Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2007/08 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended June 30, 2007 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended June 30, 2007 (unaudited)** ***US$'000***	3 months ended June 30, 2006 (unaudited) *US$'000*
Sales	*2*	**3,926,500**	3,475,694
Cost of sales		**(3,341,823)**	(2,978,826)
Gross profit		**584,677**	496,868
Other income, net	*3*	**2,114**	5,533
Selling and distribution expenses		**(274,701)**	(312,322)
Administrative expenses		**(132,081)**	(99,004)
Research and development expenses		**(54,984)**	(51,301)
Other operating expenses		**(44,988)**	(21,503)
Operating profit		**80,037**	18,271
Finance income		**5,925**	4,418
Finance costs	*4*	**(8,034)**	(9,151)
Share of (losses)/profits of associated companies		**(6)**	1,306
Profit before taxation	*5*	**77,922**	14,844
Taxation	*6*	**(11,083)**	(9,638)
Profit for the period		**66,839**	5,206
Profit attributable to:			
Shareholders of the Company		**66,839**	5,206
Minority interests		**–**	–
		66,839	5,206
Earnings per share			
– Basic	*8(a)*	**US0.78 cents**	US0.06 cents
– Diluted	*8(b)*	**US0.74 cents**	US0.06 cents

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2007 (unaudited)** *US$'000*	March 31, 2007 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**340,806**	326,058
Prepaid lease payments		**5,862**	5,807
Construction-in-progress		**19,190**	20,438
Intangible assets		**1,864,910**	1,867,689
Investments in associated companies		**3,931**	3,908
Deferred tax assets		**125,428**	101,551
Available-for-sale financial assets		**52,859**	42,938
Other non-current assets		**25,534**	20,000
		2,438,520	2,388,389
Current assets			
Inventories		**374,038**	357,663
Trade receivables	*9(a)*	**875,213**	641,593
Notes receivable		**212,909**	190,857
Deposits, prepayments and other receivables		**820,443**	784,857
Tax recoverable		**22,041**	22,041
Cash and cash equivalents		**1,507,072**	1,063,716
		3,811,716	3,060,727
Total assets		**6,250,236**	5,449,116
Share capital	*11*	**28,624**	28,504
Reserves		**1,226,498**	1,105,028
Shareholders' funds		**1,255,122**	1,133,532
Minority interests		**744**	744
Total equity		**1,255,866**	1,134,276
Non-current liabilities	*12*	**825,035**	789,058
Current liabilities			
Trade payables	*9(b)*	**2,337,130**	1,977,206
Notes payable		**37,247**	49,154
Provisions, accruals and other payables	*10*	**1,597,994**	1,412,864
Tax payable		**87,024**	60,013
Short-term bank loans		**92,704**	18,028
Amount payable for marketing rights		**17,236**	8,517
		4,169,335	3,525,782
Total liabilities		**4,994,370**	4,314,840
Total equity and liabilities		**6,250,236**	5,449,116
Net current liabilities		**357,619**	465,055
Total assets less current liabilities		**2,080,901**	1,923,334

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
	US$'000	*US$'000*
Net cash generated from operating activities	**395,226**	33,191
Net cash used in investing activities	**(62,218)**	(36,800)
Net cash generated from/(used in) financing activities	**85,860**	(154,563)
Increase/(decrease) in cash and cash equivalents	**418,868**	(158,172)
Effect of foreign exchange rate changes	**24,488**	4,803
Cash and cash equivalents at the beginning of the period	**1,063,716**	1,004,981
Cash and cash equivalents at the end of the period	**1,507,072**	851,612

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	**Share premium**	**Convertible rights in respect of convertible preferred shares and warrants**	**Exchange reserve**	**Investment revaluation reserve**	**Share redemption reserve**	**Employee share trusts**	**Share-based compensation reserve**	**Retained earnings**	**Minority interests**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
At April 1, 2007	**28,504**	**1,042,579**	**45,979**	**(22,756)**	**15,078**	**497**	**(127,301)**	**51,420**	**99,532**	**744**	**1,134,276**
Fair value change on available-for-sale financial assets	-	-	-	-	**11,981**	-	-	-	-	-	**11,981**
Profit for the period	-	-	-	-	-	-	-	-	**66,839**	-	**66,839**
Exchange differences	-	-	-	**20,761**	-	-	-	-	-	-	**20,761**
Reserves realized on disposal of available-for-sale financial assets	-	-	-	-	**(1,886)**	-	-	-	-	-	**(1,886)**
Vesting of shares	-	-	-	-	-	-	**11,005**	**(11,005)**	-	-	-
Exercise of share options	**120**	**12,901**	-	-	-	-	-	-	-	-	**13,021**
Share-based compensation	-	-	-	-	-	-	-	**10,874**	-	-	**10,874**
At June 30, 2007	**28,624**	**1,055,480**	**45,979**	**(1,995)**	**25,173**	**497**	**(116,296)**	**51,289**	**166,371**	**744**	**1,255,866**

	Share capital	Share premium	Convertible rights in respect of convertible preferred shares	Exchange reserve	Investment revaluation reserve	Share redemption reserve	Employee share trusts	Share-based compensation reserve	Retained earnings/ (accumulated losses)	Minority interests	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At April 1, 2006	28,504	1,043,260	10,769	(3,313)	(3,579)	396	(51,043)	22,791	(3,882)	744	1,044,647
Fair value change on available-for-sale financial assets	–	–	–	–	(3,938)	–	–	–	–	–	(3,938)
Profit for the period	–	–	–	–	–	–	–	–	5,206	–	5,206
Exchange differences	–	–	–	(10,338)	–	–	–	–	–	–	(10,338)
Exercise of share options	8	810	–	–	–	–	–	–	–	–	818
Share-based compensation	–	–	–	–	–	–	–	6,727	–	–	6,727
Repurchase of shares	(50)	(4,608)	–	–	–	50	–	–	–	–	(4,608)
Contributions to employee share trusts	–	–	–	–	–	–	(30,263)	–	–	–	(30,263)
At June 30, 2006	28,462	1,039,462	10,769	(13,651)	(7,517)	446	(81,306)	29,518	1,324	744	1,008,251

Notes:

1. Basis of preparation

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

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

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

- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009

- HK(IFRIC) – Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 1, 2008

- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009

The adoption of the above standards, amendments and interpretations in future periods is not expected to result in substantial changes to the Group's accounting policies except that additional disclosures may be required.

2. Segment information

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

(a) Primary reporting format – geographical segments

The segment results for the three months ended June 30, 2007 are as follows:

	Americas (unaudited) *US$'000*	**Europe, Middle East and Africa (unaudited)** *US$'000*	**Asia Pacific (excluding Greater China) (unaudited)** *US$'000*	**Greater China (unaudited)** *US$'000*	**Corporate or unallocated (unaudited)** *US$'000*	**Total (unaudited)** *US$'000*
Sales	**1,148,847**	**754,506**	**496,117**	**1,527,030**	**-**	**3,926,500**
Segment operating results	**23,251**	**543**	**(14,993)**	**92,669**	**(23,547)**	**77,923**
Finance income						**5,925**
Finance costs						**(8,034)**
Gain on disposal of available-for-sale financial assets						**2,114**
Share of losses of associated companies						**(6)**
Profit before taxation						**77,922**
Taxation						**(11,083)**
Profit for the period						**66,839**

The segment results for the three months ended June 30, 2006 are as follows:

	Americas (unaudited) *US$'000*	Europe, Middle East and Africa (unaudited) *US$'000*	Asia Pacific (excluding Greater China) (unaudited) *US$'000*	Greater China (unaudited) *US$'000*	Corporate or unallocated (unaudited) *US$'000*	Total (unaudited) *US$'000*
Sales	1,014,174	661,766	460,590	1,339,164	–	3,475,694
Segment operating results	(24,148)	(4,809)	(11,801)	90,401	(36,905)	12,738
Finance income						4,418
Finance costs						(9,151)
Impairment of assets						(3,762)
Fair value change on warrants						9,340
Loss on disposal of available-for-sale financial assets						(45)
Share of profits of associated companies						1,306
Profit before taxation						14,844
Taxation						(9,638)
Profit for the period						5,206

(b) Secondary reporting format – business segments

	Personal computer Desktop	Personal computer Notebook	Personal computer Total	Mobile handset	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
For the three months ended June 30, 2007 (unaudited)						
Sales	**1,686,042**	**2,073,472**	**3,759,514**	**113,404**	**53,582**	**3,926,500**
Capital expenditure			**62,321**	**2,394**	**1,038**	**65,753**
For the three months ended June 30, 2006 (unaudited)						
Sales	1,453,846	1,793,963	3,247,809	173,702	54,183	3,475,694
Capital expenditure			30,689	1,641	512	32,842
Total segment assets as at June 30, 2007 (unaudited)			**4,390,257**	**74,301**	**25,738**	**4,490,296**
Total segment assets as at March 31, 2007 (audited)			3,938,006	91,757	45,237	4,075,000

3. Other income, net

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
	US$'000	*US$'000*
Impairment of assets	-	(3,762)
Fair value change on warrants	-	9,340
Gain/(loss) on disposal of investments and available-for-sale financial assets	**2,114**	(45)
	2,114	5,533

4. Finance costs

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**1,837**	3,218
Dividend and relevant finance costs on convertible preferred shares	**5,473**	5,455
Others	**724**	478
	8,034	9,151

5. Profit before taxation

Profit before taxation is stated charging the following:

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
	US$'000	*US$'000*
Amortization of intangible assets	**25,943**	25,653
Depreciation expenses and amortization of prepaid lease payments	**21,983**	16,261
Employee benefit costs (including amortization of share-based compensation of US$10,874,000 (2006: US$6,727,000)	**324,769**	231,386
Rental expenses under operating leases	**9,088**	10,433
Restructuring costs	**44,812**	19,396

6. Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2007 (unaudited) *US$'000*	3 months ended June 30, 2006 (unaudited) *US$'000*
Current taxation		
Hong Kong profits tax	**47**	47
Taxation outside Hong Kong	**34,723**	19,599
Deferred taxation	**(23,687)**	(10,008)
	11,083	9,638

7. Dividend

No dividend has been declared to the ordinary shareholders for the three months ended June 30, 2007 (2006: Nil).

8. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
Profit attributable to shareholders of the Company (US$'000)	**66,839**	5,206
Weighted average number of shares for the purpose of basic earnings per share	**8,571,997,414**	8,730,398,478

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: convertible preferred shares, share options, long-term incentive awards and warrants.

The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs.

For the share options and warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options and warrants.

For the long-term incentive awards, a calculation is done to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

	3 months ended June 30, 2007 (unaudited)	3 months ended June 30, 2006 (unaudited)
Profit attributable to shareholders of the Company (US$'000)	**66,839**	5,206
Interest expense on convertible preferred shares (US$'000)	**5,473**	–
Profit used to determine diluted earnings per share (US$'000)	**72,312**	5,206
Weighted average number of ordinary shares in issue	**8,571,997,414**	8,730,398,478
Adjustments for assumed conversion of convertible preferred shares	**1,001,834,862**	–
Adjustments for share options, long-term incentive awards and warrants	**236,817,848**	157,823,483
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**9,810,650,124**	8,888,221,961

9. Ageing analysis

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

	June 30, 2007 (unaudited) ***US$'000***	March 31, 2007 (audited) *US$'000*
0 – 30 days	**759,144**	532,247
31 – 60 days	**57,819**	69,188
61 – 90 days	**20,499**	14,816
Over 90 days	**37,751**	25,342
	875,213	641,593

Customers are generally granted credit terms of 30 days. Credit terms for customers of the systems integration business normally ranging from 30 days to 180 days.

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

	June 30, 2007 (unaudited) ***US$'000***	March 31, 2007 (audited) *US$'000*
0 – 30 days	**1,779,750**	1,484,771
31 – 60 days	**337,391**	298,943
61 – 90 days	**201,558**	178,380
Over 90 days	**18,431**	15,112
	2,337,130	1,977,206

10. Provisions, accruals and other payables

Included in provisions, accruals and other payables are warranty provision, restructuring costs provision and provisions for other liabilities and charges as follows:

		June 30, 2007 (unaudited) ***US$'000***	March 31, 2007 (audited) *US$'000*
(a)	Warranty		
	At the beginning of the period/year	**448,333**	326,124
	Provisions made during the period/year	**146,491**	410,356
	Amounts utilized	**(85,824)**	(288,147)
		509,000	448,333
	Long-term portion classified as non-current liabilities	**(188,721)**	(166,525)
	At the end of the period/year	**320,279**	281,808
(b)	Restructuring costs		
	At the beginning of the period/year	**5,645**	69,584
	Exchange adjustment	**214**	(460)
	Provisions made during the period/year	**33,803**	-
	Amounts utilized	**(1,370)**	(44,059)
	Unused amounts reversed	**-**	(19,420)
	At the end of the period/year	**38,292**	5,645
(c)	Battery recall		
	At the beginning of the period/year	**8,693**	-
	Provisions made during the period/year	**2,000**	23,750
	Amounts utilized	**(5,953)**	(15,057)
	At the end of the period/year	**4,740**	8,693

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

11. Share capital

	June 30, 2007 (unaudited) Number of shares	HK$'000	March 31, 2007 (audited) Number of shares	HK$'000
Authorized:				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	Number of shares	*US$'000*	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**8,517,981,022**	**27,301**	8,517,920,623	27,301
Exercise of share options	**37,296,000**	**120**	31,450,399	101
Repurchase of shares	**-**	**-**	(31,390,000)	(101)
At the end of the period/year	**8,555,277,022**	**27,421**	8,517,981,022	27,301
Non-voting ordinary shares:				
At the beginning and the end of the period/year	**375,282,756**	**1,203**	375,282,756	1,203
Total issued and fully paid ordinary shares	**8,930,559,778**	**28,624**	8,893,263,778	28,504
Total issued and fully paid series A cumulative convertible preferred shares	**2,730,000**	**3,211**	2,730,000	3,211

12. Non-current liabilities

	June 30, 2007 (unaudited) *US$'000*	March 31, 2007 (audited) *US$'000*
Amount payable for marketing rights	**16,801**	18,123
Interest-bearing bank loans repayable within five years	**100,000**	100,000
Share-based compensation	**11,014**	11,019
Convertible preferred shares	**318,896**	317,495
Warranty provision	**188,721**	166,525
Retirement benefit obligations	**102,657**	102,948
Other non-current liabilities	**86,946**	72,948
	825,035	789,058

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.

FINANCIAL REVIEW

Results

For the three months ended June 30, 2007, the Group achieved a turnover of approximately US$3,926 million. Profit attributable to shareholders was approximately US$67 million during the period, representing an increase of US$62 million against US$5 million recorded for the corresponding period of last year. Basic earnings per share and diluted earnings per share were US0.78 cents and US0.74 cents, representing an increase of US0.72 cents and US0.68 cents respectively as compared to the corresponding period of last year.

During the period, the Group announced a series of measures designed to enhance business performance and accelerate profitable growth. Profit attributable to shareholders of approximately US$67 million was stated after charging the restructuring costs of approximately US$45 million.

Segment Results

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

Capital Expenditure

The Group incurred capital expenditures of US$66 million during the three months ended June 30, 2007, mainly for the acquisition of fixed assets, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At June 30, 2007, total assets of the Group amounted to US$6,250 million, which was financed by shareholders' funds of US$1,255 million, minority interests of US$1 million, and non-current and current liabilities of US$4,994 million. The current ratio of the Group was 0.91.

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At June 30, 2007, cash and cash equivalents totaled US$1,507 million, of which 55.1 percent was denominated in US dollars, 28.7 percent in Renminbi, 2.8 percent in Euros, 2.4 percent in Japanese Yen, and 11 percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in its operations. At June 30, 2007, 55.9% of cash are deposit in banks and 44.1% 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. At June 30, 2007, the Group had a US$400 million 5-Year Revolving and Term Loan Facility with syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum; and a US$100 million 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US$100 million at June 30, 2007.

The Group has also arranged other short-term credit facilities. At June 30, 2007, the Group's total available credit facilities amounted to US$2,611 million, of which US$482 million was in trade lines, US$394 million in short-term and revolving money market facilities and US$1,735 million in foreign exchange forward contracts. At June 30, 2007, the amount drawn down was US$99 million in trade lines, US$814 million being used for the currency forward contracts and US$93 million in short-term bank loans.

At June 30, 2007, the Group's outstanding bank loan represented the term loan of US$100 million and short-term bank loans of US$93 million. When compared with total equity of US$1,256 million, the Group's gearing ratio was 0.15. The net cash position of the Group at June 30, 2007 is US$1,314 million.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2007, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US$814 million.

The Group's foreign exchange forward contracts are either used to hedge a percentage of future intercompany transactions which are highly probable, or used as fair value hedges for identified assets and liabilities. Any gain or loss on these contracts is offset by movements in the value of the underlying transactions or change in fair value of the identified assets or liabilities.

The Group issued 2,730,000 convertible preferred shares at the stated value of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated cash consideration of approximately US$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. The fair value of the liability component and equity component of the convertible preferred shares as at June 30, 2007 amounted to approximately US$319 million and US$11 million respectively. The warrants will expire on May 17, 2010.

Contingent Liabilities

The Group had no material contingent liabilities as at June 30, 2007.

Human Resources

At June 30, 2007, the Group had a total of approximately 25,120 employees, 19,315 of whom were employed in the Chinese mainland, 1,874 in the U.S. and 3,931 in other countries.

The Group's remuneration policies, bonus, share option schemes and long-term incentive program, are designed to adjust total remuneration according to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

BUSINESS REVIEW AND OUTLOOK

Lenovo reported solid financial results for the first fiscal quarter ended June 30, 2007. The Group recorded strong growth in PC unit shipments in all the geographies. The Group's consolidated turnover increased by 13 percent compared to the same period last year to approximately US$3,926 million. The gross margin for the quarter improved to 14.9 percent from 14.3 percent in Q1 2006/07, mostly driven by lower components costs. Profit before taxation (excluding the cost of strategic restructuring actions) increased 258 percent to approximately US$123 million. Profit attributable to shareholders increased more than tenfold to US$67 million, from US$5 million a year ago.

Personal Computer Business

During the three months ended June 30, 2007, Lenovo's worldwide PC shipments increased by approximately 22 percent year-on-year, faster than the industry average growth of 13 percent. Based on preliminary industry data, Lenovo ranked third in the worldwide PC market by unit shipments, and its market share increased by 0.7 percentage points to 8.3 percent year-on-year.

Lenovo continued to see strong performance in China. The Group's shipment growth increased 30 percent year-on-year, accounting for approximately 35.2 percent of the overall China PC market based on preliminary industry data for the quarter ended June 30, 2007. Amid keen competition in the market, Lenovo achieved this growth with good profitability as a result of effective execution of its dual business model.

Lenovo's business in the Americas also continued to show strong growth in the quarter after the turnaround shown in the last quarter. Unit shipments increased 15 percent compared to the same period last year. The growth was attributable to improved sales to large enterprises and new growth in the mid-market segment following the transition of sales coverage to Lenovo's own sales force. The roll-out of the transaction business model in the United States and Latin America also helped drive shipment growth. Similarly, the Group enjoyed strong year-on-year shipment growth of 22 percent in EMEA (Europe, Middle East and Africa) during the quarter. EMEA continued to benefit from the expanded roll-out of the transaction business model across the region. In the Asia Pacific region (excluding Greater China), Lenovo recorded year-on-year growth of 12 percent in shipments, driven by solid performance in India and the ASEAN countries where the Group continued to see success from the roll-out of transaction business model.

In terms of product segment, the Group's shipments in notebooks increased 26 percent year-on-year while desktop shipments grew 20 percent. Lenovo gained share in the worldwide desktop market and saw solid improvement in desktop profitability during the quarter, benefiting from the strategic focus to improve desktop competitiveness.

Mobile Handset Business

For the quarter ended June 30, 2007, Lenovo's mobile handset business reported only a slight increase in shipments due to keen market competition. Lenovo's mobile handsets held fourth place in the China market with 6.6 percent share. Lenovo's efforts to simplify its handset business model and improve efficiency affected the profitability of mobile handset business in the quarter. The Group has taken measures to further improve its product design and efficiency with an aim to improve the business in the near term.

Outlook

The Group believes the strategic initiatives adopted in the past years have already begun to deliver the expected results, but as Lenovo operates in an intensely competitive global marketplace, it must continue to focus on driving global operational excellence with its four key strategic initiatives going forward. Specifically, Lenovo will continue to roll out its transaction business model; to further enhance its global supply chain; to improve the competitiveness of its desktop business; and to increase brand awareness. Through leveraging its existing strengths in the PC market and actively pursuing market opportunities, Lenovo will strive to grow faster and more profitably than the industry by providing the best-engineered PCs and unequaled ownership experience for its customers.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the three months ended June 30, 2007.

CORPORATE GOVERNANCE

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 three months ended June 30, 2007, 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 as disclosed in the 2006/07 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the three months ended June 30, 2007. It meets regularly with the management, the external auditors and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

By order of the Board
Yang Yuanqing
Chairman

San Francisco, August 1, 2007

As of the date of this announcement, the Executive Directors are Mr. Yang Yuanqing and Mr. William J. Amelio, the Non-executive Directors are Mr. Liu Chuanzhi, Mr. Zhu Linan, Ms. Ma Xuezheng. Mr. James G. Coulter, Mr. William O. Grabe, Mr. Shan Weijian, Mr. Justin T. Chang (alternate Director to Mr. James G. Coulter), Mr. Vince Feng (alternate Director to Mr. William O. Grabe) and Mr. Daniel A. Carroll (alternate Director to Mr. Shan Weijian); and the Independent Non-executive Directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen and Mr. John W. Barter III.

"Please also refer to the published version of this announcement in the South China Morning Post."