/Brazil (+58%). As a result, Lenovo's market share in Emerging Markets gained 1.4 percentage points from a year ago to 5.4 percent according to industry estimates. The Group's profitability in Emerging Markets also improved year-on-year and quarter-on-quarter due to its enhanced operating efficiency.

Mature Markets accounted for approximately 35.3 percent of the Group's total sales. Lenovo's unit shipments growth in Mature Markets increased 48.7 percent year-on-year during the quarter, boosted by solid growth in both consumer business and commercial business. The Group recorded growth and share gains in all markets within the region, increasing Lenovo's share in Mature Markets by 1.3 percentage points year-on-year to 5.6 percent, according to industry estimates. The Group is especially delighted to report the Mature Markets' return to profitability after the global financial crisis in 2008, benefiting from the strong unit shipments growth, and stringent expense control, though volatility in foreign currency rates against the US Dollar caused some impact.

Performance of Product Groups

During the quarter, Lenovo posted strong unit shipments growth in all customer segments. The Think Product Group, which mainly targets commercial customers, accounted for approximately 61.2 percent of the Group's total sales, while the Idea Product Group, which focuses on the consumer and entry SMB products, accounted for approximately 34.5 percent of the Group's total sales. Both the Think Product Group and the Idea Product Group recorded solid unit shipments growth during the quarter, growing 28.9 percent and 73.7 percent year-on-year, respectively. As a result, Lenovo gained shares in the worldwide commercial and consumer PC markets.

Lenovo also recorded good unit shipments growth and share gains in both notebook and desktop PCs. The Group had robust growth in both consumer and commercial notebooks, and recorded 58.0 percent year-on-year growth in unit shipments of notebook PC, mainly from growth in China and Emerging Markets. Lenovo's market share in the worldwide notebook PC market increased by 2.0 percentage points year-on-year to 10.5 percent. Lenovo improved from the sixth to the fourth largest notebook PC company in the world. Meanwhile, Lenovo continued to maintain solid performance in desktop PC through its All-in-One consumer desktops and SMB targeted desktops. The Group's desktop PC unit shipments grew 36.3 percent year-on-year, while its market share increased 1.7 percentage points from a year ago to 9.7 percent.

The Group's mobile business in China also recorded strong growth during the quarter, helped by the newly launched 3G smartphone business. As a result, Lenovo Mobile's market share in China increased 0.9 percentage points to 4.9 percent year-on-year during the quarter, and remained the number one domestic handset brand in China. In May 2010, Lenovo Mobile successfully launched its first 3G smartphone in China and the initial sales response was encouraging.

Outlook

While challenges remain such as debt crisis and uncertainties in the pace of growth, the Group remains optimistic with the worldwide PC market outlook. China will continue to show moderate growth momentum, while the corporate replacement demand that has already shown some growth will gradually pick up in Mature Markets.

Although cost pressure on key components such as memory chips and panels appears to be easing recently through improvements in supply, the Group's gross margin will remain under pressure in the short term due to the business mix shift to SMB and consumer products and to Emerging Markets. The Group is already executing short-term tactical steps to intensify its focus on managing material costs; improve its product mix; and increase service, software and peripherals attach rates. Strategically, the Group will drive innovation to ensure product differentiation, invest in branding, and refine the end-to-end business model, with an objective to improve its gross margin over time. Meanwhile, the Group's continued strong unit shipments growth and stringent expense control will likely further enhance the expenses-to-revenue ratio, which will help mitigate the gross margin decline and result in improvement in the operating margin over time.

Lenovo will leverage its well-established core strengths in China and continue to invest in the market to further extend its leadership position and profitability. The Group has made good progress in restoring profitability in its global commercial business and in Mature Markets. It is expected that corporate replacement will continue to gradually improve towards the year-end. Lenovo has demonstrated strong growth momentum in Emerging Markets in the past several quarters through the expansion of its transaction business model. The Group will continue to invest to drive shipments growth and market share to double-digit in key markets within Emerging Markets in order to establish an optimal market position and sustainable profit in the future.

Lenovo has demonstrated some success in its smartphone launch and strong performance in its existing handset business in the first fiscal quarter. The Group will continue to invest to build a strong market position for its mobile internet device business.

Lenovo has delivered outstanding performance in the last several quarters through its “Protect and Attack” strategy, and the Group will continue to have strong execution of our successful strategy to deliver consistent performance for our shareholders.

PURCHASE, SALE, REDEMPTION OR CONVERSION OF THE COMPANY’S SECURITIES AND WARRANTS
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During the period, the Company purchased 34,456,000 ordinary shares of HK\$0.025 each in the capital of the Company at prices ranging from HK\$4.50 to HK\$4.17 per share on The Stock Exchange of Hong Kong Limited.

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate Consideration paid (excluding expenses) HK\$
June 2010	34,456,000	4.50	4.17	149,427,360

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.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities and warrants and no further conversion notice was received during the three months ended June 30, 2010.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company was not during the three months ended June 30, 2010, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the deviation under Code A.4.1 as disclosed in the 2009/10 annual report of the Company.

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. Currently, the Audit Committee is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. Allen, the other two

independent non-executive directors, Professor Woo Chia-Wei and Mr. Ting Lee Sen, and a non-executive director, Ms. Ma Xuezheng.

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the three months ended June 30, 2010. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

By order of the Board
Liu Chuanzhi
Chairman

New York, August 18, 2010

As at the date hereof, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Liu Chuanzhi, Mr. Zhu Linan, Ms. Ma Xuezheng, Mr. James G. Coulter, Mr. William O. Grabe and Dr. Wu Yibing; and the independent non-executive directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Dr. Tian Suning and Mr. Nicholas C. Allen.