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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)

FY2009/10 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended December 31, 2009 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

		3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
	<i>Note</i>				
Sales	2	4,784,099	12,340,677	3,591,287	12,130,146
Cost of sales		(4,253,421)	(10,996,184)	(3,226,265)	(10,595,295)
Gross profit		530,678	1,344,493	365,022	1,534,851
Other income – net	3	43,433	83,126	41	929
Selling and distribution expenses		(225,037)	(626,473)	(232,837)	(753,790)
Administrative expenses		(134,845)	(410,976)	(152,309)	(484,409)
Research and development expenses		(54,418)	(157,822)	(45,160)	(146,359)
Other operating expense – net		(59,978)	(41,217)	(31,849)	(80,045)
Operating profit/(loss)		99,833	191,131	(97,092)	71,177
Finance income		7,459	15,005	14,854	53,288
Finance costs	4	(13,698)	(50,040)	(14,349)	(44,716)
Share of profits of associated companies		156	226	690	371
Profit/(loss) before taxation	5	93,750	156,322	(95,897)	80,120
Taxation	6	(14,229)	(39,728)	(822)	(42,904)
Profit/(loss) for the period		79,521	116,594	(96,719)	37,216
Profit/(loss) attributable to:					
Equity holders of the Company		79,521	116,594	(96,719)	37,216
Minority interests		-	-	-	-
		79,521	116,594	(96,719)	37,216
Dividend	7		12,264		35,575
Basic earnings/(loss) per share attributable to equity holders of the Company	8(a)	US0.86 cent	US1.29 cents	(US1.09 cents)	US0.42 cent
Diluted earnings/(loss) per share attributable to equity holders of the Company	8(b)	US0.79 cent	US1.21 cents	(US1.09 cents)	US0.39 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Profit/(loss) for the period	79,521	116,594	(96,719)	37,216
Other comprehensive income/(loss)				
Fair value change on available-for-sale financial assets	36,376	81,312	15,556	8,364
Reserve realized on disposal of available-for-sale financial assets	(46,260)	(70,809)	-	(465)
Fair value change on interest rate swap contracts	1,045	3,521	(8,050)	(2,830)
Fair value change on forward foreign exchange contracts	(1,109)	1,367	(19,922)	(19,922)
Currency translation differences	11,530	(37,150)	22,776	70,279
	1,582	(21,759)	10,360	55,426
Total comprehensive income/(loss)	81,103	94,835	(86,359)	92,642
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	81,103	94,835	(86,359)	92,642
Minority interests	-	-	-	-
	81,103	94,835	(86,359)	92,642

CONSOLIDATED BALANCE SHEET

		December 31, 2009 (unaudited) US\$'000	March 31, 2009 (audited) US\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		257,519	314,142
Prepaid lease payments		3,771	5,833
Construction-in-progress		14,569	47,062
Intangible assets		1,884,339	1,852,861
Investments in associated companies		1,168	2,635
Deferred tax assets		202,400	190,844
Available-for-sale financial assets		108,143	101,916
Derivative financial assets		804	-
Other non-current assets		3,105	5,653
		2,475,818	2,520,946
Current assets			
Inventories		735,526	450,370
Trade receivables	9(a)	1,895,184	903,103
Notes receivable		361,406	221,575
Derivative financial assets		15,988	13,163
Deposits, prepayments and other receivables		796,781	613,826
Income tax recoverable		33,762	35,301
Bank deposits		226,938	-
Cash and cash equivalents		2,789,299	1,863,379
		6,854,884	4,100,717
Total assets		9,330,702	6,621,663
Share capital			
Reserves	11	30,518	29,530
		1,472,607	1,281,208
Equity holders' funds		1,503,125	1,310,738
Minority interests		177	177
Total equity		1,503,302	1,310,915
Non-current liabilities			
	12	989,550	891,208
Current liabilities			
Trade payables	9(b)	4,566,782	1,991,286
Notes payable		83,591	34,180
Derivative financial liabilities		6,513	23,674
Provisions, accruals and other payables	10	1,811,513	1,823,289
Income tax payable		89,817	89,459
Short-term bank loans		31,614	20,293
Current portion of non-current liabilities		248,020	437,359
		6,837,850	4,419,540
Total liabilities		7,827,400	5,310,748
Total equity and liabilities		9,330,702	6,621,663
Net current assets/(liabilities)		17,034	(318,823)
Total assets less current liabilities		2,492,852	2,202,123

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Net cash generated from/(used in) operating activities	1,172,450	(5,608)
Net cash (used in)/generated from investing activities	(178,106)	199,285
Net cash used in financing activities	(95,326)	(283,224)
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Increase/(decrease) in cash and cash equivalents	899,018	(89,547)
Effect of foreign exchange rate changes	26,902	(2,406)
Cash and cash equivalents at the beginning of the period	1,863,379	1,651,420
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Cash and cash equivalents at the end of the period	2,789,299	1,559,467
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	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	Total (unaudited) US\$'000
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
Profit for the period	-	-	-	-	-	-	-	-	-	-	116,594	-	116,594
Other comprehensive income/(loss)	-	-	-	10,503	-	-	-	4,888	(37,150)	-	-	-	(21,759)
Total comprehensive income/(loss) for the period	-	-	-	10,503	-	-	-	4,888	(37,150)	-	116,594	-	94,835
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	122	(122)	-	-
Conversion of Series A cumulative convertible preferred shares	735	77,979	(2,485)	-	-	-	-	-	-	-	-	-	76,229
Exercise and repurchase of warrants	205	31,578	(35,353)	-	-	-	-	-	-	3,570	-	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	26,748	(35,796)	-	-	-	-	-	(9,048)
Exercise of share options	48	5,205	-	-	-	-	-	-	-	-	-	-	5,253
Share-based compensation	-	-	-	-	-	-	37,391	-	-	-	-	-	37,391
Dividend paid	-	-	-	-	-	-	-	-	-	-	(12,273)	-	(12,273)
At December 31, 2009	30,518	1,221,141	4,321	86,004	497	(130,713)	94,279	(11,688)	(11,459)	34,430	185,795	177	1,503,302
At April 1, 2008	29,699	1,150,684	42,159	41,136	497	(172,235)	78,737	(1,788)	(66,660)	24,537	486,323	174	1,613,263
Profit for the period	-	-	-	-	-	-	-	-	-	-	37,216	-	37,216
Other comprehensive income/(loss)	-	-	-	7,899	-	-	-	(22,752)	70,279	-	-	-	55,426
Total comprehensive income/(loss) for the period	-	-	-	7,899	-	-	-	(22,752)	70,279	-	37,216	-	92,642
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	28,438	(36,871)	-	-	-	-	-	(8,433)
Exercise of share options	80	9,353	-	-	-	-	-	-	-	-	-	-	9,433
Share-based compensation	-	-	-	-	-	-	39,220	-	-	-	-	-	39,220
Repurchase of shares	(249)	(53,658)	-	-	-	-	-	-	-	-	-	-	(53,907)
Contributions to employee share trusts	-	-	-	-	-	(17,169)	-	-	-	-	-	-	(17,169)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(179,613)	-	(179,613)
At December 31, 2008	29,530	1,106,379	42,159	49,035	497	(160,966)	81,086	(24,540)	3,619	30,738	337,725	174	1,495,436

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed quarterly financial statements. These 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 2008/09 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, 2009.

The following revised standards, new interpretations, and amendments to standards and interpretations are mandatory for the year ending March 31, 2010. The Group has adopted these revised standards, new interpretations, and amendments to standards and interpretations where considered appropriate and relevant to its operations.

- HKFRS 1 (Amendment), "First-time adoption of Hong Kong Financial Reporting Standards"
- HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation"
- HKFRS 7 (Amendment), "Financial instruments: Disclosures", amendment on improving disclosures about financial instruments issued in March 2009
- HKFRS 8 (Amendment), "Operating segments"
- HKAS 1 (Revised), "Presentation of financial statements"
- HKAS 23 (Revised), "Borrowing costs"
- HKAS 32 (Amendment), "Financial instruments: Presentation"
- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement", amendment on embedded derivatives
- HK(IFRIC)-Int 2 (Amendment), "Members' shares in co-operative entities and similar instruments"
- HK(IFRIC)-Int 9 (Amendment), "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 13, "Customer loyalty programmes"
- HK(IFRIC)-Int 15, "Agreements for the construction of real estate"
- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation"

The adoption of HKAS 1 (Revised) requires "non-owner changes in equity" to be presented separately from "owner changes in equity". Management has decided to present two statements, a consolidated income statement and a consolidated statement of comprehensive income.

The following revised standards, new interpretations, and amendments to standards and interpretation have been issued but are not effective for the year ending March 31, 2010 and have not been early adopted:

- HKFRS 1 (Revised), "First-time adoption of Hong Kong Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009
- HKFRS 2 (Amendment), "Share-based payment", effective for annual periods beginning on or after July 1, 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
- HKFRS 8 (Amendment), "Operating segments", effective for annual periods beginning on or after January 1, 2010
- HKFRS 9, "Financial instruments", effective for annual periods beginning on or after January 1, 2013
- HKAS 1 (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 24 (Revised), “Related party disclosures”, effective for annual periods beginning on or after January 1, 2011
- HKAS 27 (Revised), “Consolidated and separate financial statements”, effective for annual periods beginning on or after July 1, 2009
- 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, 2010
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on eligible hedged items, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 14 (Amendment), “The limit on a defined benefit asset, minimum funding requirements and their interaction”, effective for annual periods beginning on or after January 1, 2011
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after July 1, 2009
- 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
- HK(IFRIC)-Int 19, “Extinguishing financial liabilities with equity instruments”, effective for annual periods beginning on or after July 1, 2010

The Group is in the process of making an assessment of the impact of adoption of the Improvements to HKFRSs, published in October 2008 (effective for annual periods beginning on or after July 1, 2009) and Improvements to HKFRSs 2009, published in May 2009 (effective for annual periods beginning on or after July 1, 2009, or on or after January 1, 2010). So far, it has concluded that both do not have material impact on the Group’s financial statements.

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

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

The Group has changed certain classifications in the income statement and balance sheet with effect from April 1, 2009 as follows:

- Exchange (loss)/gain on cash flow hedges of (US\$418,000) and (US\$76,223,000) for the nine months ended December 31, 2009 (2008/09: (US\$275,000) and US\$41,630,000) previously recorded in other operating income/(expenses) has been reclassified to sales and cost of sales respectively
- Costs associated with factoring of US\$8,200,000 for the nine months ended December 31, 2009 (2008/09: US\$16,154,000) previously recorded in other operating expenses have been reclassified to finance costs
- Future billing discounts of US\$358,104,000 at December 31, 2009 (March 31, 2009: US\$313,364,000) previously netted with trade receivables have been reclassified to other payables

Management considered the current classifications are more appropriate and consistent with industry practice. Comparative information has been reclassified to conform to the current period’s presentation.

2 Segment information

The Group announced a new organizational structure that became effective in April 2009 with the creation of two new business units – one focusing on customers in emerging markets, and the other focusing on customers in mature markets. The new structure, namely China, Emerging Markets (excluding China) and Mature Markets, replaces the Group’s original regional market organizations by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers. In conjunction with the adoption of HKFRS 8 “Operating segments”, the Group has adopted the new organizational structure as the reporting format effective for the year ending March 31, 2010. The comparative information has been restated to reflect the current organizational structure.

The segment results and capital expenditure information for the nine months ended December 31, 2009 are as follows:

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	5,936,980	1,948,651	4,455,046	-	12,340,677
Cost of sales					(10,996,184)
Gross profit					1,344,493
Operating expenses					(1,236,488)
Segment operating results	333,693	(63,266)	(54,544)	(107,878)	108,005
Finance income				15,005	15,005
Finance costs				(50,040)	(50,040)
Impairment of investments				(522)	(522)
Net gain on disposal of investments and available-for-sale financial assets				82,090	82,090
Dividend income from available-for-sale financial assets				1,558	1,558
Share of profits of associated companies				226	226
Profit before taxation					156,322
Taxation					(39,728)
Profit for the period					116,594
Capital expenditure	39,422	2,164	18,034	20,788	80,408

Note: Segment operating profit/(loss) presented above include the impact of one-off items of US\$48,488,000, comprising mainly warranty costs not reimbursable by suppliers and IP license fee. The segment operating profit/(loss) before one-off items are: China US\$335,806,000; Emerging Markets (excluding China) (US\$58,093,000); Mature Markets (US\$58,928,000); and corporate or unallocated (US\$62,292,000).

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

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Inventories	276,554	105,863	95,489	257,620	735,526
Trade receivables	1,083,908	397,926	413,350	-	1,895,184
Bank deposits	7,322	-	-	219,616	226,938
Cash and cash equivalents	225,008	194,376	97,708	2,272,207	2,789,299
Other current assets	522,343	424,710	123,875	137,009	1,207,937
Deferred tax assets	-	-	-	202,400	202,400
Other non-current assets	157,673	24,005	90,870	2,000,870	2,273,418
Total assets	2,272,808	1,146,880	821,292	5,089,722	9,330,702
Trade payables	2,494,809	565,260	182,346	1,324,367	4,566,782
Income tax payable	-	-	-	89,817	89,817
Short-term bank loans	-	31,614	-	-	31,614
Other current liabilities	714,112	421,556	709,868	69,101	1,914,637
Interest-bearing bank loans (current and non-current)	-	-	-	565,000	565,000
Deferred taxation	-	-	-	329	329
Other non-current liabilities	174,899	47,172	295,012	142,138	659,221
Total liabilities	3,383,820	1,065,602	1,187,226	2,190,752	7,827,400

Note: Included in other non-current assets are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$1,677 million. As explained above, the Group underwent an organizational structure change under which these intangible assets have been reallocated to the cash-generating units affected using a relative value approach in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names as reallocated as at December 31, 2009 are presented below:

	China US\$ million	HARIE* US\$ million	Latin America US\$ million	North America US\$ million	West Europe US\$ million	Japan, Australia, New Zealand US\$ million	Total US\$ million
Goodwill	850	143	24	151	92	37	1,297
Trademarks and trade names	209	55	9	58	35	14	380

The reallocation of goodwill and trademarks and trade names with indefinite useful lives does not have any impact on or change in the basis of assessment of their recoverable amounts.

*Includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan, and Turkey

The segment results and capital expenditure information for the nine months ended December 31, 2008 are as follows:

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	5,051,770	1,963,832	5,114,544	-	12,130,146
Cost of sales					(10,595,295)
Gross profit					1,534,851
Operating expenses					(1,464,603)
Segment operating results	319,855	(41,595)	(128,411)	(79,601)	70,248
Finance income				53,288	53,288
Finance costs				(44,716)	(44,716)
Net loss on disposal of investments and available-for-sale financial assets				(124)	(124)
Dividend income from available-for-sale financial assets				1,053	1,053
Share of profits of associated companies				371	371
Profit before taxation					80,120
Taxation					(42,904)
Profit for the period					37,216
Capital expenditure	31,595	14,229	54,443	57,981	158,248

Note: Segment operating profit/(loss) presented above include the impact of one-off items of US\$29,483,000, comprising mainly costs on termination of onerous contracts and severance and related costs. The segment operating profit/(loss) before these one-off items are: China US\$320,593,000; Emerging Markets (excluding China) (US\$40,539,000); Mature Markets (US\$100,199,000); and Corporate or unallocated (US\$80,124,000).

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

	China (audited) US\$'000	Emerging Markets (excluding China) (audited) US\$'000	Mature Markets (audited) US\$'000	Corporate or unallocated (audited) US\$'000	Total (audited) US\$'000
Inventories	131,963	97,170	46,983	174,254	450,370
Trade receivables	233,338	327,105	336,180	6,480	903,103
Cash and cash equivalents	1,589,428	60,346	68,431	145,174	1,863,379
Other current assets	342,306	183,809	25,957	331,793	883,865
Deferred tax assets	-	-	-	190,844	190,844
Other non-current assets	177,928	28,088	116,962	2,007,124	2,330,102
Total assets	2,474,963	696,518	594,513	2,855,669	6,621,663
Trade payables	744,179	139,925	144,344	962,838	1,991,286
Income tax payable	-	-	-	89,459	89,459
Short-term bank loans	-	20,293	-	-	20,293
Other current liabilities	715,456	170,128	658,306	346,994	1,890,884
Interest-bearing bank loans (current and non-current)	-	-	-	665,000	665,000
Other non-current liabilities	119,666	52,359	259,407	222,394	653,826
Total liabilities	1,579,301	382,705	1,062,057	2,286,685	5,310,748

3 Other income/(expense) – net

	3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Net gain/(loss) on disposal of investments and available-for-sale financial assets	43,402	82,090	-	(124)
Dividend income from available-for-sale financial assets	31	1,558	41	1,053
Impairment of investments	-	(522)	-	-
	43,433	83,126	41	929

4 Finance costs

	3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Interest on bank loans and overdrafts	6,883	22,912	5,564	16,754
Dividend and relevant finance costs on convertible preferred shares	2,311	9,058	3,531	10,584
Factoring cost	3,000	8,200	4,755	16,154
Others	1,504	9,870	499	1,224
	13,698	50,040	14,349	44,716

5 Profit/(loss) before taxation

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

	3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	27,238	77,922	26,484	76,753
Amortization of intangible assets	18,787	50,691	17,468	50,019
Employee benefit costs, including	304,646	864,809	262,211	872,215
- long-term incentive awards	13,313	37,390	13,916	39,220
- severance and related costs	1,908	5,667	6,367	21,898
Termination of onerous contracts	(1,173)	108	-	6,653
Rental expenses under operating leases	11,041	33,554	10,206	33,430

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2009 (unaudited) US\$'000	3 months ended December 31, 2008 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Current taxation				
Hong Kong profits tax	(41)	49	(5)	132
Taxation outside Hong Kong	28,436	42,018	(16,003)	37,222
Deferred taxation	(14,166)	(2,339)	16,830	5,550
	<u>14,229</u>	<u>39,728</u>	<u>822</u>	<u>42,904</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (December 31, 2008: 16.5%) on the estimated assessable profits less estimated available tax losses. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

7 Dividend

	9 months ended December 31, 2009 (unaudited) US\$'000	9 months ended December 31, 2008 (unaudited) US\$'000
Interim dividend, for the six months ended September 30, 2009, of HK1.0 cent (2008/09: HK3.0 cents) per ordinary share, paid on December 2, 2009	<u>12,264</u>	<u>35,575</u>

8 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 December 31, 2009 (unaudited)	9 months ended December 31, 2009 (unaudited)	3 months ended December 31, 2008 (unaudited)	9 months ended December 31, 2008 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>9,215,702,105</u>	<u>9,021,208,279</u>	<u>8,853,440,509</u>	<u>8,848,914,474</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit/(loss) attributable to equity holders of the Company	<u>79,521</u>	<u>116,594</u>	<u>(96,719)</u>	<u>37,216</u>

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

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 December 31, 2009. For the nine months ended December 31, 2009, convertible preferred shares were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- All warrants were exercised or repurchased on September 9, 2009 and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- For the share options, 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.

	3 months ended December 31, 2009 (unaudited)	9 months ended December 31, 2009 (unaudited)	3 months ended December 31, 2008 (unaudited)	9 months ended December 31, 2008 (unaudited)
Weighted average number of ordinary shares in issue	9,215,702,105	9,021,208,279	8,853,440,509	8,848,914,474
Adjustments for assumed conversion of convertible preferred shares	423,394,137	-	-	-
Adjustments for share options, long-term incentive awards and warrants	710,966,140	651,045,227	-	634,306,744
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	10,350,062,382	9,672,253,506	8,853,440,509	9,483,221,218
	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(loss) attributable to equity holders of the Company	79,521	116,594	(96,719)	37,216
Interest expense on convertible preferred shares	2,311	-	-	-
	81,832	116,594	(96,719)	37,216

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:

	December 31, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	1,708,119	695,774
31 – 60 days	125,973	100,157
61 – 90 days	35,686	27,716
Over 90 days	41,014	109,211
	<hr/>	<hr/>
	1,910,792	932,858
Less: provision for impairment	(15,608)	(29,755)
	<hr/>	<hr/>
Trade receivables – net	1,895,184	903,103
	<hr/> <hr/>	<hr/> <hr/>

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

	December 31, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	3,510,532	1,209,795
31 – 60 days	793,481	563,269
61 – 90 days	212,640	140,562
Over 90 days	50,129	77,660
	<hr/>	<hr/>
	4,566,782	1,991,286
	<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 <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2009 (audited)			
At the beginning of the year	697,915	7,588	705,503
Exchange adjustment	(2,191)	(520)	(2,711)
Provisions made	404,564	108,041	512,605
Amounts utilized	(483,898)	(16,755)	(500,653)
Unused amounts reversed	(82,991)	(751)	(83,742)
	<u>533,399</u>	<u>97,603</u>	<u>631,002</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(170,008)</u>	<u>-</u>	<u>(170,008)</u>
At the end of the year	<u>363,391</u>	<u>97,603</u>	<u>460,994</u>
Nine months ended December 31, 2009 (unaudited)			
At the beginning of the period	533,399	97,603	631,002
Exchange adjustment	2,057	2,454	4,511
Provisions made	359,854	5,764	365,618
Amounts utilized	(338,869)	(75,492)	(414,361)
Unused amounts reversed	(14,009)	(9,474)	(23,483)
	<u>542,432</u>	<u>20,855</u>	<u>563,287</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(163,586)</u>	<u>-</u>	<u>(163,586)</u>
At the end of the period	<u>378,846</u>	<u>20,855</u>	<u>399,701</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

	December 31, 2009 (unaudited)		March 31, 2009 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>				
At the beginning and the end of the 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	9,211,389,406	29,530	8,888,786,650	28,496
Conversion from non-voting ordinary shares	-	-	375,282,756	1,203
Conversion from Series A cumulative convertible preferred shares (Note 12(b))	227,981,647	735	-	-
Exercise of share options	14,913,500	48	24,948,000	80
Exercise of warrants	63,502,788	205	-	-
Repurchase of shares	-	-	(77,628,000)	(249)
At the end of the period/year	<u>9,517,787,341</u>	<u>30,518</u>	<u>9,211,389,406</u>	<u>29,530</u>
Non-voting ordinary shares:				
At the beginning of the period/year	-	-	375,282,756	1,203
Conversion to voting ordinary shares	-	-	(375,282,756)	(1,203)
At the end of the period/year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Issued and fully paid ordinary shares	<u>9,517,787,341</u>	<u>30,518</u>	<u>9,211,389,406</u>	<u>29,530</u>
Total issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning of the period/year	1,774,999	2,081	1,774,999	2,081
Conversion to voting ordinary shares (Note 12(b))	(621,250)	(735)	-	-
At the end of the period/year	<u>1,153,749</u>	<u>1,346</u>	<u>1,774,999</u>	<u>2,081</u>

12 Non-current liabilities

	December 31, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
Interest-bearing bank loans repayable		
within five years (Note 12(a))	330,000	230,000
Convertible preferred shares (Note 12(b))	142,129	215,974
Warranty provision (Note 10)	163,586	170,008
Retirement benefit obligations	67,858	68,000
Deferred revenue	253,912	165,980
Derivative financial liabilities	4,393	7,382
Deferred tax liabilities	329	-
Other non-current liabilities	27,343	33,864
	989,550	891,208

- (a) The substantial loss incurred in the fourth quarter of the year ended March 31, 2009 triggered a breach of certain financial covenants, whereby the bank loan of US\$200 million was reclassified as current liability at March 31, 2009. The Group has entered into a revised loan agreement and the US\$200 million bank loan reclassified as non-current liabilities since June 30, 2009.
- (b) On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares in the Company for an aggregate cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share. The warrant will expire on May 17, 2010.

On September 9, 2009, 621,250 convertible preferred shares were converted into 227,981,647 voting ordinary shares. At December 31, 2009, the outstanding number of convertible preferred shares was 1,153,749.

On September 9, 2009, 63,502,788 warrants were exercised pursuant to which the remaining 173,914,686 warrants were repurchased by the Company at a unit price of HK\$0.995 on the same day.

FINANCIAL REVIEW

Results

For the nine months ended December 31, 2009, the Group achieved total sales of approximately US\$12,341 million. Profit attributable to equity holders for the period was approximately US\$117 million, representing an increase of US\$79 million as compared to the corresponding period of last year. Gross profit margin for the period was 1.8 percentage points down from 12.7 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\$926 million as compared to March 31, 2009. Basic earnings per share and diluted earnings per share were US1.29 cents and US1.21 cents, representing an increase of US0.87 cent and US0.82 cent respectively as compared with the corresponding period of last year.

The Group has adopted market segments as the reporting format. Market segments comprise China, Emerging Markets (excluding China) and Mature Markets.

Other income – net

Other income represents gains on disposal of available-for-sale financial assets and dividend income.

Selling and distribution expenses

Selling and distribution expenses for the nine months ended December 31, 2009 decreased by 17 percent as compared to the corresponding period of last year. This is principally attributable to a US\$51 million decrease in promotion activities coupled with US\$10 million decrease in contracted services.

Administrative expenses

The Group experienced a decrease in administrative expenses for the nine months ended December 31, 2009 of 15 percent as compared to the corresponding period of last year. The decrease is mainly driven by fewer contracted services.

Research and development expenses

Research and development spending for the nine months ended December 31, 2009 increased by 8 percent as compared to the corresponding period of last year.

Other operating income/(expense) - net

Other operating income for the nine months ended December 31, 2009 decreased by 49 percent as compared to the corresponding period of last year. This is mainly driven by decrease in cost associated with restructuring actions. Other operating expenses mainly comprise one-off items, including warranty costs not reimbursable by suppliers of US\$30 million and IP license fee of US\$12 million.

Capital Expenditure

The Group incurred capital expenditures of US\$80 million (2008/09: US\$158 million) during the nine months ended December 31, 2009, mainly for the acquisition of marketing rights, property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At December 31, 2009, total assets of the Group amounted to US\$9,331 million (March 31, 2009: US\$6,622 million), which were financed by equity holders' funds of US\$1,503 million (March 31, 2009: US\$1,311 million), minority interests of US\$177,000 (March 31, 2009: US\$177,000), and non-current and current liabilities of US\$7,827 million (March 31, 2009: US\$5,311 million). At December 31, 2009, the current ratio of the Group was 1.00 (March 31, 2009: 0.93).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At December 31, 2009, bank deposits, cash and cash equivalents totaled US\$3,016 million (March 31, 2009: US\$1,863 million), of which 49.7 (March 31, 2009: 65.7) percent was denominated in US dollars, 41.8 (March 31, 2009: 24.5) percent in Renminbi, 1.4 (March 31, 2009: 2.8) percent in Euros, 0.7 (March 31, 2009: 1.9) percent in Japanese Yen, and 6.4 (March 31, 2009: 5.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At December 31, 2009, 75.4 (March 31, 2009: 81.0) percent of cash are bank deposits, and 24.6 (March 31, 2009: 19.0) percent of cash are investments in liquid money market fund of investment grade.

Due to the unprecedented global economic challenges, the Group incurred a significant operating loss in the last quarter of the previous year, which was largely caused by the global resource redeployment plan announced in January 2009 that realized a significant restructuring charge. The substantial loss incurred triggered a breach of certain financial covenants in connection with the US\$400 million 5-year revolving and term loan facility with syndicated banks. The Group has obtained consent from the syndicated banks the waiver from strict compliance with those financial covenants and has entered into a revised loan agreement on May 21, 2009. US\$100 million was repaid in September 2009 and the outstanding loan balance as at December 31, 2009 amounted to US\$300 million. The facility will expire in March 2011.

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

To secure more long-term funding for the Group in case the economy continues to stay weak, 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 December 31, 2009 (March 31, 2009: 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 in confidence that all the secured loan facilities on hand can meet the funding requirement of the Group in the operation and business development.

The Group has also arranged other short-term credit facilities. At December 31, 2009, the Group's total available credit facilities amounted to US\$4,684 million (March 31, 2009: US\$4,210 million), of which US\$185 million (March 31, 2009: US\$279 million) was in trade lines, US\$465 million (March 31, 2009: US\$498 million) in short-term and revolving money market facilities and US\$4,034 million (March 31, 2009: US\$3,433 million) in forward foreign exchange contracts. At December 31, 2009, the amounts drawn down were US\$175 million (March 31, 2009: US\$91 million) in trade lines, US\$3,466 million (March 31, 2009: US\$1,964 million) being used for the forward foreign exchange contracts; and US\$32 million (March 31, 2009: US\$20 million) in short-term bank loans.

At December 31, 2009, the Group's outstanding bank loans represented the term loans of US\$565 million (March 31, 2009: US\$665 million) and short-term bank loans of US\$32 million (March 31, 2009: US\$20 million). When compared with total equity of US\$1,503 million (March 31, 2009: US\$1,311 million), the Group's gearing ratio was 0.40 (March 31, 2009: 0.52). The net cash position of the Group at December 31, 2009 was US\$2,419 million (March 31, 2009: US\$1,178 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2009, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$3,466 million (March 31, 2009: US\$1,964 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.

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 December 31, 2009, the Group had a total of 20,834 (2008/09 Q3: 23,871) 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 PROSPECTS

During the three months ended December 31, 2009, the worldwide PC market continued to show moderate growth under the improving economic environment. Lenovo's worldwide PC shipments recorded strong unit shipment growth at approximately 42 percent year-on-year, which is the fastest growth rate among top five PC makers. Its market share increased to 9.0 percent, the historic high level recorded by the Group. Lenovo has reported market share gains for three consecutive quarters after the outbreak of economic crisis and demonstrated increasing growth momentum. The strong Chinese PC market in which it has significant market share continued to show strong growth momentum at 41 percent year-on-year during the quarter and our expansion in the transaction business and in emerging markets also has helped Lenovo record strong performance during the quarter.

The Group's sales increased 33 percent year-on-year to US\$4,784 million for the quarter ended December 31, 2009. Its gross margin improved quarter-on-quarter, due to increased average selling price as a result of higher price product mix and disciplined pricing strategy, despite increased component costs during the quarter. The Group's gross margin stood at 11.1 percent, and its gross profit increased 45 percent year-on-year to US\$531 million. The Group's expense control measures continued to show good progress, and the operating expenses reduced to US\$431 million (exclude one-off items) during the quarter. As a result, the operating expense to revenue ratio was further improved to 9.0 percent, which is the historic low level since our IBM PC Division acquisition. The one-off items that the Group recorded were an expense of US\$43 million, which included provision for non-reimbursable warranty costs for replacing components and parts and licensing fees, as well as a net gain of US\$43 million from the disposal of some of its investments during the quarter. The Group recorded a profit before tax of US\$94 million for the quarter ended December 31, 2009. Profit attributable to shareholders amounted to US\$80 million, compared to a loss attributable to shareholders of US\$97 million in the corresponding quarter a year ago.

Performance of Geographies

During the quarter ended December 31, 2009, Lenovo continued to demonstrate good improvement in its geographic performance, benefiting from its strategic priorities and strong execution. Lenovo's China business delivered solid profit growth, and both the Mature Markets and the Emerging Markets (excluding China) continued to show sequential improvements in their profitability, respectively.

China accounted for approximately 47 percent of the Group's total sales. The China PC market continued to benefit from the improved macro environment under the government's stimulus package and strong momentum in the consumer segment. China posted 41 percent year-on-year growth in unit shipments during the quarter ended December 31, 2009. Lenovo further expanded its leadership with 54 percent year-on-year increase in unit shipments by focusing on capturing the high growth opportunities refining its business model and enhancing cross-selling. The Group's market share rose 2.8 percentage points year-on-year, the largest increase in nine years, to 33.5 percent, which is the historic high level recorded so far based on preliminary industry estimates.

Emerging Markets (excluding China) accounted for approximately 18 percent of the Group's total sales. Through expanding its channel network, introducing new product portfolios, improving the business process, and active marketing efforts, Lenovo posted 52 percent year-on-year increase in its unit shipments. As a result, the Group continued to increase its market share by 1.2 percentage point to 5.5 percent, with share gains almost across the region according to preliminary industry estimates, with significant improvement in profitability.

Mature Markets accounted for 35 percent of the Group's total sales. The Group recorded unit shipment growth of 16 percent year on year during the quarter helped by its consumer products performance, and it gained market share in major markets including Western Europe, Japan and Australia and New Zealand according to the latest industry estimates. The Group's efforts in margin control and discipline around client bid management, as well as expansion of its transaction business in this region also resulted in its profitability improvement during the quarter. The weakening US dollar against major currencies during the quarter also helped margins especially in Europe and Canada.

Performance of Product Groups

Lenovo posted share gains in both desktop and notebook computer markets during the quarter ended December 31, 2009. The launch of Win 7 helped improved the PC market sentiment during the quarter. The notebook segments continued to record a strong unit shipment growth of 68 percent year-on-year, benefiting from its expanded consumer product line-up. The Group also saw its overall desktop unit shipment increase 18 percent year-on-year, boosted by the strong consumer products. The Group's expansion into transaction business with stylish all-in-one consumer desktop and SMB-focused desktop offerings received good market reviews.

Success Came from Right Strategy and Strong Execution

The Group believes the consistent strong performance in the last three consecutive quarters was attributable to the strategic priorities and strong execution since early this fiscal year. The clear and simple strategy to protect China and Relationship business and to attack the emerging markets with transaction and consumer business enabled the teams to focus on strong execution. The new organizational structure, under which two geographies, namely Emerging and Mature markets, and two product groups, namely Think and Idea brands, has enabled end-to-end focus and improved efficiency and effectiveness. New product launches such as IdeaPad notebooks and All-in-one desktops as well as Think products have enhanced the Group's profitability and competitiveness. Last but not least, the culture of delivering on commitments is taking hold, to ensure the set targets being achieved. The Group believes that these core strengths will continue to ensure its consistent strong performance in the future.

Prospects

The worldwide PC market outlook has continued to show improvement under the increased signs of economic recovery, and consumer demand has remained resilient, but corporate replacement demand may come in at the second half of the calendar year according to some industry analysts. The Group expects the momentum shown in the last quarter will continue, but highlights that quarter four is a typical low season under normal seasonality. As a result, the expense-to-revenue ratio will be higher, potentially resulting in lower margins during the quarter. Despite the improved market sentiment, key challenges such as increasing component costs and continuous shift of product mix toward lower priced computers also will continue to exert pressure on Lenovo's operation. However, the Group is encouraged by its sequential improvement and will continue to drive growth and improve profitability with intense focus on execution of its strategic initiatives.

The strong momentum in the China PC market bodes well for the Group. Lenovo is dedicated to strengthening its leadership and profitability in China through expanding its distribution network and product portfolio to better serve the high growth segments, such as the consumer and small and medium-sized business (SMB) segments and rural market.

The PC demand in Mature Markets has stabilized in quarter three, and Lenovo has continued to improve its profitability in Mature Markets. Lenovo will continue to focus on measures to grow sustainable profitability in this region. In addition to efforts in upholding margin and expense control, the Group will continue to focus on revamping its channel organization structure, simplifying its commercial operating business model, expanding its transaction business as well as broadening its PC product portfolio to include SMBs-focused products such as ThinkPad Edge and ThinkPad X100e. The Group believes these new initiatives will enable it to improve its competitiveness and capture the growth opportunities ahead.

Lenovo is encouraged with its growth in Emerging Markets and the share gains almost across within the region during the quarter. The Group will continue to seize growth opportunities in Emerging Markets through the expansion of the transaction and consumer businesses, and further improve its operating efficiency by leveraging its efficient end-to-end operation in China.

The Group has delivered the majority of the savings from its resource restructuring plan in the last three quarters. With the improved market environment, the Group will reinvest part of the savings to drive for growth in emerging markets and consumer business. Nevertheless, the Group will continue to maintain a lean cost structure with an intense focus on expense scaling as the sales revenue increases.

The Group announced its mobile internet strategy to tap the growth opportunity arising from mobile convergence and 3G development, especially in China. The launch of a series of new products including IdeaPad U1, Skylight and 乐 Phone received very good industry reviews and awards at the Consumer Electronic Show (CES) in Las Vegas in early January. The success at CES demonstrated that Lenovo continues to differentiate through innovation, strategic vision and capability. The acquisition of Lenovo Mobile as part of its mobile internet strategy in China also has been approved by shareholders at an Extraordinary shareholder meeting in January, and the Group will kick start the integration to prepare its smart phone product launch in the next fiscal year. The Group believes the mobile internet strategy will provide a strong growth driver in the medium term.

The Group will continue to strive to differentiate through innovation and leading product portfolio, while at the same time, to drive the lean cost structure by maintaining focus on expense control and scaling.

The Group is confident that it can continue to improve its performance with the strengths of its strategic priorities and enhancement in execution capability. Lenovo will continue to strive for better returns to its shareholders going forward similar to its excellent performance over the last three quarters.

PURCHASE, SALE, REDEMPTION OR CONVERSION OF THE COMPANY'S SECURITIES AND WARRANTS
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During the period, group companies / funds of TPG Capital, Newbridge Capital and General Atlantic, the holders of the Company's convertible preferred shares and warrants:

- (i) exercised the conversion rights under the terms of issue of such shares and converted 621,250 convertible preferred shares into 227,981,647 fully paid ordinary shares of the Company;
- (ii) exercised the subscription rights of 63,502,788 warrants under the terms of issue of such warrants and subscribed for 63,502,788 fully paid ordinary shares of the Company; and
- (iii) surrendered 173,914,686 warrants to the Company for cancellation in satisfaction of the subscription price of the 63,502,788 shares mentioned in (ii) above under the terms of issue of such warrants.

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 nine months ended December 31, 2009.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the nine months ended December 31, 2009. It meets regularly with the management, the external auditors and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

By order of the Board
Liu Chuanzhi
Chairman

San Francisco, February 3, 2010

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