lenovo联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2011/12 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the nine months ended December 31, 2011 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended December 31, 2011 (unaudited)** *US$'000*	**9 months ended December 31, 2011 (unaudited)** *US$'000*	3 months ended December 31, 2010 (unaudited) *US$'000*	9 months ended December 31, 2010 (unaudited) *US$'000*
Sales	*2*	**8,371,858**	**22,078,160**	5,808,331	16,714,986
Cost of sales		**(7,417,698)**	**(19,437,671)**	(5,159,944)	(14,950,617)
Gross profit		**954,160**	**2,640,489**	648,387	1,764,369
Other income - net	*3*	**1,199**	**1,199**	116	289
Selling and distribution expenses		**(458,411)**	**(1,266,446)**	(291,271)	(757,141)
Administrative expenses		**(169,908)**	**(540,975)**	(173,986)	(525,541)
Research and development expenses		**(117,722)**	**(314,038)**	(75,784)	(211,800)
Other operating (expense)/income - net		**(15,853)**	**(37,611)**	17,128	42,617
Operating profit	*4*	**193,465**	**482,618**	124,590	312,793
Finance income	*5(a)*	**12,568**	**31,706**	6,797	18,085
Finance costs	*5(b)*	**(13,580)**	**(33,119)**	(10,817)	(33,276)
Share of (losses)/profits of associates		**(103)**	**(500)**	177	104
Profit before taxation		**192,350**	**480,705**	120,747	297,706
Taxation	*6*	**(37,975)**	**(72,864)**	(21,097)	(66,609)
Profit for the period		**154,375**	**407,841**	99,650	231,097
Profit attributable to:					
Equity holders of the Company		**153,459**	**406,174**	99,650	231,096
Non-controlling interests		**916**	**1,667**	-	1
		154,375	**407,841**	99,650	231,097
Dividend	*7*		**50,473**		32,581
Basic earnings per share attributable to equity holders of the Company	*8(a)*	**US 1.50 cents**	**US 4.03 cents**	US 1.03 cents	US 2.41 cents
Diluted earnings per share attributable to equity holders of the Company	*8(b)*	**US 1.46 cents**	**US 3.94 cents**	US 0.98 cent	US 2.29 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2011 (unaudited) ***US$'000***	**9 months ended December 31, 2011 (unaudited)** ***US$'000***	3 months ended December 31, 2010 (unaudited) *US$'000*	9 months ended December 31, 2010 (unaudited) *US$'000*
Profit for the period	**154,375**	**407,841**	99,650	231,097
Other comprehensive income /(loss)				
Fair value change on available-for-sale financial assets, net of tax	**962**	**(51,184)**	(10,308)	(33,603)
Fair value change on cash flow hedge				
- interest rate swap contracts	**391**	**676**	1,697	2,218
- forward foreign exchange contracts	**(9,081)**	**37,890**	38,705	(11,021)
- foreign currency options	**-**	**-**	(163)	(416)
Actuarial loss from defined benefit pension plans	**-**	**(318)**	-	-
Currency translation differences	**(19,132)**	**(41,201)**	(6,152)	(12,553)
	127,515	**353,704**	123,429	175,722
Total comprehensive income attributable to:				
Equity holders of the Company	**129,748**	**358,779**	123,429	175,721
Non-controlling interests	**(2,233)**	**(5,075)**	-	1
	127,515	**353,704**	123,429	175,722

CONSOLIDATED BALANCE SHEET

	Note	**December 31, 2011 (unaudited)** *US$'000*	March 31, 2011 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**413,902**	209,417
Prepaid lease payments		**9,873**	9,682
Construction-in-progress		**119,692**	32,092
Intangible assets		**2,835,294**	2,134,452
Interests in associates		**2,821**	914
Deferred income tax assets		**479,043**	251,098
Available-for-sale financial assets		**55,755**	78,689
Other non-current assets		**37,956**	53,132
		3,954,336	2,769,476
Current assets			
Inventories		**1,251,923**	803,702
Trade receivables	*9(a)*	**2,473,238**	1,368,924
Notes receivable		**833,231**	391,649
Derivative financial assets		**73,567**	13,295
Deposits, prepayments and other receivables	*10*	**2,718,374**	2,305,325
Income tax recoverable		**40,112**	56,912
Bank deposits		**48,281**	42,158
Cash and cash equivalents		**4,073,657**	2,954,498
		11,512,383	7,936,463
Total assets		**15,466,719**	10,705,939

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**December 31, 2011 (unaudited)** ***US$'000***	March 31, 2011 (audited) *US$'000*
Share capital	*12*	**33,105**	31,941
Reserves		**2,329,638**	1,802,780
Equity attributable to owners of the Company		**2,362,743**	1,834,721
Non-controlling interests		**77,030**	179
Total equity		**2,439,773**	1,834,900
Non-current liabilities			
Warranty provision	*11(a)*	**381,600**	395,242
Deferred revenue		**374,553**	277,205
Retirement benefit obligations		**145,248**	74,870
Deferred income tax liabilities		**56,312**	17,093
Other non-current liabilities		**620,902**	73,976
		1,578,615	838,386
Current liabilities			
Trade payables	*9(b)*	**3,766,148**	2,179,839
Notes payable		**103,993**	98,964
Derivative financial liabilities		**50,444**	39,223
Provisions, accruals and other payables	*11*	**6,860,171**	5,096,649
Income tax payable		**95,828**	96,711
Bank borrowings		**70,996**	71,561
Current portion of non-current liabilities		**500,751**	449,706
		11,448,331	8,032,653
Total liabilities		**13,026,946**	8,871,039
Total equity and liabilities		**15,466,719**	10,705,939
Net current assets/(liabilities)		**64,052**	(96,190)
Total assets less current liabilities		**4,018,388**	2,673,286

CONSOLIDATED CASH FLOW STATEMENT

	9 months ended December 31, 2011 (unaudited) ***US$'000***	9 months ended December 31, 2010 (unaudited) *US$'000*
Net cash generated from operating activities	**1,586,930**	1,328,328
Net cash used in investing activities	**(372,460)**	(12,108)
Net cash used in financing activities	**(110,011)**	(340,617)
Increase in cash and cash equivalents	**1,104,459**	975,603
Effect of foreign exchange rate changes	**14,700**	60,177
Cash and cash equivalents at the beginning of the period	**2,954,498**	2,238,195
Cash and cash equivalents at the end of the period	**4,073,657**	3,273,975

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 (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$'000*	Non-controlling interests (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2011	**31,941**	**1,377,529**	**-**	**56,474**	**1,003**	**(76,110)**	**63,280**	**(18,583)**	**(1,523)**	**58,236**	**342,474**	**179**	**1,834,900**
Profit for the period	-	-	-	-	-	-	-	-	-	-	**406,174**	**1,667**	**407,841**
Other comprehensive (loss)/income	-	-	-	**(51,184)**	-	-	-	**38,563**	**(34,456)**	-	**(318)**	**(6,742)**	**(54,137)**
Total comprehensive (loss)/income for the period	-	-	-	**(51,184)**	-	-	-	**38,563**	**(34,456)**	-	**405,856**	**(5,075)**	**353,704**
Consideration for acquisition	-	-	-	-	-	-	-	-	-	**36,555**	-	-	**36,555**
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	**81,926**	**81,926**
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	**5,274**	**(5,274)**	-	-
Issue of ordinary shares	**1,088**	**196,206**	-	-	-	-	-	-	-	-	-	-	**197,294**
Dividend paid	-	-	-	-	-	-	-	-	-	-	**(114,687)**	-	**(114,687)**
Exercise of share options	**76**	**8,282**	-	-	-	-	-	-	-	-	-	-	**8,358**
Vesting of shares under long-term incentive program	-	-	-	-	-	**23,395**	**(32,705)**	-	-	-	-	-	**(9,310)**
Share-based compensation	-	-	-	-	-	-	**51,033**	-	-	-	-	-	**51,033**
At December 31, 2011	**33,105**	**1,582,017**	**-**	**5,290**	**1,003**	**(52,715)**	**81,608**	**19,980**	**(35,979)**	**100,065**	**628,369**	**77,030**	**2,439,773**
At April 1, 2010	31,388	1,341,118	2,836	72,366	497	(111,054)	76,054	6,069	(35,969)	34,430	188,106	177	1,606,018
Profit for the period	-	-	-	-	-	-	-	-	-	-	231,096	1	231,097
Other comprehensive loss	-	-	-	(33,603)	-	-	-	(9,219)	(12,553)	-	-	-	(55,375)
Total comprehensive (loss)/income for the period	-	-	-	(33,603)	-	-	-	(9,219)	(12,553)	-	231,096	1	175,722
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	22,181	(22,181)	-	-
Conversion of Series A cumulative convertible preferred shares	891	98,073	(2,836)	-	-	-	-	-	-	-	-	-	96,128
Exercise of share options	122	17,174	-	-	-	-	-	-	-	-	-	-	17,296
Repurchase of shares	(287)	(50,022)	-	-	287	-	-	-	-	-	-	-	(50,022)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(87,923)	-	(87,923)
Vesting of shares under long-term incentive program	-	-	-	-	-	19,842	(31,708)	-	-	-	-	-	(11,866)
Share-based compensation	-	-	-	-	-	-	26,414	-	-	-	-	-	26,414
At December 31, 2010	32,114	1,406,343	-	38,763	784	(91,212)	70,760	(3,150)	(48,522)	56,611	309,098	178	1,771,767

Notes

1 Basis of preparation

The financial information presented above and notes thereto is extracted from the Group's consolidated financial statements and presented in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board is responsible for the preparation of the Group's financial statements. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values.

The Group has adopted the revised standard, new interpretation, and amendments to existing standards and interpretations (including improvements to HKFRSs 2010) that are mandatory for the year ending March 31, 2012 and where considered appropriate and relevant to its operations.

Revised standard, new interpretation and amendments to existing standards and interpretations
HKAS 24 (Revised), Related party disclosures
HK(IFRIC)-Int 19, Extinguishing financial liabilities with equity instruments
Amendments to HK(IFRIC)-Int 14, Prepayments of a minimum funding requirement

Improvements to HKFRSs 2010 - Amendments to
HKFRS 3 (Revised), Business combinations
HKFRS 7, Financial instruments: Disclosures
HKAS 1 (Revised), Presentation of financial statements
HKAS 21, The effect of changes in foreign exchange rates
HKAS 28, Investments in associates
HKAS 31, Interests in joint ventures
HKAS 32, Financial instruments: Presentation
HKAS 34, Interim financial reporting
HKAS 39, Financial instruments: Recognition and measurement
HK(IFRIC)-Int 13, Customer loyalty programmes

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

The following new and revised standards and amendments to existing standards have been issued but are not effective for the year ending March 31, 2012 and have not been early adopted:

	Effective for annual periods beginning on or after
HKAS 19 (2011), Employee benefits	January 1, 2013
HKAS 27 (2011), Separate financial statements	January 1, 2013
HKAS 28 (2011), Investments in associates and joint ventures	January 1, 2013
HKFRS 9, Financial instruments	January 1, 2015
HKFRS 10, Consolidated financial statements	January 1, 2013
HKFRS 11, Joint arrangements	January 1, 2013
HKFRS 12, Disclosure of interests in other entities	January 1, 2013
HKFRS 13, Fair value measurement	January 1, 2013
Amendments to HKAS 1 (Revised), Presentation of items of other comprehensive income	July 1, 2012
Amendments to HKAS 12, Deferred tax: Recovery of underlying assets	January 1, 2012
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and liabilities	January 1, 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers to financial assets	July 1, 2011

The Group is currently assessing the impact of the adoption of the new and revised standards, and amendments to existing standards above to the Group in future periods. So far, it has concluded that the adoption of the above do not have material impact on the Group's financial statements.

The Group has changed certain presentations in the consolidated cash flow statement and information on operating segments.

For consolidated cash flow statement presentation, the effect of foreign exchange rate changes on cash flow from operations has been presented as part of net cash generated from operations.

For presentation of segment results, certain expenses have been reclassified, in particular, expenditures on aligning the information technology systems ("IT systems"). In the previous years, expenditures on aligning the IT systems of mature and emerging markets were included in the respective markets. The Group has substantially completed the alignment of the IT systems with key business systems converged in the same platform. With effect from the current fiscal year, expenditures on IT systems are allocated to market segments on a flat rate basis with reference to revenue contributions of the respective markets. Management considers this basis is more appropriate in the measurement of market segment results.

For presentation of segment assets and liabilities, assets and liabilities of certain entities performing centralized functions for the group, previously included in market segments based on their respective geographical locations, have been reclassified to unallocated assets and liabilities. Management considers this is more appropriate in light of their increased roles as centralized functions. The amounts of assets and liabilities of US$2,078 million and US$4,168 million (March 31, 2011: US$2,023 million and US$3,627 million) previously included in respective market segments have been reclassified as unallocated.

The comparative information has been reclassified to conform to the current period's presentation.

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the "LEC"), the chief operating decision-maker, that are used to make strategic decisions.

The LEC considers business from a market perspective. The Group has three market segments, China, Emerging Markets (excluding China) and Mature Markets, which are also the Group's reportable operating segments.

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

Supplementary information on market segment assets and liabilities presented below is primarily based on the geographical location of the entities which carry the assets and liabilities, except for entities performing centralized functions for the group the assets and liabilities of which are not allocated to any market.

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the nine months ended December 31, 2011 and its comparatives are as follows:

	China	**Emerging Markets (excluding China)**	**Mature Markets**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
For the nine months ended December 31, 2011				
Sales to external customers	**9,494,168**	**3,592,434**	**8,991,558**	**22,078,160**
Adjusted pre-tax income/(loss)	**457,449**	**(75,060)**	**280,258**	**662,647**
Depreciation and amortization	**57,340**	**20,497**	**52,761**	**130,598**
Additions to non-current assets*	**52,357**	**5,824**	**18,738**	**76,919**
At December 31, 2011				
Total assets	**4,679,682**	**1,499,613**	**4,168,575**	**10,347,870**
Total liabilities	**3,189,622**	**516,505**	**3,582,177**	**7,288,304**

	China	Emerging Markets (excluding China)	Mature Markets	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
For the nine months ended December 31, 2010				
Sales to external customers	7,819,898	3,009,680	5,885,408	16,714,986
Adjusted pre-tax income/(loss)	346,017	(43,984)	95,476	397,509
Depreciation and amortization	57,331	17,308	57,833	132,472
Additions to non-current assets*	33,014	6,816	10,626	50,456
At March 31, 2011				
Total assets	3,368,166	1,407,639	1,386,766	6,162,571
Total liabilities	1,833,711	366,575	1,563,680	3,763,966

* Other than financial instruments and deferred income tax assets; and exclude construction-in-progress pending allocation to segments

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

	9 months ended December 31, 2011	9 months ended December 31, 2010
	US$'000	*US$'000*
Adjusted pre-tax income	**662,647**	397,509
Unallocated:		
Headquarters and corporate expenses	**(192,712)**	(90,310)
Restructuring costs	**781**	(4,367)
Finance income	**22,785**	12,945
Finance costs	**(13,495)**	(18,464)
Net gain on disposal of available-for-sale financial assets and investments	**1,104**	196
Dividend income from available-for-sale financial assets	**95**	93
Share of (losses)/profits of associates	**(500)**	104
Consolidated profit before taxation	**480,705**	297,706

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

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
Segment assets for reportable segments	**10,347,870**	6,162,571
Unallocated:		
Deferred income tax assets	**479,043**	251,098
Derivative financial assets	**73,567**	13,295
Available-for-sale financial assets	**55,755**	78,689
Interests in associates	**2,821**	914
Bank deposits and cash and cash equivalents	**2,237,788**	1,653,870
Inventories	**326,050**	394,998
Deposits, prepayments and other receivables	**1,878,464**	2,062,952
Income tax recoverable	**40,112**	56,912
Other unallocated assets	**25,249**	30,640
Total assets per consolidated balance sheet	**15,466,719**	10,705,939

(d) Reconciliation of segment liabilities for reportable segments to total liabilities per consolidated balance sheet is provided as follows:

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
Segment liabilities for reportable segments	**7,288,304**	3,763,966
Unallocated:		
Income tax payable	**95,828**	96,711
Deferred income tax liabilities	**56,312**	17,093
Derivative financial liabilities	**50,444**	39,223
Bank borrowings	**200,000**	200,000
Trade payables	**2,285,869**	1,771,633
Provisions, accruals and other payables	**3,008,684**	2,942,621
Other unallocated liabilities	**41,505**	39,792
Total liabilities per consolidated balance sheet	**13,026,946**	8,871,039

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$2,505 million (March 31, 2011: US$1,926 million). During the period, the Group underwent an organizational structure change under which Latin America previously as a reportable segment merged with REM, forming a cash-generating unit ("CGU"). The intangible assets have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At December 31, 2011

	China US$ million	REM * US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,100	167	158	271	429	2,125
Trademarks and trade names	209	64	58	35	14	380

* Includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan, Turkey and Latin America (previously a stand-alone CGU).

At March 31, 2011

	China US$ million	REM ** US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,065	143	24	161	84	69	1,546
Trademarks and trade names	209	55	9	58	35	14	380

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

On July 1, 2011, the Group completed the establishment of a joint venture with NEC Corporation ("NEC") under a business combination agreement dated January 27, 2011 (Note 13). The corresponding goodwill is preliminarily estimated at US$340 million. The goodwill is attributable to the significant synergies expected to arise in connection with the Group's commitment to its core personal computer business and NEC's market leadership in Japan. The entire amount of goodwill has been allocated to the Japan, Australia and New Zealand market segment.

On July 29, 2011, the Group completed the acquisition of Medion AG ("Medion") under a business combination agreement dated June 1, 2011 (Note 13). The goodwill arising from this acquisition is preliminarily estimated at US$222 million. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives and the development of customer-focused products to capitalize on the entertainment electronics and service business growth in Europe. The entire amount of goodwill has been allocated to the West Europe market segment.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at December 31, 2011 (March 31, 2011: Nil).

3 Other income - net

	3 months ended December 31, 2011 ***US$'000***	**9 months ended December 31, 2011** ***US$'000***	3 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2010 *US$'000*
Net gain on disposal of available-for-sale financial assets and investments	**1,104**	**1,104**	99	196
Dividend income from available-for-sale financial assets	**95**	**95**	17	93
	1,199	**1,199**	116	289

4 Operating profit

Operating profit is stated after charging the following:

	3 months ended December 31, 2011 ***US$'000***	**9 months ended December 31, 2011** ***US$'000***	3 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2010 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**20,347**	**57,666**	19,125	59,798
Amortization of intangible assets	**29,831**	**72,932**	22,248	72,674
Employee benefit costs, including	**503,040**	**1,396,747**	352,143	1,038,036
- long-term incentive awards	***16,521***	***51,033***	*8,013*	*26,414*
Rental expenses under operating leases	**17,055**	**46,418**	13,201	39,739

5 Finance income and costs

(a) Finance income

	3 months ended December 31, 2011 ***US$'000***	**9 months ended December 31, 2011** ***US$'000***	3 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2010 *US$'000*
Interest on bank deposits	**9,350**	**25,826**	6,350	17,137
Interest on money market funds	**1,016**	**2,165**	339	717
Others	**2,202**	**3,715**	108	231
	12,568	**31,706**	6,797	18,085

(b) Finance costs

	3 months ended December 31, 2011 ***US$'000***	**9 months ended December 31, 2011** ***US$'000***	3 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2010 *US$'000*
Interest on bank loans and overdrafts	**2,153**	**6,026**	4,426	14,342
Dividend and relevant finance costs on convertible preferred shares	**-**	**-**	703	3,810
Factoring cost	**7,344**	**18,117**	5,072	12,849
Others	**4,083**	**8,976**	616	2,275
	13,580	**33,119**	10,817	33,276

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2011 ***US$'000***	**9 months ended December 31, 2011** ***US$'000***	3 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2010 *US$'000*
Current taxation				
Hong Kong profits tax	**41**	**171**	56	1,523
Taxation outside Hong Kong	**36,283**	**124,811**	17,647	59,028
Deferred taxation	**1,651**	**(52,118)**	3,394	6,058
	37,975	**72,864**	21,097	66,609

Hong Kong profits tax has been provided for at the rate of 16.5% (2010/11: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Dividend

	9 months ended December 31, 2011 ***US$'000***	9 months ended December 31, 2010 *US$'000*
Interim dividend, for the six months ended September 30, 2011, of HK3.8 cents (2010/11: HK2.6 cents) per ordinary share, paid on November 30, 2011	**50,473**	32,581

8 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit 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, 2011	**9 months ended December 31, 2011**	3 months ended December 31, 2010	9 months ended December 31, 2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**10,248,409,493**	**10,080,985,480**	9,658,857,983	9,571,070,098
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**153,459**	**406,174**	99,650	231,096

(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 two categories of dilutive potential ordinary shares, namely share options and long-term incentive awards.

	3 months ended December 31, 2011	**9 months ended December 31, 2011**	3 months ended December 31, 2010	9 months ended December 31, 2010
Weighted average number of ordinary shares in issue	**10,248,409,493**	**10,080,985,480**	9,658,857,983	9,571,070,098
Adjustments for convertible preferred shares	-	-	138,063,488	234,021,797
Adjustments for share options and long-term incentive awards	**266,942,553**	**234,728,315**	461,420,100	444,649,144
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,515,352,046**	**10,315,713,795**	10,258,341,571	10,249,741,039
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**153,459**	**406,174**	99,650	231,096
Interest expense on convertible preferred shares	-	-	703	3,810
	153,459	**406,174**	100,353	234,906

Adjustments for the dilutive potential ordinary shares are as follows:

– All remaining convertible preferred shares were converted into voting ordinary shares during the year ended March 31, 2011. For the nine months ended December 31, 2010, the convertible preferred shares were assumed to have been converted into ordinary shares and the net profit was adjusted to add back the relevant finance costs.

– 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.

9 Ageing analysis

(a) Customers are generally granted credit term ranging from 15 to 60 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
0 – 30 days	**1,692,219**	941,811
31 – 60 days	**588,713**	251,698
61 – 90 days	**100,702**	92,817
Over 90 days	**118,118**	103,679
	2,499,752	1,390,005
Less: provision for impairment	**(26,514)**	(21,081)
Trade receivables – net	**2,473,238**	1,368,924

(b) Ageing analysis of trade payables of the Group at the balance sheet date, based on invoice date, is as follows:

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
0 – 30 days	**2,029,983**	1,381,832
31 – 60 days	**1,174,679**	503,648
61 – 90 days	**420,169**	230,791
Over 90 days	**141,317**	63,568
	3,766,148	2,179,839

10 Deposits, prepayments and other receivables

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

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
Deposits	**739**	504
Other receivables	**2,110,865**	1,765,680
Prepayments	**606,770**	539,141
	2,718,374	2,305,325

(a) Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business.

(b) The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers of US$256 million as at December 31, 2011 (March 31, 2011: US$236 million) are included in prepayments.

11 Provisions, accruals and other payables

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

	December 31, 2011	March 31, 2011
	US$'000	*US$'000*
Provisions	**542,105**	311,813
Accruals	**1,147,683**	900,306
Allowance for billing adjustments	**1,735,644**	1,139,828
Other payables	**3,434,739**	2,744,702
	6,860,171	5,096,649

(a) The components of provisions are as follows:

	Warranty *US$'000*	Restructuring *US$'000*	Environmental restoration *US$'000*	Total *US$'000*
Year ended March 31, 2011				
At the beginning of the year	550,689	11,341	22,502	584,532
Exchange adjustment	11,310	84	151	11,545
Provisions made	644,778	3,126	4,191	652,095
Amounts utilized	(510,054)	(3,585)	(2,759)	(516,398)
Unused amounts reversed	(2,000)	(2,547)	(9,091)	(13,638)
	694,723	8,419	14,994	718,136
Long-term portion classified as non-current liabilities	(395,242)	-	(11,081)	(406,323)
At the end of the year	299,481	8,419	3,913	311,813
Nine months ended December 31, 2011				
At the beginning of the period	**694,723**	**8,419**	**14,994**	**718,136**
Exchange adjustment	**(1,553)**	**(753)**	**2,435**	**129**
Provisions made	**572,610**	**-**	**6,147**	**578,757**
Amounts utilized	**(439,738)**	**(1,886)**	**(3,496)**	**(445,120)**
Unused amounts reversed	**(1,286)**	**(846)**	**-**	**(2,132)**
Acquisition of subsidiaries	**92,306**	**-**	**79,501**	**171,807**
	917,062	**4,934**	**99,581**	**1,021,577**
Long-term portion classified as non-current liabilities	**(381,600)**	**-**	**(97,872)**	**(479,472)**
At the end of the period	**535,462**	**4,934**	**1,709**	**542,105**

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 arrangements with them.

(b) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price rebates, and customer sales returns.

(c) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

12 Share capital

	December 31, 2011		March 31, 2011	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Authorized:				
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
		500,000		527,525

	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**9,965,161,897**	**31,941**	9,788,044,282	31,388
Conversion from series A cumulative convertible preferred shares	**-**	**-**	282,263,115	891
Issue of ordinary shares	**338,689,699**	**1,088**	-	-
Exercise of share options	**23,696,000**	**76**	52,614,500	168
Repurchase of shares	**-**	**-**	(157,760,000)	(506)
At the end of the period/year	**10,327,547,596**	**33,105**	9,965,161,897	31,941
Series A cumulative convertible preferred shares:				
At the beginning of the period/year	**-**	**-**	769,167	891
Conversion to voting ordinary shares	**-**	**-**	(769,167)	(891)
At the end of the period/year	**-**	**-**	-	-

Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on July 22, 2011, the series A cumulative convertible preferred shares were cancelled from the existing authorized share capital of the Company.

13 Business combinations

During the period, the Group completed two business combination activities aiming at expanding the Group's existing scale of operations and to enlarge the Group's market share.

On July 1, 2011, the Group completed the formation of a joint venture company to own and operate the Group's and NEC's respective personal computer businesses in Japan (the "NEC JV") pursuant to the business combination agreement dated January 27, 2011. Immediately following completion, the Group and NEC respectively owns 51% and 49% of the issued share capital of NEC JV.

On July 29, 2011, the Group acquired 51.89% of the issued share capital of Medion AG ("Medion"), a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. Medion is the parent company of the Medion group which is an enterprise in the retail and service business for consumer electronic products, such as notebooks, PCs, TVs, audio and mobile telecommunication. Thereafter, the Group acquired another 9.43% of the issued share capital in Medion through the takeover offer pursuant to the German Securities Acquisition and Takeover Act. Immediately following the takeover offer period, the Group owns 61.32% of the issued share capital in Medion.

The Group's business combination activities involve post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) "Business Combinations" requires the recognition of the fair value of those contingent considerations as of their respective dates of business combination as part of the consideration transferred in exchange for the acquired subsidiaries/businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/businesses and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the date of business combination, with any resulting gain or loss recognized in the consolidated income statement in accordance with HKFRS 3 (Revised).

HKAS 27 "Consolidated and Separate Financial Statements" (as amended in 2008) requires that the proportions allocated to the parent and non-controlling interests are determined on the basis of present ownership interests. The two business combination activities completed during the period involve arrangements on the transfer of ownership interest with the respective shareholders of NEC JV and Medion and have been accounted for in accordance with HKAS 27.

The estimated total consideration for the two business combination activities is approximately US$1,208 million, including cash and the Company's shares as consideration shares.

Set forth below is the preliminary calculation of goodwill:

	NEC JV *US$'000*	Medion *US$'000*	Total *US$'000*
Purchase consideration:			
- Cash paid and payable	**58,274**	**479,338**	**537,612**
- Fair value of consideration shares*	**160,730**	**73,119**	**233,849**
- Present value of contingent consideration	**251,557**	**185,393**	**436,950**
Total purchase consideration	**470,561**	**737,850**	**1,208,411**
Less: Fair value of net assets acquired	**130,179**	**516,287**	**646,466**
Goodwill (Note 2(e))	**340,382**	**221,563**	**561,945**

* 57,560,317 consideration shares in respect of the acquisition of Medion with an aggregated fair value of approximately US$36,555,000 which serve as security for any potential damages are to be issued to the seller as deferred consideration within an 18-month period after completion

The major components of assets and liabilities arising from the business combination activities are as follows:

	NEC JV *US$'000*	Medion *US$'000*	Total *US$'000*
Cash and cash equivalents	**110,832**	**254,464**	**365,296**
Property, plant and equipment	**121,961**	**55,925**	**177,886**
Other non-current assets	**181,679**	**5,327**	**187,006**
Intangible assets	**31,976**	**87,249**	**119,225**
Net working capital except cash and cash equivalents	**(114,415)**	**249,826**	**135,411**
Non-current liabilities	**(201,854)**	**(54,578)**	**(256,432)**
Fair value of net assets	**130,179**	**598,213**	**728,392**
Non-controlling interests	**-**	**(81,926)**	**(81,926)**
Fair value of net assets acquired	**130,179**	**516,287**	**646,466**

Intangible assets arising from the business combination activities mainly represent customer relationships, trademarks and brand licenses. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 (Revised) "Business Combination".

At December 31, 2011, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from these business combination activities. The relevant fair values of net assets stated above are on a provisional basis. The costs incurred in connection with these business combination activities have been recognized as administrative expenses in the consolidated income statement.

FINANCIAL REVIEW

Results

For the nine months ended December 31, 2011, the Group achieved total sales of approximately US$22,078 million. Profit attributable to equity holders for the period was approximately US$406 million, representing an increase of US$175 million as compared with the corresponding period of last year. Gross profit margin for the nine months was 1.4 percent point up from 10.6 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$1,125 million as compared to March 31, 2011. Basic earnings per share and diluted earnings per share were US4.03 cents and US3.94 cents, representing an increase of US1.62 cents and US1.65 cents respectively as compared with the corresponding period of last year.

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

For the nine months ended December 31, 2011, overall operating expenses across the board increased when compared to the corresponding period of last year as current period includes NEC JV and Medion. Employee benefit costs increased by 35 percent as compared to the corresponding period of last year due to increased headcount and performance-driven incentive payments. Legal and professional fees increased by 24 percent as compared to corresponding period of last year due to the increase in merger and acquisition activities. Branding and promotional expenses increased by 81 percent as compared to corresponding period of last year as a result of the branding campaign.

Further analyses of income and expense by function for the nine months ended December 31, 2011 are set out below:

Other income – net

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

Selling and distribution expenses

Selling and distribution expenses for the period increased by 67 percent as compared to the corresponding period of last year. This is principally attributable to a US$214 million increase in promotional, branding and marketing activities and a US$197 million increase in employee benefit costs.

Administrative expenses

Administrative expenses for the period increased slightly by 3 percent as compared to the corresponding period of last year. This is mainly attributable to a US$38 million increase in employee benefit costs and a US$22 million increase in legal and professional fees relating to merger and acquisition activities. The increase is partly offset by a decrease in contracted service expense of US$27 million.

Research and development expenses

Research and development spending for the period increased by 48 percent as compared to the corresponding period of last year. The major part of the increase is attributable to an increase in employee benefit costs of US$55 million, and an increase in R&D professional fees of US$36 million. There was also a R&D laboratory relocation expense of US$9 million in the corresponding period of last year.

Other operating expense/income - net

The net other operating expense for the period represents a US$35 million IP license fee expense netted with US$2 million net exchange gain. The net other operating income in the corresponding period of last year mainly comprised a US$16 million net exchange gain and subsidy income of US$15 million netted with a US$2 million restructuring expense.

Capital Expenditure

The Group incurred capital expenditure of US$237 million (2010/11: US$103 million) during the period ended December 31, 2011, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At December 31, 2011, total assets of the Group amounted to US$15,467 million (March 31, 2011: US$10,706 million), which were financed by equity attributable to owners of the Company of US$2,363 million (March 31, 2011: US$1,835 million), non-controlling interests of US$77 million (March 31, 2011: US$179,000), and total liabilities of US$13,027 million (March 31, 2011: US$8,871 million). At December 31, 2011, the current ratio of the Group was 1.01 (March 31, 2011: 0.99).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At December 31, 2011, bank deposits, cash and cash equivalents totaled US$4,122 million (March 31, 2011: US$2,997 million), of which 51.8 (March 31, 2011: 53.9) percent was denominated in US dollars, 35.0 (March 31, 2011: 37.1) percent in Renminbi, 5.6 (March 31, 2011: 0.7) percent in Euros, 3.3 (March 31, 2011: 0.4) percent in Japanese Yen, and 4.3 (March 31, 2011: 7.9) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At December 31, 2011, 75.7 (March 31, 2011: 75.6) percent of cash are bank deposits, and 24.3 (March 31, 2011: 24.4) percent of cash are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes.

The Group had a US$300 million 3-year loan facility with a bank in China. At December 31, 2011, it was utilized to the extent of US$200 million (March 31, 2011: US$200 million) and will expire in March 2012.

In addition, the Group has entered into another 5-year loan facility agreement of US$300 million with a bank on July 17, 2009. The facility has not been utilized as at December 31, 2011 (March 31, 2011: Nil).

On February 2, 2011, the Group entered into a 5-year loan facility agreement for US$500 million. The facility has not been utilized as at December 31, 2011.

The Group has also arranged other short-term credit facilities. At December 31, 2011, the Group's total available credit facilities amounted to US$5,934 million (March 31, 2011: US$5,570 million), of which US$354 million (March 31, 2011: US$331 million) was in trade lines, US$521 million (March 31, 2011: US$475 million) in short-term and revolving money market facilities and US$5,059 million (March 31, 2011: US$4,764 million) in forward foreign exchange contracts. At December 31, 2011, the amounts drawn down were US$259 million (March 31, 2011: US$201 million) in trade lines, US$4,752 million (March 31, 2011: US$3,190 million) being used for the forward foreign exchange contracts, and US$71 million (March 31, 2011: US$72 million) in short-term bank loans.

At December 31, 2011, the Group's outstanding bank loans represented term loans of US$200 million (March 31, 2011: US$200 million) and short-term bank loans of US$71 million (March 31, 2011: US$72 million). When compared with total equity of US$2,440 million (March 31, 2011: US$1,835 million), the Group's gearing ratio was 0.11 (March 31, 2011: 0.15). The net cash position of the Group at December 31, 2011 is US$3,851 million (March 31, 2011: US$2,725 million).

The Group is confident that all the loan facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2011, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$4,752 million (March 31, 2011: US$3,190 million).

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

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various 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.

BUSINESS REVIEW AND OUTLOOK

During the three months ended December 31, 2011, Lenovo's PC business continued its strong performance in unit shipments, sales and profit growth driven by the strong execution of the successful "Protect and Attack" strategy. The Group retained the number two position in the global PC market, and continued to close the gap with the industry leader during the quarter under review. Its PC unit shipments grew by 37 percent year-on-year, leading to our global market share growing by 3.7 percentage points, year-on-year. This led to an all-time high unit shipments and market share of 14.0 percent, according to the preliminary industry estimate. Lenovo continued to outperform the markets with balanced, strong growth in all geographic segments covering China, Emerging Markets (excluding China) and Mature Markets, as well as in all product and customer segments. This growth came despite flat global PC shipments growth year-on-year due to a shortage of hard disk drives (HDDs) stemming from flooding in Thailand, slow economic conditions and stiff competition from other consumer electronic devices, such as media tablets and smartphones.

Commercial demand and growth in emerging markets including China continued to help offsetting the weaknesses in mature markets triggered by pressure on the consumer business. The Group's continuous solid execution has enabled it to be the fastest growing PC company among the top four global PC companies for nine consecutive quarters, and outperform the global PC market for eleven consecutive quarters. For the first time, Lenovo became the largest commercial PC company and largest consumer desktop company in the world in fiscal quarter three and it continued to be the largest PC company in emerging markets including China.

The NEC joint venture and Medion acquisition continued to perform better than their respective markets and their original forecasts, and their contributions have been included for a full quarter during fiscal quarter three.

Lenovo has expanded its footprint into the mobile internet area under the Group's Mobile Internet and Digital Home (MIDH) Group, in addition to its strong presence in the PC business. The business recorded strong shipment growth during fiscal quarter three, especially the mobile phone business including feature phones and smartphones which reached historic high shipments in the last quarter.

For the three months ended December 31, 2011, the Group's sales increased by 44 percent year-on-year to US$8,372 million, a historic high for the Group. Sales of the Group's PC business were US$7,253 million, representing a year-on-year increase of 34 percent. The sales of MIDH business, which was largely from mobile phone sales in China, increased by 159 percent year-on-year to US$565 million.

Gross profit increased by 47 percent year-on-year to US$954 million. Gross margin for fiscal quarter three improved by 0.2 percentage points from the same period last year to 11.4 percent, driven by effective margin management, strong unit shipments growth, and an increased mix of the Think branded products, but the gross margin dipped quarter-to-quarter due to impact of HDDs supply shortage resulting in cost increases and increased mix of SMB focused ThinkPad Edge products. The Group has taken immediate actions to mitigate the impacts of the HDDs supply shortage, including direct communications between senior management teams of Lenovo and key HDDs suppliers, and HDDs allocation to high margin products. The Group also put in place stringent expense control, and the scaling benefit arising from strong shipment growth, also helped offset the cost impact on the gross margin.

Operating expenses increased by 45 percent year-on-year to US$761 million. However, the expense-to-revenue ratio continued to improve quarter-on-quarter even as the Group continued its investments in product innovation, branding, MIDH business and emerging markets, with an objective to drive long-term, sustainable growth and better profitability in the future. The Group achieved a record high profit before taxation at US$192 million and profit attributable to equity holders of the company amounted to US$153 million, representing an increase of 59 percent and 54 percent, respectively, from the corresponding period in the previous fiscal year.

Performance of Geographies

During the three months ended December 31, 2011, Lenovo achieved solid and balanced performance in all geographies it has operations. The Group achieved record high PC market share in China and Mature markets.

Lenovo ranked number one in two of the top three PC markets in the world, namely China and Japan, in fiscal quarter three.

China accounted for 42 percent of the Group's total sales. Although uncertainties in the macro environment remained as the government continued to implement measures to tighten market liquidity to curb inflation during the quarter, PC market growth continued during the past three fiscal quarters, and continued to grow faster than the worldwide PC market, driven mainly by the relatively stronger demand in emerging cities. According to preliminary industry estimates, the China PC market grew by 17 percent year-on-year during the quarter and China remained the largest PC market in the world. Lenovo's PC unit shipments in China continued to outperform the market by growing at 28 percent year-on-year, and as a result, the Group's market share reached record high of 35.3 percent, representing an increase of 3.1 percentage points year-on-year. The market share gaps between Lenovo and its major competitors continued to widen. The Group's MIDH business in China also posted strong unit shipments growth from encouraging customers' responses for new smartphones, feature phones and tablets products rolled out during the quarter. Operating profit in China was up year-on-year to US$161 million, and operating margin was 4.6%, up from 4.0% year-on-year and 4.3% quarter-on-quarter, even as the Group continued its investments in its mobile internet business during the quarter. Operating margin for PC business was 5.9%, up from 4.6% in the same period last year.

Emerging Markets (excluding China) accounted for 15 percent of the Group's total sales. During the quarter, Lenovo's unit shipments in Emerging Markets (excluding China) grew by 23 percent year-on-year, against relatively flat market growth, impacted by weakness in local economies. The Group's market share further increased to 7.8 percent, gaining 1.2 percentage points from a year ago, according to preliminary industry estimates. Strong unit shipments growth and share gains were recorded across all key regions such as LAS (+61 percent), MEA (+37 percent), Brazil (+37 percent), India (+28 percent), RUCIS (+29 percent), Hong Kong, Taiwan, and South Korea region ("HTK") (+20 percent) and ASEAN (+8 percent).

Emerging Markets (excluding China) recorded an operating loss at US$30 million during fiscal quarter three as the Group continued to invest to drive share growth. The Group will continue to invest to drive growth in this region to close to double-digit market share so that the scaling benefits will help improve profitability of the region.

Mature Markets accounted for 43 percent of the Group's total sales. The Group's performance in Mature Markets continued to benefit from strong corporate PC demand and its expanded footprint in the consumer business, enabling the Group to grow faster despite the negative growth of the overall market. The Group's unit shipments in Mature Markets grew 67 percent year-on-year against an 8 percent decline for the overall market, according to preliminary industry estimates. As a result, its market share reached a record high level of 9.4% during the quarter. In particular, the Group also achieved record high unit shipments in North America, which increased by 40 percent from a year ago. The Group consolidated a full quarter of sales performance of the NEC joint venture and Medion acquisition in fiscal quarter three. These two entities helped improve the Group's already strong shipments performance in Japan and Western Europe, which grew 231% and 59% respectively during the quarter.

Operating profit in Mature Markets also showed its record high level at US$109 million during the quarter and operating margin was 3.0 percent, an increase of 1.0 percentage point year-on-year. The Group was able to record operating profit for all regions in Mature Markets.

Performance of Product Groups

During the three months ended December 31, 2011, Lenovo recorded strong, balanced unit shipments growth in both commercial and consumer products. Lenovo's commercial PC unit shipments grew 21 percent year-on-year and its market share in the worldwide commercial PC market share increased by 3.2 percentage points from a year ago to 18.4 percent, according to preliminary industry estimates. Lenovo has become the number one global commercial PC company in fiscal quarter three. Think Product Group, which mainly targets commercial customers, launched the new Education Series ThinkPad X130e designed for students. Meanwhile, the Group's consumer PC business also recorded strong shipment growth of 71 percent year-on-year despite a flattish market growth and its market share in the worldwide consumer PC market was up 4.2 percentage points from the same corresponding period in last fiscal year to 10.3 percent this year. The Idea Product Group, which primarily focuses on the consumer and entry SMB products, launched the spectacularly slim IdeaPad U300s Ultrabook® and ultra-slim IdeaPad U400, designed for consumers who enjoy a sophisticated sense of style and functionality.

The Group's performance by product segment also recorded balanced strong growth. Unit shipments for the Group's notebook PCs and desktop PCs grew by 41 percent and 32 percent year-on-year, respectively, during fiscal quarter three. Lenovo's market share in the worldwide notebook PC market increased by 3.6 percentage points from a year ago to 13.2 percent, while its worldwide desktop PC market share increased by 4.1 percentage points from the same period in the last fiscal year to 15.2 percent, according to preliminary industry estimates. Lenovo become the largest global consumer desktop player and remained as the largest company in the global commercial notebook player in fiscal quarter three.

Lenovo's mobile business continued to record strong growth in the quarter from strong demand in mobile phone market in China. Total mobile phone unit shipments including feature phones and smartphones of the Group continued to grow strongly and outperform the market. The Group's smartphones especially the entry level smartphones such as A60 and P70 continued to capture strong growth momentum and grew about 20 times from the same period last year against the market growth of 1.8 times. Lenovo's market share in the China smartphone increased by 6.5 percentage points to record-high 7.5%. The Group's feature phone business also showed continuous strong growth of 26 percent against the market decline of 20 percent, and its market share in China's feature phone increased by 2.2 percentage points from a year ago to 7.4 percent. In addition, the Group rolled out tablet products to markets outside China during the quarter under review, and the Group's tablet business continued to show good momentum with unit shipments resulted with more than double quarter-to-quarter. Lenovo is the two tablet vendor in China according to the latest industry estimate.

Success at the recent Consumer Electronics Show

At the recent Consumer Electronics Show in Las Vegas, USA, Lenovo launched several award-winning products such as the IdeaPad Yoga notebook on Windows 8, the AIO 720 desktop, the Thinkpad X1 Hybrid notebook, and a wide range of innovative products in PCs and mobile internet, including the world's first Android based smart TV K91, helping Lenovo receive 23 awards and honors. The success at CES demonstrated Lenovo's innovation capability and that its 4-screen strategy to expand beyond PC is starting to yield returns. The Group will continue to invest in innovative products that will help drive the convergence of technologies and services across all four screens – smartphones, tablets, PCs and smart TV.

Outlook

Although challenges to worldwide PC demand remain, such as the pace of global economic recovery and the on-going debt crisis in Western Europe, and even HDDs supply shortage and cost increase, Lenovo remains optimistic that its growth momentum will continue. This optimism is based on our having of the right strategy at the right time in the market, innovative products, a strong culture, and a talented team to ensure continued solid strategy execution. The Group is fully committed to the PC industry and is strong where the market is strong. The Group will continue its successful "Protect and Attack" strategy in order to drive balanced, strong unit shipments growth, business scale expansion and profitability enhancement even with increased investments in innovation and branding.

The growth momentum in the China PC market will continue, maintaining its premium against the global PC market in coming quarters due to China's healthy economic growth, and the relatively low PC penetration rates in emerging cities. Lenovo will endeavor to further extend its PC market share lead at stable profitability. At the same time, the Group will continue to drive stronger growth in Emerging Markets (excluding China) under its attack strategy with an aim to capture market share and improve profitability as the Group expands its market share close to double-digits in key regions. Lenovo believes that growth in commercial PC demand will remain on track and the corporate PC refresh cycle will continue to drive growth in Mature Markets. Lenovo is well positioned to leverage this market trend given our unique commercial exposure. Meanwhile, the Group will continue to expand in the consumer and small-and-medium sized business space in the region supported by the new global branding campaign and through the integration of Medion. Nevertheless, the recent floods in Thailand and the impact on the global supply of HDDs will likely continue to affect the PC supply in fiscal quarter four. The Group will monitor the situation closely and take necessary actions to mitigate the potential impact.

The Group will continue to refine its business model and deliver efficient growth. Lenovo has announced a new geographic organizational structure. This new structure is effective in the new fiscal year and will create a more balanced geographic organization structure, improve end-to-end operational efficiency, and drive stronger growth. The new organizational structure will include four geographies, namely China, North America, EMEA, and Asia Pacific and Latin America, and each of them will be led by experienced, strong leaders.

The NEC joint venture and Medion acquisition have contributed to the Group after being consolidated into the Group's results in the past two quarters. Both are well on track with our plan. The Group, given its strong financial position, will continue to actively look for inorganic growth opportunities which will supplement its organic growth strategy to accelerate future expansion. Lenovo will build on the success by continuing to focus on scaling our growth and controlling costs, thereby enhancing its competitiveness.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended December 31, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the nine months ended December 31, 2011. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the nine months ended December 31, 2011, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the following deviations:

(i) under Code A.4.1 as disclosed in the 2010/11 annual report of the Company;

(ii) the then Chairman of the Board was unable to attend the Company's annual general meeting which was held on July 22, 2011 (as required under Code E.1.2) as he had an engagement that was important to the Company's business; and

(iii) under Code A.2.1 that Mr. Yang holds both the positions of Chairman and Chief Executive Officer of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang to hold both the positions as it helps to maintain the continuity of the policies and stability of the operations of the Company.

By Order of the Board
Yang Yuanqing
Chairman and
Chief Executive Officer

San Francisco, February 8, 2012

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