



Lenovo Group Limited 聯想集團有限公司

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

FY2008/09 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, 2008 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended June 30, 2008 (unaudited) US\$'000	3 months ended June 30, 2007 (unaudited) US\$'000
Continuing operations			
Sales	2	4,212,659	3,813,096
Cost of sales		<u>(3,618,156)</u>	<u>(3,247,931)</u>
Gross profit		594,503	565,165
Other income – net	3	1,026	2,114
Selling and distribution expenses		(250,251)	(254,426)
Administrative expenses		(174,336)	(128,739)
Research and development expenses		(54,113)	(48,818)
Other operating income/(expenses) – net		<u>10,386</u>	<u>(46,017)</u>
Operating profit		127,215	89,279
Finance income		19,810	5,925
Finance costs	4	(9,549)	(8,034)
Share of losses of associated companies		<u>(574)</u>	<u>(6)</u>
Profit before taxation		136,902	87,164
Taxation	5	<u>(26,409)</u>	<u>(15,591)</u>
Profit from continuing operations		110,493	71,573
Discontinued operations			
Loss from discontinued operations	6	<u>-</u>	<u>(4,734)</u>
Profit for the period		<u>110,493</u>	<u>66,839</u>
Profit attributable to shareholders of the Company			
– Continuing operations		110,493	71,573
– Discontinued operations		<u>-</u>	<u>(4,734)</u>
Minority interests		110,493	66,839
		<u>-</u>	<u>-</u>
		<u>110,493</u>	<u>66,839</u>

		3 months ended June 30, 2008 (unaudited) US\$'000	3 months ended June 30, 2007 (unaudited) US\$'000
	<i>Note</i>		
Basic earnings per share attributable to shareholders of the Company	<i>8(a)</i>		
– Continuing operations		US1.25 cents	US0.84 cents
– Discontinued operations		-	(US0.06 cents)
		<hr/> US1.25 cents <hr/>	<hr/> US0.78 cents <hr/>
Diluted earnings per share attributable to shareholders of the Company	<i>8(b)</i>		
– Continuing operations		US1.15 cents	US0.79 cents
– Discontinued operations		-	(US0.05 cents)
		<hr/> US1.15 cents <hr/>	<hr/> US0.74 cents <hr/>

CONSOLIDATED BALANCE SHEET

		June 30, 2008 (unaudited) US\$'000	March 31, 2008 (audited) US\$'000
Non-current assets			
Property, plant and equipment		354,525	364,778
Prepaid lease payments		5,927	6,099
Construction-in-progress		59,936	51,237
Intangible assets		1,838,578	1,838,368
Investments in associated companies		2,152	2,690
Deferred tax assets		157,287	156,440
Available-for-sale financial assets		89,762	67,697
Derivative financial assets		5,922	-
Other non-current assets		8,131	7,172
		<u>2,522,220</u>	<u>2,494,481</u>
Current assets			
Inventories		583,945	471,557
Trade receivables	9(a)	1,203,235	860,543
Notes receivable		209,300	371,126
Derivative financial assets		3,109	3,392
Deposits, prepayments and other receivables		822,680	767,268
Income tax recoverable		46,724	40,002
Bank deposits		828,843	540,058
Cash and cash equivalents		1,468,717	1,651,420
		<u>5,166,553</u>	<u>4,705,366</u>
Total assets		<u>7,688,773</u>	<u>7,199,847</u>
Share capital	11	29,501	29,699
Reserves		1,674,478	1,583,390
Shareholders' funds		1,703,979	1,613,089
Minority interests		174	174
Total equity		<u>1,704,153</u>	<u>1,613,263</u>
Non-current liabilities	12	1,115,224	1,098,123
Current liabilities			
Trade payables	9(b)	2,794,466	2,282,199
Notes payable		50,762	46,421
Derivative financial liabilities		3,970	18,197
Provisions, accruals and other payables	10	1,882,992	1,944,724
Income tax payable		73,467	87,209
Short-term bank loans		12,890	61,130
Current portion of non-current liabilities		50,849	48,581
		<u>4,869,396</u>	<u>4,488,461</u>
Total liabilities		<u>5,984,620</u>	<u>5,586,584</u>
Total equity and liabilities		<u>7,688,773</u>	<u>7,199,847</u>
Net current assets		<u>297,157</u>	<u>216,905</u>
Total assets less current liabilities		<u>2,819,377</u>	<u>2,711,386</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2008 (unaudited) <i>US\$'000</i>	3 months ended June 30, 2007 (unaudited) <i>US\$'000</i>
Continuing operations		
Net cash generated from operating activities	182,309	401,642
Net cash used in investing activities	(285,618)	(55,573)
Net cash (used in)/generated from financing activities	(106,662)	87,341
	(209,971)	433,410
Discontinued operations		
Decrease in cash and cash equivalents from discontinued operations	-	(14,542)
Effect of foreign exchange rate changes	27,268	24,488
Cash and cash equivalents at the beginning of the period	1,651,420	1,063,716
Cash and cash equivalents at the end of the period	1,468,717	1,507,072

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares and warrants (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	Hedging reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) US\$'000
At April 1, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263
Fair value change on available-for-sale financial assets	-	-	-	-	23,038	-	-	-	-	-	-	-	23,038
Fair value change on interest rate swap	-	-	-	-	-	-	-	-	7,710	-	-	-	7,710
Fair value change on forex forward contracts	-	-	-	-	-	-	-	-	(1,577)	-	-	-	(1,577)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	110,493	-	110,493
Exchange differences	-	-	-	8,735	-	-	-	-	-	-	-	-	8,735
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	(465)	-	-	-	-	-	-	-	(465)
Vesting of shares under long-term incentive program	-	-	-	-	-	-	20,013	(27,717)	-	-	-	-	(7,704)
Exercise of share options	41	5,077	-	-	-	-	-	-	-	-	-	-	5,118
Share-based compensation	-	-	-	-	-	-	-	11,888	-	-	-	-	11,888
Repurchase of shares	(239)	(51,618)	-	-	-	-	-	-	-	-	-	-	(51,857)
Contributions to employee share trusts	-	-	-	-	-	-	(14,489)	-	-	-	-	-	(14,489)
At June 30, 2008	29,501	1,104,143	42,159	(57,925)	63,709	497	(166,711)	62,908	4,345	30,738	590,615	174	1,704,153
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	-	-	-	-	11,981	-	-	-	-	-	-	-	11,981
Profit for the period	-	-	-	-	-	-	-	-	-	-	66,839	-	66,839
Exchange differences	-	-	-	20,761	-	-	-	-	-	-	-	-	20,761
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	(1,886)	-	-	-	-	-	-	-	(1,886)
Vesting of shares under long-term incentive program	-	-	-	-	-	-	11,005	(11,005)	-	-	-	-	-
Exercise of share options	120	12,901	-	-	-	-	-	-	-	-	-	-	13,021
Share-based compensation	-	-	-	-	-	-	-	10,874	-	-	-	-	10,874
At June 30, 2007	28,624	1,055,480	45,979	(1,995)	25,173	497	(116,296)	51,289	-	-	166,371	744	1,255,866

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 2007/08 annual financial statements.

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, 2008.

The following new standards, amendments to standards and interpretations are mandatory for the year ending March 31, 2009. The Group has adopted these new standards, amendments to standards and interpretations where considered appropriate and relevant to its operations.

- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 1, 2008
- HK(IFRIC)-Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions", effective for annual periods beginning on or after January 1, 2008

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending March 31, 2009 and have not been early adopted:

- HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation", effective for annual periods beginning on or after January 1, 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009
- HKAS 1 (Revised), "Presentation of financial statements", effective for annual periods beginning on or after January 1, 2009
- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009
- HKAS 27 (Revised), "Consolidated and separate financial statements", effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after July 1, 2008

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

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

2 Segment information

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

(a) Primary reporting format – geographical segments

The segment results and capital expenditure information for the three months ended June 30, 2008 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	1,093,247	903,774	496,501	1,719,137	-	4,212,659
Segment operating results	3,755	20,190	7,206	117,239	(22,201)	126,189
Finance income						19,810
Finance costs						(9,549)
Gain on disposal of available-for-sale financial assets						14
Dividend income from available-for-sale financial assets						1,012
Share of profits of associated companies						(574)
Profit before taxation						136,902
Taxation						(26,409)
Profit for the period						110,493
Capital expenditure	9,203	1,877	7,844	9,007	13,909	41,840

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

Depreciation of property, plant and equipment and amortization of prepaid lease payments	11,498	2,197	3,644	8,286	-	25,625
Amortization of intangible assets	-	-	-	-	17,074	17,074
Employee benefit costs	86,425	78,777	45,557	92,940	-	303,699
Rental expenses under operating leases	2,591	3,322	3,034	2,946	-	11,893

The segment assets and liabilities at June 30, 2008 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
Segment assets	<u>1,496,661</u>	<u>810,938</u>	<u>894,401</u>	<u>3,859,211</u>		<u>7,061,211</u>
Investments in associated companies					2,152	
Deferred tax assets					157,287	
Available-for-sale financial assets					89,762	
Derivative financial assets					5,922	
Cash and cash equivalents					244,437	
Income tax recoverable					46,724	
Other unallocated assets					81,278	<u>627,562</u>
Consolidated total assets						<u>7,688,773</u>
Segment liabilities	<u>1,466,470</u>	<u>1,258,094</u>	<u>578,158</u>	<u>1,885,293</u>		<u>5,188,015</u>
Bank borrowings					500,000	
Convertible preferred shares					211,692	
Share-based compensation					3,811	
Income tax payable					73,467	
Other unallocated liabilities					7,635	<u>796,605</u>
Consolidated total liabilities						<u>5,984,620</u>

The segment results and capital expenditure information for the three months ended June 30, 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	1,148,847	754,506	496,117	1,413,626	-	3,813,096
Segment operating results	23,251	543	(14,993)	101,911	(23,547)	87,165
Finance income						5,925
Finance costs						(8,034)
Gain on disposal of investments and available-for-sale financial assets						2,114
Share of losses of associated companies						(6)
Profit before taxation						87,164
Taxation						(15,591)
Profit for the period						71,573
Capital expenditure	16,673	2,099	2,913	26,357	15,317	63,359

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

Depreciation of property, plant and equipment and amortization of prepaid lease payments	9,580	2,230	2,412	5,913	-	20,135
Amortization of intangible assets	-	-	-	-	25,850	25,850
Employee benefit costs	102,013	77,025	49,978	81,131	-	310,147
Rental expenses under operating leases	1,762	1,637	2,267	2,289	-	7,955
Restructuring costs (amount net of reversal of unused restructuring costs provision)						
- Staff related costs (included in employee benefit costs)	12,407	13,075	11,971	599	-	38,052
- Others	3,199	68	3,313	180	-	6,760

Note:

Segment operating profit/(loss) presented above include the impact of restructuring costs of US\$44,812,000. The segment operating profit/(loss) before restructuring costs are: Americas US\$38,857,000; Europe, Middle East and Africa US\$13,686,000; Asia Pacific (excluding Greater China) US\$291,000; Greater China US\$102,690,000; and corporate or unallocated (US\$23,547,000).

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

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

(b) Secondary reporting format – business segments

	Personal computer		Total US\$'000	Others US\$'000	Total US\$'000
	Desktop US\$'000	Notebook US\$'000			
Three months ended June 30, 2008 (unaudited)					
Sales	<u>1,731,844</u>	<u>2,418,775</u>	<u>4,150,619</u>	<u>62,040</u>	<u>4,212,659</u>
Capital expenditure			<u>41,478</u>	<u>362</u>	<u>41,840</u>
At June 30, 2008 (unaudited)					
Total segment assets			<u>4,152,934</u>	<u>150,890</u>	<u>4,303,824</u>
Three months ended June 30, 2007 (unaudited)					
Sales	<u>1,686,042</u>	<u>2,073,472</u>	<u>3,759,514</u>	<u>53,582</u>	<u>3,813,096</u>
Capital expenditure			<u>62,321</u>	<u>1,038</u>	<u>63,359</u>
At March 31, 2008 (audited)					
Total segment assets			<u>4,397,096</u>	<u>115,144</u>	<u>4,512,240</u>

3 Other income – net

	3 months ended June 30, 2008 (unaudited) US\$'000	3 months ended June 30, 2007 (unaudited) US\$'000
Gain on disposal of investments and available-for-sale financial assets	14	2,114
Dividend income from available-for-sale financial assets	1,012	-
	<u>1,026</u>	<u>2,114</u>

4 Finance costs

	3 months ended June 30, 2008 (unaudited) US\$'000	3 months ended June 30, 2007 (unaudited) US\$'000
Interest on bank loans and overdrafts	5,711	1,837
Dividend and relevant finance costs on convertible preferred shares	3,527	5,473
Others	311	724
	<u>9,549</u>	<u>8,034</u>

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2008 (unaudited) US\$'000	3 months ended June 30, 2007 (unaudited) US\$'000
Current taxation		
– Hong Kong profits tax	58	47
– Taxation outside Hong Kong	26,603	39,231
Deferred taxation	(252)	(23,687)
	26,409	15,591

6 Loss from discontinued operations

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

7 Dividend

No dividend has been declared to the ordinary shareholders for the three months ended June 30, 2008 (2007/08: 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.

	3 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2007 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,855,771,072	8,571,997,414
	US\$'000	US\$'000
Profit attributable to shareholders of the Company		
– Continuing operations	110,493	71,573
– Discontinued operations	-	(4,734)
	110,493	66,839

(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.

	3 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2007 (unaudited)
Weighted average number of ordinary shares in issue	8,855,771,072	8,571,997,414
Adjustments for assumed conversion of convertible preferred shares	651,375,784	1,001,834,862
Adjustments for share options, long-term incentive awards and warrants	373,428,157	236,817,848
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Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	9,880,575,013	9,810,650,124
	<hr/>	<hr/>
	US\$'000	US\$'000
Profit from continuing operations attributable to shareholders of the Company	110,493	71,573
Interest expense on convertible preferred shares	3,527	5,473
	<hr/>	<hr/>
	114,020	77,046
Loss from discontinued operations attributable to shareholders of the Company	-	(4,734)
	<hr/>	<hr/>
	114,020	72,312
	<hr/>	<hr/>

9 Ageing analysis

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

	June 30, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
0 – 30 days	963,954	788,126
31 – 60 days	134,762	32,240
61 – 90 days	67,196	21,729
Over 90 days	55,332	32,333
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Less: provision for impairment	1,221,244 (18,009)	874,428 (13,885)
	<hr/>	<hr/>
Trade receivables – net	1,203,235	860,543
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- (b) Ageing analysis of trade payables of the Group at the balance sheet date is as follows:

	June 30, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
0 – 30 days	1,833,001	1,618,188
31 – 60 days	653,234	466,068
61 – 90 days	233,604	176,094
Over 90 days	74,627	21,849
	<hr/>	<hr/>
	2,794,466	2,282,199
	<hr/> <hr/>	<hr/> <hr/>

10 Provisions, accruals and other payables

Included in provisions are warranty and restructuring costs provisions as follows:

	Warranty <i>US\$'000</i>	Restructuring costs <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2008 (audited)			
At the beginning of the year	448,333	5,645	453,978
Exchange adjustment	-	1,227	1,227
Provisions made	665,912	50,820	716,732
Amounts utilized	(411,661)	(34,136)	(445,797)
Unused amounts reversed	-	(7,616)	(7,616)
Disposal of discontinued operations	(4,669)	(8,352)	(13,021)
	<u>697,915</u>	<u>7,588</u>	<u>705,503</u>
Long-term portion classified as non-current liabilities (Note 12)	(209,071)	-	(209,071)
	<u>488,844</u>	<u>7,588</u>	<u>496,432</u>
Three months ended June 30, 2008 (unaudited)			
At the beginning of the period	697,915	7,588	705,503
Exchange adjustment	-	(57)	(57)
Provisions made	127,036	180	127,216
Amounts utilized	(125,191)	(1,912)	(127,103)
Unused amounts reversed	-	(751)	(751)
	<u>699,760</u>	<u>5,048</u>	<u>704,808</u>
Long-term portion classified as non-current liabilities (Note 12)	(212,035)	-	(212,035)
	<u>487,725</u>	<u>5,048</u>	<u>492,773</u>

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

11 Share capital

	June 30, 2008 (unaudited)		March 31, 2008 (audited)	
	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	8,888,786,650	28,496	8,517,981,022	27,301
Conversion from Series A cumulative convertible preferred shares	-	-	350,459,078	1,130
Conversion from non-voting ordinary shares (Note 11(a))	375,282,756	1,203	-	-
Exercise of share options	12,838,000	41	90,436,550	290
Repurchase of shares (Note 11(b))	(74,628,000)	(239)	(70,090,000)	(225)
At the end of the period/year	<u>9,202,279,406</u>	<u>29,501</u>	<u>8,888,786,650</u>	<u>28,496</u>
Non-voting ordinary shares:				
At the beginning of the period/year	375,282,756	1,203	375,282,756	1,203
Conversion to voting ordinary shares (Note 11(a))	(375,282,756)	(1,203)	-	-
At the end of the period/year	<u>-</u>	<u>-</u>	<u>375,282,756</u>	<u>1,203</u>
Issued and fully paid ordinary shares	<u>9,202,279,406</u>	<u>29,501</u>	<u>9,264,069,406</u>	<u>29,699</u>
Total issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning of the period/year	1,774,999	2,081	2,730,000	3,211
Conversion to voting ordinary shares	-	-	(955,001)	(1,130)
At the end of the period/year	<u>1,774,999</u>	<u>2,081</u>	<u>1,774,999</u>	<u>2,081</u>

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

(b) For the three months ended June 30, 2008, included in the 74,628,000 shares were 27,000,000 shares repurchased in June 2008 that were subsequently cancelled in July 2008. For the year ended March 31, 2008, included in the 70,090,000 shares were 18,936,000 shares repurchased in March 2008 that were subsequently cancelled in April 2008.

12 Non-current liabilities

	June 30, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
Amount payable for marketing rights	3,612	5,417
Interest-bearing bank loans repayable within five years	465,000	465,000
Share-based compensation	3,811	6,430
Convertible preferred shares	211,692	211,181
Warranty provision	212,035	209,071
Retirement benefit obligations	82,110	85,490
Deferred revenue	104,540	88,701
Derivative financial liabilities	-	1,788
Other non-current liabilities	32,424	25,045
	1,115,224	1,098,123

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregate cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the issue price of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date on May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share. The warrant will expire on May 17, 2010.

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

FINANCIAL REVIEW

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

Results

For the three months ended June 30, 2008, the Group achieved total sales of approximately US\$4,213 million. Profit attributable to shareholders for the period was approximately US\$110 million, representing an increase of US\$39 million as compared to the corresponding period of last year. Gross profit margin for the period was 14.1 percent down from 14.8 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\$106 million as compared to March 31, 2008. Basic earnings per share and diluted earnings per share of the Group's continuing operations were US1.25 cents and US1.15 cents, representing an increase of US0.41 cents and US0.36 cents respectively as compared with the corresponding period of last year.

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

Other income – net

Other income comprises mainly dividend income from available-for-sale financial assets. The US\$2 million other income reported during the corresponding period of last year represents gain on disposal of investments and available-for-sale financial assets.

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 three months ended June 30, 2008 decreased by 1.6 percent as compared to the corresponding period of last year. This is principally attributable to a US\$13 million decrease in amortization of intangible assets coupled with increased employee benefit 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 three months ended June 30, 2008 of 35.4 percent as compared to the corresponding period of last year. The increase is driven by employee benefit costs and contracted services.

Research and development expenses

Research and development spending for the three months ended June 30, 2008 increased by 10.8 percent as compared to the corresponding period of 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 income/(expenses) - net

The Group recorded a net other operating income for the three months ended June 30, 2008 of US\$10 million as opposed to a net other operating expenses for the corresponding period of last year. The significant net other operating expenses for the corresponding period of last year was driven by the costs, totaling US\$45 million, associated with restructuring actions taken to streamline processes, consolidate Lenovo's expertise across the globe, and increase global operational efficiency.

Capital Expenditure

The Group incurred capital expenditures of US\$42 million (2007/08: US\$63 million) during the three months ended June 30, 2008, mainly for the acquisition of property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At June 30, 2008, total assets of the Group amounted to US\$7,689 million (March 31, 2008: US\$7,200 million), which were financed by shareholders' funds of US\$1,704 million (March 31, 2008: US\$1,613 million), minority interests of US\$174,000 (March 31, 2008: US\$174,000), and non-current and current liabilities of US\$5,985 million (March 31, 2008: US\$5,587 million). At June 30, 2008, the current ratio of the Group was 1.06 (March 31, 2008: 1.05).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At June 30, 2008, bank deposits, cash and cash equivalents totaled US\$2,298 million (March 31, 2008: US\$2,191 million), of which 54.6 (March 31, 2008: 63.9) percent was denominated in US dollars, 33.6 (March 31, 2008: 20.4) percent in Renminbi, 2.1 (March 31, 2008: 2.2) percent in Euros, 2.1 (March 31, 2008: 2.9) percent in Japanese Yen, and 7.6 (March 31, 2008: 10.6) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At June 30, 2008, 85.0 (March 31, 2008: 72.1) percent of cash are bank deposits, and 15.0 (March 31, 2008: 27.9) 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, 2008, the Group had a US\$400 million (March 31, 2008: 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, 2008: US\$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US\$500 million at June 30, 2008 (March 31, 2008: US\$500 million).

The Group has also arranged other short-term credit facilities. At June 30, 2008, the Group's total available credit facilities amounted to US\$2,640 million (March 31, 2008: US\$2,628 million), of which US\$389 million (March 31, 2008: US\$384 million) was in trade lines, US\$413 million (March 31, 2008: US\$406 million) in short-term and revolving money market facilities and US\$1,838 million (March 31, 2008: US\$1,838 million) in forward foreign exchange contracts. At June 30, 2008, the amounts drawn down were US\$155 million (March 31, 2008: US\$150 million) in trade lines, US\$1,084 million (March 31, 2008: US\$1,127 million) being used for the foreign exchange forward contracts; and US\$13 million (March 31, 2008: US\$61 million) in short-term bank loans.

At June 30, 2008, the Group's outstanding bank loan represented the term loan of US\$500 million (March 31, 2008: US\$500 million) and short-term bank loans of US\$13 million (March 31, 2008: US\$61 million). When compared with total equity of US\$1,704 million (March 31, 2008: US\$1,613 million), the Group's gearing ratio was 0.30 (March 31, 2008: 0.35). The net cash position of the Group at June 30, 2008 is US\$1,785 million (March 31, 2008: US\$1,630 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2008, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US\$1,084 million (March 31, 2008: US\$1,127 million).

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

The Group issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the issue price of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. On November 2, 2007, 955,001 convertible preferred shares were converted into 350,459,078 voting ordinary shares. The fair value of the liability component and equity component of the convertible preferred shares, and warrants at June 30, 2008 amounted to approximately US\$212 million (March 31, 2008: US\$211 million), US\$7 million (March 31, 2008: US\$7 million) and US\$35 million (March 31, 2008: US\$35 million) respectively. The warrants will expire on May 17, 2010.

Contingent Liabilities

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

Human Resources

At June 30, 2008, the Group had a total of 23,200 (2007/08 Q1: 25,120) employees, 16,572 (2007/08 Q1: 19,315) of whom were employed in Chinese mainland and 1,996 (2007/08 Q1: 1,874) in the U.S. and 4,632 (2007/08 Q1: 3,931) in other countries.

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

BUSINESS REVIEW AND OUTLOOK

Lenovo reported solid financial results from its continuing operations for the quarter ended June 30, 2008. The Group's sales increased approximately 10 percent year-on-year to US\$4,213 million. Gross margin was 14.1 percent, down from 14.8 percent recorded during the same period last year, largely driven by faster growth of its transaction business and market competition. Profit before taxation improved 57 percent year-on-year to approximately US\$137 million. Profit attributable to shareholders amounted to US\$110 million, improved significantly by 65 percent as compared to US\$67 million which included a loss from discontinued operations in the corresponding quarter a year ago.

During the quarter ended June 30, 2008, Lenovo's worldwide PC shipments increased approximately 15 percent year-on-year, in line with the industry. Based on preliminary industry data, Lenovo accounted for approximately 7.9 percent of the worldwide PC market during the period under review, in line with the same period last year.

Performance of Geographies

Greater China – Accounted for approximately 41 percent of the Group's sales during the quarter. In China, Lenovo achieved 17 percent year-on-year growth in PC shipments despite the impact of the earthquake and floods. Based on preliminary industry estimates, the Group continues to lead the market with a share of 27.9 percent, representing an increase of 0.5 percentage points over the same period last year.

Americas – Accounted for approximately 26 percent of the Group's sales during the quarter. The performance of Lenovo's relationship business in the United States was impacted by the weaker economic environment. However, the continued roll-out of transaction business in the United States drove the Group's PC shipments to grow in line with the market.

Europe, Middle East and Africa (EMEA) – Accounted for approximately 21 percent of the Group's sales during the quarter. Lenovo delivered strong year-on-year PC shipments growth of 26 percent in EMEA, driven by solid market growth and the Group's strong performance in the desktop market and transaction business. Based on preliminary industry estimates, the Group's market share in the geography increased accordingly.

Asia Pacific (excluding Greater China) – Accounted for approximately 12 percent of the Group's sales during the quarter. The Group reported approximately 11 percent year-on-year growth in PC shipments. To better capture the growth opportunities available in India, the

Group initiated several actions to improve its business processes in its India operations during the quarter.

Performance of Product Groups

During the quarter, Lenovo posted 33 percent and 3 percent year-on-year growth in unit shipments of notebooks and desktops, respectively. The Group's notebook shipments grew slightly slower than the market due to its light participation in the worldwide consumer market but it continued to gain share in the worldwide desktop market.

Outlook

Looking ahead, industry analysts still expect the global PC market to continue to grow despite challenges in the macro environment for the rest of the year. In light of mounting economic pressures and intensified competition, the Group will continue to focus its efforts on strengthening competitiveness and improving cost efficiency by employing its five strategic pillars.

- Lenovo's efforts *to pursue operational excellence* have resulted in effective scaling of expenses and lower end-to-end supply chain cost in the quarter under review. The Group was recently awarded the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) Tier 3 validation, the highest security status companies importing into the U.S. can receive. This validation will help the Group to achieve faster customer delivery time and further improve its supply chain efficiency. The Group will continue to review the opportunities to drive further efficiency from its operations.
- With a dedication *to enhance customer ownership experience*, Lenovo unveiled in July a number of tailor-made notebook models for various customer segments. The newly-introduced ThinkPad SL series will play a significant role in driving the Group's expansion into the fast-growing small-and-medium sized business (SMB) market.
- Lenovo has made steady progress in *winning in its priority businesses* during the quarter. The recent expansion of IdeaPad product line and consumer PC sales channels, as well as the introduction of the new netbook product category will help the Group increase its participation in the consumer market. Lenovo has also put in place action plans to take its business in emerging markets such as India, Brazil and Mexico to a new stage of growth in the coming few quarters.
- The Group will continue to maintain its balanced approach *to gain scale profitably* in China and the worldwide large enterprise markets while investing in emerging markets. In China, Lenovo will further enhance its channel coverage across the country, as well as introducing new entries into the netbook product category. At the same time, Lenovo will continue to expand its transaction business and increase its yield from relationship business worldwide.
- In the coming quarter, the Group will seize the unique opportunity *to build the Lenovo brand* at the Olympic Games in Beijing.

Despite the weakening global economic environment, Lenovo will endeavor to achieve its objective of growing faster and more profitably than the industry.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
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During the period, the Company purchased 74,628,000 voting ordinary shares of HK\$0.025 each in the capital of the Company at prices ranging from HK\$5.00 to HK\$5.99 per share on The Stock Exchange of Hong Kong Limited.

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

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 listed securities during the above-mentioned period.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the three months ended June 30, 2008. 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

Beijing, August 7, 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 and Mr. Justin T. Chang (alternate Director to Mr. James G. Coulter); and the Independent Non-Executive Directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. John W. Barter III and Dr. Tian Suning.