Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2012/13 FIRST 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 three months ended June 30, 2012 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended June 30, 2012 (unaudited)** *US$'000*	3 months ended June 30, 2011 (unaudited) *US$'000*
Revenue	*2*	**8,009,696**	5,919,916
Cost of sales		**(7,050,813)**	(5,181,419)
Gross profit		**958,883**	738,497
Other loss - net	*3*	**(316)**	-
Selling and distribution expenses		**(445,901)**	(349,546)
Administrative expenses		**(193,684)**	(173,716)
Research and development expenses		**(135,441)**	(77,521)
Other operating expenses - net		**(1,717)**	(14,650)
Operating profit	*4*	**181,824**	123,064
Finance income	*5(a)*	**11,630**	8,932
Finance costs	*5(b)*	**(8,124)**	(8,196)
Share of losses of associates and jointly controlled entities		**(82)**	(307)
Profit before taxation		**185,248**	123,493
Taxation	*6*	**(40,812)**	(14,698)
Profit for the period		**144,436**	108,795
Profit attributable to:			
Equity holders of the Company		**141,367**	108,796
Non-controlling interests		**3,069**	(1)
		144,436	108,795
Earnings per share attributable to equity holders of the Company			
Basic	*7(a)*	**US 1.37 cents**	US 1.11 cents
Diluted	*7(b)*	**US 1.33 cents**	US 1.08 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2012 (unaudited) ***US$'000***	3 months ended June 30, 2011 (unaudited) *US$'000*
Profit for the period	**144,436**	108,795
Other comprehensive (loss)/income:		
Fair value change on available-for-sale financial assets, net of taxes	**(5,810)**	(17,146)
Fair value change on cash flow hedges		
- Interest rate swap contracts		
Fair value loss, net of taxes	**-**	(545)
Reclassified to consolidated income statement	**-**	476
- Forward foreign exchange contracts		
Fair value gain, net of taxes	**17,392**	32,163
Reclassified to consolidated income statement	**(17,982)**	(23,720)
Actuarial loss from defined benefit pension plans, net of taxes	**(324)**	-
Currency translation differences	**(48,626)**	9,155
	(55,350)	383
Total comprehensive income for the period	**89,086**	109,178
Total comprehensive income attributable to:		
Equity holders of the Company	**86,017**	109,179
Non-controlling interests	**3,069**	(1)
	89,086	109,178

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2012 (unaudited) *US$'000***	March 31, 2012 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**387,368**	392,474
Prepaid lease payments		**32,485**	13,552
Construction-in-progress		**122,414**	103,986
Intangible assets		**3,039,135**	3,091,205
Interests in associates and jointly controlled entities		**3,280**	3,410
Deferred income tax assets		**323,382**	332,493
Available-for-sale financial assets		**67,326**	71,946
Other non-current assets		**34,595**	31,282
		4,009,985	4,040,348
Current assets			
Inventories		**1,509,928**	1,218,494
Trade receivables	*8(a)*	**2,503,888**	2,354,909
Notes receivable		**605,331**	639,331
Derivative financial assets		**68,080**	62,883
Deposits, prepayments and other receivables	*9*	**3,241,074**	3,303,053
Income tax recoverable		**83,134**	70,406
Bank deposits		**203,555**	413,672
Cash and cash equivalents		**3,562,712**	3,757,652
		11,777,702	11,820,400
Total assets		**15,787,687**	15,860,748

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**June 30, 2012 (unaudited)** *US$'000*	March 31, 2012 (audited) *US$'000*
Share capital	*12*	**33,116**	33,131
Reserves		**2,410,694**	2,328,104
Equity attributable to owners of the Company		**2,443,810**	2,361,235
Non-controlling interests	*13*	**236,803**	86,734
Put option written on non-controlling interest	*11(c)*	**(212,900)**	-
Total equity		**2,467,713**	2,447,969
Non-current liabilities			
Warranty provision	*10(a)*	**285,553**	291,111
Deferred revenue		**391,216**	381,593
Retirement benefit obligations		**208,219**	204,818
Deferred income tax liabilities		**87,030**	83,594
Other non-current liabilities	*11*	**876,661**	641,986
		1,848,679	1,603,102
Current liabilities			
Trade payables	*8(b)*	**3,920,252**	4,050,272
Notes payable		**138,468**	127,315
Derivative financial liabilities		**55,553**	49,253
Provisions, accruals and other payables	*10*	**6,903,617**	7,074,196
Deferred revenue		**333,486**	310,159
Income tax payable		**78,611**	135,530
Bank borrowings		**41,308**	62,952
		11,471,295	11,809,677
Total liabilities		**13,319,974**	13,412,779
Total equity and liabilities		**15,787,687**	15,860,748
Net current assets		**306,407**	10,723
Total assets less current liabilities		**4,316,392**	4,051,071

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2012 (unaudited) ***US$'000***	3 months ended June 30, 2011 (unaudited) *US$'000*
Net cash (used in)/generated from operating activities	**(333,687)**	919,423
Net cash generated from/(used in) investing activities	**152,712**	(43,388)
Net cash generated from/(used in) financing activities	**11,168**	(8,536)
(Decrease)/increase in cash and cash equivalents	**(169,807)**	867,499
Effect of foreign exchange rate changes	**(25,133)**	20,415
Cash and cash equivalents at the beginning of the period	**3,757,652**	2,954,498
Cash and cash equivalents at the end of the period	**3,562,712**	3,842,412

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital (unaudited) *US$'000*	Share premium (unaudited) *US$'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$'000*	Put option written on non-controlling interest (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2012	**33,131**	**1,584,522**	**20,137**	**1,003**	**(27,858)**	**53,078**	**15,307**	**(48,248)**	**100,848**	**629,315**	**86,734**	**-**	**2,447,969**
Profit for the period	-	-	-	-	-	-	-	-	-	**141,367**	**3,069**	-	**144,436**
Other comprehensive (loss)/income	-	-	**(5,810)**	-	-	-	**(590)**	**(48,626)**	-	**(324)**	-	-	**(55,350)**
Total comprehensive (loss)/income for the period	-	-	**(5,810)**	-	-	-	**(590)**	**(48,626)**	-	**141,043**	**3,069**	-	**89,086**
Contribution from non-controlling interest (Note 13)	-	-	-	-	-	-	-	-	-	-	**147,000**	-	**147,000**
Put option written on non-controlling interest (Note 11(c))	-	-	-	-	-	-	-	-	-	-	-	**(212,900)**	**(212,900)**
Transfer to statutory reserve	-	-	-	-	-	-	-	-	**164**	**(164)**	-	-	-
Exercise of share options	**11**	**1,043**	-	-	-	-	-	-	-	-	-	-	**1,054**
Repurchase of shares	**(26)**	**(6,607)**	-	**26**	-	-	-	-	-	-	-	-	**(6,607)**
Vesting of shares under long-term incentive program	-	-	-	-	**12,081**	**(19,761)**	-	-	-	-	-	-	**(7,680)**
Share-based compensation	-	-	-	-	-	**20,426**	-	-	-	-	-	-	**20,426**
Contribution to employee share trust	-	-	-	-	**(10,635)**	-	-	-	-	-	-	-	**(10,635)**
At June 30, 2012	**33,116**	**1,578,958**	**14,327**	**1,029**	**(26,412)**	**53,743**	**14,717**	**(96,874)**	**101,012**	**770,194**	**236,803**	**(212,900)**	**2,467,713**
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	-	-	-	-	-	-	-	-	-	108,796	(1)	-	108,795
Other comprehensive (loss)/income	-	-	(17,146)	-	-	-	8,374	9,155	-	-	-	-	383
Total comprehensive (loss)/income for the period	-	-	(17,146)	-	-	-	8,374	9,155	-	108,796	(1)	-	109,178
Transfer to statutory reserve	-	-	-	-	-	-	-	-	5,274	(5,274)	-	-	-
Exercise of share options	13	1,543	-	-	-	-	-	-	-	-	-	-	1,556
Vesting of shares under long-term incentive program	-	-	-	-	8,053	(10,200)	-	-	-	-	-	-	(2,147)
Share-based compensation	-	-	-	-	-	17,176	-	-	-	-	-	-	17,176
At June 30, 2011	31,954	1,379,072	39,328	1,003	(68,057)	70,256	(10,209)	7,632	63,510	445,996	178	-	1,960,663

Notes

1 Basis of preparation

The financial information presented above and notes thereto are 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 Amendments to HKFRS 7 "Financial instruments: Disclosures – Transfers to financial assets" that is mandatory for the year ending March 31, 2013 and considered appropriate and relevant to its operations.

The adoption of this newly effective amendment 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, 2013 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 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	January 1, 2013

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

2 Segment information

The Group announced a new organizational structure that became effective in April 2012 with the creation of new reporting business units based upon geographic efficiencies, cost savings and customer value, namely China, Asia-Pacific/Latin America ("APLA"), Europe-Middle East-Africa ("EMEA") and North America. The Group's original market structure had achieved rapid business growth through the alignment of its strategic direction and business acquisition. The new geographical structure is created in recognition that the Group's continued success depends on staying as close to its customers as possible, and will help ensuring the Group remains in the strongest position to execute its worldwide strategy going forward.

In addition to the adoption of the new structure, the Group reviewed the shared segment expenses and identified those costs that are more geographic oriented, and with effect from the current fiscal year, the cost allocation was changed from a flat rate basis with reference to revenue contribution to a combination of actual usage and revenue contribution basis. The new basis provides a better reflection of the segment operating results for management's assessment of the business. The comparative segment information has been reclassified to conform to the presentation of the current organizational structure and allocation basis.

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 geographical perspective. The Group has four geographical segments, China, APLA, EMEA and North America, 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 segment assets and liabilities presented below is primarily based on the geographical location of the entities or operations 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 segment.

(a) Segment revenue and adjusted pre-tax income/(loss) for reportable segments

	3 months ended June 30, 2012		3 months ended June 30, 2011	
	Revenue from external customers	**Adjusted pre-tax income**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**3,520,226**	**169,771**	2,835,724	162,382
APLA	**1,724,806**	**256**	1,001,489	(3,791)
EMEA	**1,584,170**	**22,542**	977,717	3,500
North America	**1,180,494**	**45,713**	1,104,986	51,601
Segment total	**8,009,696**	**238,282**	5,919,916	213,692
Unallocated:				
Headquarters and corporate expenses		**(58,801)**		(93,515)
Restructuring costs		**(9)**		767
Finance income		**9,866**		6,580
Finance costs		**(3,692)**		(3,724)
Net loss on disposal of an available-for-sale financial asset		**(316)**		-
Share of losses of associates and jointly controlled entities		**(82)**		(307)
		185,248		123,493

(b) Segment assets for reportable segments

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
China	**4,752,878**	4,580,746
APLA	**2,932,304**	3,036,960
EMEA	**2,030,469**	2,096,253
North America	**908,084**	786,670
Segment assets for reportable segments	**10,623,735**	10,500,629
Unallocated:		
Deferred income tax assets	**323,382**	332,493
Derivative financial assets	**68,080**	62,883
Available-for-sale financial assets	**67,326**	71,946
Interests in associates and jointly controlled entities	**3,280**	3,410
Unallocated bank deposits and cash and cash equivalents	**1,839,796**	2,291,250
Unallocated inventories	**443,218**	356,677
Unallocated deposits, prepayments and other receivables	**2,262,668**	2,130,468
Income tax recoverable	**83,134**	70,406
Other unallocated assets	**73,068**	40,586
Total assets per consolidated balance sheet	**15,787,687**	15,860,748

(c) Segment liabilities for reportable segments

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
China	**4,071,199**	4,063,257
APLA	**2,037,693**	2,092,914
EMEA	**1,146,383**	1,284,035
North America	**897,274**	888,180
Segment liabilities for reportable segments	**8,152,549**	8,328,386
Unallocated:		
Income tax payable	**78,611**	135,530
Deferred income tax liabilities	**87,030**	83,594
Derivative financial liabilities	**55,553**	49,253
Unallocated trade payables	**2,495,578**	2,588,493
Unallocated provisions, accruals and other payables	**2,146,647**	2,184,659
Unallocated other non-current liabilities	**237,192**	1,032
Other unallocated liabilities	**66,814**	41,832
Total liabilities per consolidated balance sheet	**13,319,974**	13,412,779

(d) Analysis of revenue by significant category

Revenue from external customers are mainly derived from the sale of personal computer products and services. Breakdown of revenue is as follows:

	3 months ended June 30, 2012	3 months ended June 30, 2011
	US$'000	*US$'000*
Sale of personal technology products and services		
– desktop computer	**2,544,963**	2,023,021
– notebook computer	**4,333,495**	3,536,533
– mobile internet and digital home	**587,416**	215,202
– others	**261,409**	145,160
Sale of other goods and services	**282,413**	-
	8,009,696	5,919,916

(e) Other segment information

	China		APLA		EMEA		North America		Total	
For the three months ended June 30	**2012** ***US$'000***	2011 *US$'000*	**2012** ***US$'000***	2011 *US$'000*	**2012** ***US$'000***	2011 *US$'000*	**2012** ***US$'000***	2011 *US$'000*	**2012** ***US$'000***	2011 *US$'000*
Depreciation and amortization	**20,381**	17,152	**10,678**	6,141	**9,652**	6,940	**6,821**	7,329	**47,532**	37,562
Finance income	**649**	576	**791**	1,760	**324**	16	**-**	-	**1,764**	2,352
Finance costs	**164**	-	**1,488**	867	**1,828**	2,757	**952**	848	**4,432**	4,472
Additions to non-current assets *	**7,952**	12,918	**5,892**	2,382	**2,137**	790	**3,077**	1,853	**19,058**	17,943

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$2,719 million (March 31, 2012: US$2,736 million). As explained in Note 2, the Group underwent an organizational structure change under which these intangible assets have been reallocated to the cash-generating units affected using a relative value approach in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2012

	China *US$ million*	APLA *US$ million*	North America *US$ million*	EMEA *US$ million*	Total *US$ million*
Goodwill	1,092	771	158	252	2,273
Trademarks and trade names	209	68	58	111	446

At March 31, 2012

	China *US$ million*	REM * *US$ million*	North America *US$ million*	West Europe *US$ million*	Japan, Australia, New Zealand *US$ million*	Total *US$ million*
Goodwill	1,101	167	160	242	611	2,281
Trademarks and trade names	209	64	58	110	14	455

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

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at June 30, 2012 (March 31, 2012: Nil).

3 Other loss – net

	3 months ended June 30, 2012 ***US$'000***	3 months ended June 30, 2011 *US$'000*
Net loss on disposal of an available-for-sale financial asset	**316**	-

4 Operating profit

Operating profit is stated after charging the following:

	3 months ended June 30, 2012 ***US$'000***	3 months ended June 30, 2011 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**20,086**	17,332
Amortization of intangible assets	**27,446**	20,230
Employee benefit costs, including	**540,501**	411,378
- long-term incentive awards	***20,426***	*17,176*
Rental expenses under operating leases	**17,134**	12,650

5 Finance income and costs

(a) Finance income

	3 months ended June 30, 2012 ***US$'000***	3 months ended June 30, 2011 *US$'000*
Interest on bank deposits	**9,543**	8,159
Interest on money market funds	**630**	635
Others	**1,457**	138
	11,630	8,932

(b) Finance costs

	3 months ended June 30, 2012 ***US$'000***	3 months ended June 30, 2011 *US$'000*
Interest on bank loans and overdrafts	**100**	1,915
Factoring cost	**3,985**	4,690
Commitment fee	**1,709**	1,591
Interest on contingent considerations and put option liability	**2,111**	-
Others	**219**	-
	8,124	8,196

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2012 ***US$'000***	3 months ended June 30, 2011 *US$'000*
Current taxation		
Hong Kong profits tax	**26**	57
Taxation outside Hong Kong	**23,511**	28,665
Deferred taxation	**17,275**	(14,024)
	40,812	14,698

Hong Kong profits tax has been provided for at the rate of 16.5% (2011/12: 16.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 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 after adjusting shares held by employee share trusts and consideration shares in respect of business combination activities.

	3 months ended June 30, 2012	3 months ended June 30, 2011
Weighted average number of ordinary shares in issue	**10,336,907,914**	9,966,948,380
Adjustment for shares held by employee share trusts	**(59,062,749)**	(165,662,192)
Adjustment for consideration shares in respect of business combination activities	**57,560,317**	-
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,335,405,482**	9,801,286,188
	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**141,367**	108,796

Adjustments for the weighted average number of ordinary shares in issue are as follows:

- The shares of the Company held by the employee share trusts are for the purposes of awarding shares to eligible employees under the long term incentive program.
- 57,560,317 shares of the Company, representing the consideration shares in respect of the acquisition of Medion AG ("Medion") which serve as security for any potential damages and are to be issued to the seller as deferred consideration within an 18-month period after completion.

(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 June 30, 2012	3 months ended June 30, 2011
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**10,335,405,482**	9,801,286,188
Adjustments for share options and long-term incentive awards	**270,399,284**	248,645,822
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,605,804,766**	10,049,932,010
	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**141,367**	108,796

Adjustments for the dilutive potential ordinary shares are as follows:

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

8 Ageing analysis

(a) Customers are generally granted credit term ranging from 0 to 120 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
0 – 30 days	**1,531,657**	1,504,488
31 – 60 days	**665,719**	642,754
61 – 90 days	**197,592**	112,871
Over 90 days	**137,435**	124,193
	2,532,403	2,384,306
Less: provision for impairment	**(28,515)**	(29,397)
Trade receivables – net	**2,503,888**	2,354,909

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

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
0 – 30 days	**2,326,067**	2,543,626
31 – 60 days	**1,013,720**	1,025,131
61 – 90 days	**407,771**	307,223
Over 90 days	**172,694**	174,292
	3,920,252	4,050,272

9 Deposits, prepayments and other receivables

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

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
Deposits	**967**	884
Other receivables (a)	**2,507,755**	2,442,656
Prepayments (b)	**732,352**	859,513
	3,241,074	3,303,053

(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$205 million as at June 30, 2012 (March 31, 2012: US$392 million) are included in prepayments.

10 Provisions, accruals and other payables

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

	June 30, 2012	March 31, 2012
	US$'000	*US$'000*
Provisions (a)	**728,978**	725,062
Accruals	**1,051,009**	1,146,665
Allowance for billing adjustments (b)	**1,730,974**	1,753,910
Other payables (c)	**3,392,656**	3,448,559
	6,903,617	7,074,196

(a) The components of provisions are as follows:

	Warranty	**Restructuring**	**Environmental restoration**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Year ended March 31, 2012				
At the beginning of the year	694,723	8,419	14,994	718,136
Exchange adjustment	8,835	(564)	(1,699)	6,572
Provisions made	771,391	-	10,573	781,964
Amounts utilized	(615,684)	(4,761)	(5,085)	(625,530)
Unused amounts reversed	(1,286)	(2,861)	(870)	(5,017)
Acquisition of subsidiaries	155,885	-	68,039	223,924
	1,013,864	233	85,952	1,100,049
Long-term portion classified as non-current liabilities	(291,111)	-	(83,876)	(374,987)
At the end of the year	722,753	233	2,076	725,062
Period ended June 30, 2012				
At the beginning of the period	**1,013,864**	**233**	**85,952**	**1,100,049**
Exchange adjustment	**(11,426)**	**(12)**	**1,350**	**(10,088)**
Provisions made	**198,428**	**-**	**3,308**	**201,736**
Amounts utilized	**(180,836)**	**(60)**	**(1,411)**	**(182,307)**
Unused amounts reversed	**(7,390)**	**(46)**	**(329)**	**(7,765)**
	1,012,640	**115**	**88,870**	**1,101,625**
Long-term portion classified as non-current liabilities	**(285,553)**	**-**	**(87,094)**	**(372,647)**
At the end of the period	**727,087**	**115**	**1,776**	**728,978**

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 protection, 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.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	June 30, 2012 *US$'000*	March 31, 2012 *US$'000*
Contingent considerations (a)	**421,486**	428,915
Guaranteed dividend to non-controlling shareholders of a subsidiary (b)	**28,891**	31,015
Environmental restoration (Note 10 (a))	**87,094**	83,876
Written put option liability (c)	**213,400**	-
Others	**125,790**	98,180
	876,661	641,986

(a) Pursuant to the business combinations of the joint venture with NEC ("NEC JV") and Medion, the Group is required to pay in cash to the respective shareholders of NEC JV and Medion contingent consideration with reference to certain performance indicators. Accordingly, a non-current liability in respect of the present value of contingent considerations has been recognized. The contingent considerations shall be re-measured at their fair values resulting from the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. The potential undiscounted amounts of all future payments that the Group could be required to make under the arrangements are between US$0 and US$325 million for NEC JV; and between EUR89 million and EUR372 million for Medion.

(b) Following the acquisition of Medion, Lenovo Germany Holding GmbH ("Lenovo Germany"), an indirect wholly-owned subsidiary of the Company and the immediate holding company of Medion entered into a domination and profit and loss transfer agreement (the "Domination Agreement") with Medion. Pursuant to the Domination Agreement, Lenovo Germany has guaranteed to the non-controlling shareholders of Medion an annual guaranteed pre-tax dividend for each fiscal year amounting to EUR0.82 per share. The Domination Agreement became effective on January 3, 2012 and is terminable by either Lenovo Germany or Medion after March 31, 2017. Accordingly, a non-current liability in respect of future guaranteed dividend has been recognized.

(c) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US$750 million.

The financial liability that may become payable under the put option is initially recognized at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest.

The put option liability shall be re-measured at its fair value resulting from the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the put option expires unexercised, the liability will be derecognized with a corresponding adjustment to equity.

12 Share capital

	June 30, 2012		March 31, 2012	
	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
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**10,335,612,596**	**33,131**	9,965,161,897	31,941
Issue of ordinary shares	**-**	**-**	338,689,699	1,088
Exercise of share options	**3,386,000**	**11**	31,761,000	102
Repurchase of shares	**(8,010,000)**	**(26)**	-	-
At the end of the period/year	**10,330,988,596**	**33,116**	10,335,612,596	33,131

During the period ended June 30, 2012, the Company has repurchased a total of 8,010,000 of its shares with an aggregate cash payment of HK$51,277,680 (including transaction costs of HK$145,940) on the Hong Kong Stock Exchange. 4,800,000 shares were cancelled by June 30, 2012 and the remaining 3,210,000 shares were cancelled in July 2012.

13 Non-controlling interests

Pursuant to the joint venture agreement as disclosed in Note 11(c), US$100 million in respect of the first phase capital contribution has been injected into the JV Co by the Company and Compal in accordance with their equity interests of 51% and 49% respectively. The second phase capital contribution of US$200 million will be due on September 30, 2012. A receivable in relation to Compal's pending second phase capital contribution of US$98 million was recognized within other receivables with a corresponding credit to non-controlling interests in equity.

FINANCIAL REVIEW

Results

For the period ended June 30, 2012, the Group achieved total sales of approximately US$8,010 million. Profit attributable to equity holders for the period was approximately US$141 million, representing an increase of US$33 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.5 percentage point down from 12.5 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US1.37 cents and US1.33 cents, representing an increase of US0.26 cent and US0.25 cent respectively as compared with the corresponding period of last year.

The Group adopts geographical segments as the reporting format. Geographical segments comprise China, APLA, EMEA and North America. Analyses of sales by segment are set out in Business Review and Outlook below.

For the period ended June 30, 2012, overall operating expenses across the board increased when compared to the corresponding period of last year as the current period includes NEC JV and Medion. Employee benefit costs increased by 31 percent as compared to the corresponding period of last year due to increased headcount and performance-driven incentive payments. Branding and promotional expenses increased by 17 percent as compared to the corresponding period of last year as a result of the new product launch.

Further analyses of income and expense by function for the period ended June 30, 2012 are set out below:

Other loss – net

Other loss represents the net loss on disposal of an available-for-sale financial asset.

Selling and distribution expenses

Selling and distribution expenses for the period increased by 28 percent as compared to the corresponding period of last year. This is principally attributable to a US$26 million increase in promotional, branding and marketing activities and a US$41 million increase in employee benefit costs.

Administrative expenses

Administrative expenses for the period increased by 11 percent as compared to the corresponding period of last year. This is mainly attributable to a US$22 million increase in employee benefit costs and a US$8 million increase in depreciation and amortization expenses. The increase is partly offset by a decrease in legal and professional fees of US$6 million and a decrease in contracted service expense of US$2 million.

Research and development expenses

Research and development spending for the period increased by 75 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$25 million, and an increase in R&D supplies & laboratory expenses of US$22 million.

Other operating expenses - net

Net other operating expenses for the period decreased by US$13 million as compared to the corresponding period of last year. The net other operating expense for the period comprises a US$14 million net exchange loss, netted with subsidy income of US$22 million; and other miscellaneous expenses.

The net other operating expense in the corresponding period of last year represented mainly a one-off license fee of US$23 million, netted with a net exchange gain of US$7 million.

Capital Expenditure

The Group incurred capital expenditure of US$67 million (2011/12: US$40 million) during the period ended June 30, 2012, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At June 30, 2012, total assets of the Group amounted to US$15,788 million (March 31, 2012: US$15,861 million), which were financed by equity attributable to owners of the Company of US$2,444 million (March 31, 2012: US$2,361 million), non-controlling interests (net of put option written on non-controlling interest) of US$24 million (March 31, 2012: US$87 million), and total liabilities of US$13,320 million (March 31, 2012: US$13,413 million). At June 30, 2012, the current ratio of the Group was 1.03 (March 31, 2012: 1.00).

The Group had a solid financial position. At June 30, 2012, bank deposits, cash and cash equivalents totaled US$3,766 million (March 31, 2012: US$4,171 million), of which 48.3 (March 31, 2012: 56.9) percent was denominated in US dollars, 38.5 (March 31, 2012: 27.6) percent in Renminbi, 5.1 (March 31, 2012: 7.7) percent in Euros, 4.3 (March 31, 2012: 3.5) percent in Japanese Yen, and 3.8 (March 31, 2012: 4.3) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2012, 73.7 (March 31, 2012: 74.2) percent of cash are bank deposits, and 26.3 (March 31, 2012: 25.8) 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 entered into a 5-Year loan facility agreement with a bank of US$300 million on July 17, 2009. The facility has not been utilized as at June 30, 2012 (March 31, 2012: Nil).

In addition, the Group entered into another 5-Year loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility has not been utilized as at June 30, 2012 (March 31, 2012: Nil).

The Group has also arranged other short-term credit facilities. At June 30, 2012, the Group's total available credit facilities amounted to US$6,891 million (March 31, 2012: US$6,642 million), of which US$360 million (March 31, 2012: US$362 million) was in trade lines, US$520 million (March 31, 2012: US$521 million) in short-term and revolving money market facilities and US$6,011 million (March 31, 2012: US$5,759 million) in forward foreign exchange contracts. At June 30, 2012, the amounts drawn down were US$214 million (March 31, 2012: US$220 million) in trade lines, US$5,522 million (March 31, 2012: US$4,720 million) being used for the forward foreign exchange contracts; and US$41 million (March 31, 2012: US$63 million) in short-term bank loans.

At June 30, 2012, the Group's outstanding bank loans represented the short-term bank loans of US$41 million (March 31, 2012: US$63 million). When compared with total equity of US$2,468 million (March 31, 2012: US$2,448 million), the Group's gearing ratio was 0.02 (March 31, 2012: 0.03). The net cash position of the Group at June 30, 2012 is US$3,725 million (March 31, 2012: US$4,108 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 June 30, 2012, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$5,522 million (March 31, 2012: US$4,720 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 FUTURE PROSPECTS

Business Review

During the three months ended June 30, 2012, worldwide PC market unit shipments declined two percent year-on-year, according to preliminary industry estimates, largely due to slower global economic conditions. The Group continued its clear strategy to protect China and commercial business, and attack emerging markets, consumer and MIDH sales. The robust growth in consumer, emerging markets, and MIDH business helped deliver balanced performance, enabling the Group to deliver strong growth across the board during the period under review.

During the period under review, the Group continued to outgrow the markets. According to the preliminary industry estimate, the Group's PC shipments grew 24 percent year-on-year to 12.8 million units. It was the 13th straight quarter that Lenovo outgrew the global PC market, and the 11th straight quarter as the fastest growing major PC company. In fiscal quarter one, the Group's global market share grew 3.1 percentage points year-on-year to record-high 15 percent. It continued to solidify its position as the world's number two PC maker and further close the gap in market share with the industry leader. Lenovo's robust results were seen across all segments. For the quarter under review, the Group recaptured the position as the largest commercial notebook company and largest consumer desktop company in the world and remained the second largest commercial PC company and third largest consumer PC company worldwide.

Stepping into new fiscal year, Lenovo has evolved its organizational structure from three go-to-market geographic organizations – Mature Markets, Emerging Markets, and China – to four new stronger, faster, and more focused geographic regions – China, Asia Pacific/Latin America (APLA), North America and Europe-Middle East-Africa (EMEA). The four new geographies are led by strong leaders to enable more flexible, locally-focused tactics and enhance end-to-end efficiency.

During the period under review, Lenovo continued to lead its PC to PC+ strategy through its devoted efforts in developing businesses in the mobile internet area operated under the Group's Mobile Internet and Digital Home (MIDH) Group. The business has shown good progress across its smartphone-led mobile phone, tablet as well as newly-entered Smart TV products. MIDH achieved a milestone performance in smartphone sales, as well gaining momentum and ramping up for the rest of its MIDH products.

For the three months ended June 30, 2012, the Group's consolidated revenue increased by 35 percent year-on-year to US$8,010 million. Under the personal technology products and services, revenue of the Group's PC and related business were US$7,141 million, representing a year-on-year increase of 25 percent; while the revenue of MIDH business, which was largely from mobile phone revenue in China, increased robustly by 173 percent year-on-year to US$587 million driven by the Group's effective PC+ strategy. Meanwhile, revenue of other goods and services were US$282 million.

The Group stayed focused on the balance between growth and profitability. The Group's gross profit increased by 30 percent year-on-year to US$959 million and gross margin was at 12 percent. Operating expenses increased by 26 percent year-on-year to US$777 million, with an expenses-to-revenue ratio of 9.7 percent. The Group's profit before taxation grew 50 percent year-on-year to US$185 million and its profit attributable to equity holders of the company amounted US$141 million, representing an increase of 30 percent year-on-year.

Performance of Geographies

During the three months ended June 30, 2012, Lenovo achieved strong performance in all its newly evolved geographies where it has operations and continued to be the largest PC company in global emerging markets.

China

China accounted for 44 percent of the Group's total revenue. Driven by the solid execution of the strategy to become a leading PC+ company, it recorded balanced, strong growth for both its PC and MIDH businesses fiscal quarter one.

Through solid execution of the strategy in China to protect mature cities and attack the high-growth emerging smaller cities and rural areas, the Group's PC business continued to outperform in China and further extended its leadership through share gain. Lenovo's unit shipments in China grew 9 percent year-on-year for the fiscal quarter one and its market share increased by 3.9 percentage points year-on-year to 35.2 percent, according to industry estimates. This growth came despite the China PC market experienced a decline of 3 percent year-on-year, due to softer economic growth in the region impacted by slower global economic conditions.

Leveraging on our strong consumer presence and market leadership in China, Lenovo continued to expand its MIDH business in China by rolling out a wide range of new smartphones and tablet products. Lenovo has become the second largest company in the China mobile phone and smartphone markets in June and its tablet products continued to lead in the Android market in China. These new MIDH products achieved a strong start, laying a solid foundation for the Group's initiatives to tap the growth opportunity in China's mobile internet arena.

The Group recorded a 24 percent year-on-year growth in revenue for its overall China business, out of which its MIDH business grew robustly at 155 percent year-on-year. The Group continued to invest in its mobile internet business during the year, with its operating profit in China growing to US$170 million during fiscal quarter one with an operating margin of 4.8 percent. Operating margin for China PC business remained stable at 6.5 percent.

Asia Pacific/Latin America (APLA)

Asia Pacific/Latin America (APLA) accounted for 21 percent of the Group's total revenue.

The Group's unit shipments grew robustly by 59 percent year-on-year, against an overall market decline of 4 percent. Its market share increased by a substantial 4.4 percentage points year-on-year to a record-high of 11.0 percent, according to industry estimates. The Group recorded milestone achievements in key markets under APLA regions. Lenovo gained substantial market share to reach a record-high of 17.1 percent in India, remaining the number one PC company, and continued to be the largest PC company in Japan with 25.4 percent market share.

As the first step in a bold, long-term plan to encompass both organic and inorganic growth strategies, the Group announced in July to build a new manufacturing and distribution center in Itu, Sao Paulo, Brazil that will produce and deliver a full range of commercial and consumer PCs for customers in the country. The new facility is scheduled to begin operations in December 2012. The new hub is aimed to speed up the market expansion in this world's third largest PC market, while providing better end-to-end efficiency and cost structure, and strengthening its ability to deliver innovative products in Brazil with faster time-to-market and delivery times.

APLA was profitable in fiscal quarter one, against an operating loss of US$4 million recorded in the same quarter previous fiscal year.

Europe-Middle East-Africa (EMEA)

Europe-Middle East-Africa (EMEA) accounted for 20 percent of the Group's total revenue.

The Group recorded strong unit shipments growth and share gains, driven by solid execution of clear strategy. According to industry estimates, the Group's unit shipments grew 62 percent year-on-year, about 7 times the overall market growth of 9 percent. Lenovo's market share increased by 2.9 percentage points year-on-year to a record-high of 8.7 percent. Particularly strong performance was seen in Russia and the Commonwealth of Independent States (RUCIS), Middle East and Africa (MEA) and Eastern Europe and Turkey (EET) regions. The Group has almost doubled its unit shipments in RUCIS, and grew its unit shipments in MEA by 87 percent year-on-year, while its unit shipment in EET also grew 29 percent year-on-year. The better scaling benefit achieved in EET has enabled it to turn profitable for the first time in the region. The Group will continue to attack in the consumer space in the region through an updated retail strategy and then roll out the same execution and strategy into more countries to further expand its business scale and profitability.

Lenovo recorded an operating profit in EMEA of US$23 million during fiscal quarter one with an operating profit margin of 1.4 percent, against an operating profit of US$4 million and operating profit margin of 0.4 percent in the same quarter previous fiscal year.

North America

North America accounted for 15 percent of the Group's total revenue.

The improved balance between commercial and consumer business through retail expansion and branding efforts enabled the Group to continue to deliver strong growth in North America during the fiscal period under review. The Group's unit shipments in the region grew 9 percent, against an overall market decline of 10 percent. According to preliminary industry estimates, its market share reached a record high level of 8.4 percent, an increase of 1.5 percentage points year-on-year, enabling the Group to recapture the number four position in both the North America and U.S. PC markets.

Operating profit in North America was US$46 million during the fiscal quarter one with an operating profit margin of 3.9 percent, against an operating profit of US$52 million and an operating profit margin of 4.7 percent the same quarter previous year as the Group continued to invest in the consumer business and adjust its product mix. The Group's operating profit for the region showed substantial improvement quarter-on-quarter, compared with operating profit of US$33 million and operating profit margin of 3.1 percent in quarter four of fiscal year 2011/12.

Performance of Product Groups

During the three months ended June 30, 2012, Lenovo achieved strong and balanced unit shipments growth in both commercial and consumer PC products, as well as in both desktop and notebook PC products. The Group continued to achieve encouraging performance for its MIDH Group which has a wide range of products including smartphones, feature phones, tablets, and Smart TV.

Think Product Group

The performance of the Think Product Group, which mainly targets commercial customers, continued to show solid growth outperforming the market through the Group's clear strategy. The Group leveraged its unique, dual-business model which serves global, large enterprise customers through its relationship model, as well as SMB through its transaction model. According to industry estimates, Lenovo's commercial PC unit shipments grew 13 percent year-on-year and its market share in the worldwide commercial PC market increased by 2.9 percentage points year-on-year to record-high 18.5 percent during the fiscal quarter one.

Lenovo offers a wide range of commercial desktops and notebooks to businesses of all sizes that feature cutting-edge technology, customer-centric innovation and powerful productivity features. During the period under review, the Group launched ThinkPad X1 Carbon, the world's lightest 14" Ultrabook™, with carbon fiber materials that adds to the machine with structural strength and durability while minimizing weight. The Group has also launched ThinkCentre M92p Tiny, which has a very slim volume of only one-liter, while offering legendary performance, highly energy-efficient design, and with nearly silent operation that make it ideal for office or professional environment.

Idea Product Group

The Idea Product Group, which primarily focuses on consumer products, was propelled by continued strong growth of the consumer PC segment in China and expansion of consumer business in other markets by leveraging the Group's attack strategy of retail development and continued branding efforts. According to industry estimates, Lenovo's consumer PC unit shipments grew 43 percent year-on-year and its market share increased by 3.5 percentage points year-on-year to a record-high 12.1 percent for the three months ended June 30, 2012.

During the period under review, Lenovo launched a number of innovative Idea brand products including the IdeaCentre A720, an all-in-one desktop product with a 27-inch, distinctive 10-point multitouch screen, which allows users to view from angles varying from -5 degrees to 90 degrees. The Group has also broadened its Ultrabook™ offerings by launching IdeaPad U310 and U410 Ultrabook™ during the period under review. The two machines combine beauty, speed and convenience with ultra thin and light design, taping the latest product trend for balance of sliminess, speed and functionality.

Notebook Products

Lenovo also achieved strong balanced unit shipments growth and market share gains for notebook PCs during the fiscal quarter one. The Group's notebook PC unit shipments grew 27 percent year-on-year against a flattish market, and its market share in worldwide notebook PC increased by 3.2 percentage points year-on-year to record-high 15.4 percent for the fiscal quarter one. This performance helped Lenovo as the world's second largest notebook company and to recapture the position as the world's second largest commercial notebook company.

Desktop Products

In the desktop PC segment, Lenovo continued to capture the increasing demand for All-in-One PCs in the consumer desktop market and the strong demand for desktops in emerging cities in China. The Group's desktop PC unit shipments grew 21 percent year-on-year. As a result, its worldwide market share in desktop PCs increased by 3.0 percentage points year-on-year, to record-high 14.4 percent, and the Group remained as the world's second largest desktop PC company and recaptured the position as the world's largest consumer desktop PC company.

Mobile Internet Products

During the period under review, the Group continued to invest in PC+ to drive future growth through the launch of new innovative products and development of new channels, and continued to see very encouraging progress. The Group continued to deliver strong growth momentum across all products with a milestone performance in its mobile phone business. Driven by the Group's decision to move from a single-model strategy to product portfolio strategy, its smartphone unit shipments grew 44-fold year-on-year against the market growth of 1.2 times, and it acquired a market share of 11.2 percent, representing a 10.3 percentage points year-on-year growth for the three month ended June 30, 2012. The robust growth of its smartphone business also drove the Group's mobile phone market share in China to grow 5.1 percentage points year-on-year to 9.8 percent for the fiscal quarter one. Overall, the Group became the second largest vendor for smartphone and mobile phones in China in June.

For tablets, the Group continued to roll out new tablet products of different screen sizes, targeting both consumer and commercial customers in China, as well as other selected markets. The Group's total worldwide unit shipments for its tablet products grew 2.8 times year-on-year, of which its unit shipments in China also grew by 1.2 times year-on-year. Lenovo continued to be the leading provider in both the Android and overall tablet markets in China.

The Group also launched its first Smart TV products in May 2012. The K-series Lenovo Smart TV is the first Google certified television product to adopt the Android 4.0 OS in the world. The initial launch of Lenovo Smart TV products received good market response. With the launch of Smart TV, Lenovo is now offering products across all four screens – PCs, smartphones, tablets and Smart TV -- that define the company's long-term "PC+" strategy.

In May 2012, Lenovo announced the establishment of the Lenovo (Wuhan) Industrial Base, a hub that will include integrated facilities for mobile internet product research and development, production and sales. The new facility will help drive Lenovo's innovation capability in the field of mobile internet and optimize its global supply chain, helping the Group to enhance cost flexibility and end-to-end efficiency. The facility will begin operations in October 2013.

Future Prospects

Although challenges to worldwide PC demand remain largely due to weakening economic condition, Lenovo remains both optimistic about the future of the PC market and committed to innovation. The Group is confident it will continue to outgrow the worldwide PC market with balanced growth across the board. The Group is fully committed to the PC industry and is on course to become the leader in the PC industry. Lenovo will continue its successful "Protect and Attack" strategy to drive balanced, strong unit shipments growth, business scale expansion and profitability enhancement in PCs while also expanding its business across the four screens (PC, tablet, smartphone, smart TV) of devices and into the ecosystem of cloud, services and other applications that make up the PC+ market.

In China, the world's largest PC market, Lenovo will continue to expand its market leading position in the PC market. Lenovo will also leverage its mature market leadership position through its strong commercial presence, and solidly execute its Protect and Attack strategy to evolve from a winning PC company to a winning PC+ company. The Group will strive to break through in the PC+ area, building on its strong consumer foundation and continue to grow its four-screen products in China, while expand cloud offerings worldwide.

Outside China, Lenovo is focusing on its Protect and Attack strategy by not only addressing the growing "consumerization" trend but also by starting to build the solid distribution channel and brand to win in PCs. Lenovo is strengthening its position in commercial markets, while striving for a better balance from its consumer business. The Group's emerging markets business has shown strong growth and as it reaches scale, it is also moving to a more profitable model. These developments together with the PC+ development have built a strong foundation for the Group to drive for higher profitability over time.

Leveraging on the Group's clientele and strength in the commercial area in China, the Group announced in August 2012 its broad partnership with EMC Corporation (EMC) in server and storage businesses. The global alliance with EMC is set to enhance Lenovo's position in industry standard servers and networked storage solutions, and is expected to spark innovation and additional R&D in the server and storage markets by maximizing the product development talents and resources at both companies, while driving scale and efficiency in the partners' respective supply chains. This partnership will help Lenovo fully deliver on its PC+ strategy by giving the Group strong back-end capabilities and a solid business foundation in servers and storage, in addition to the already strong position in devices.

The Group will continue its investment in building its core competencies, product innovation, branding and new PC+ segments, including mobile internet and digital home (MIDH), balancing expenses and revenues to drive long-term sustainable profit growth.

Looking forward, given its strong financial position, the Group will continue to actively look for growth opportunities to accelerate future expansion. Lenovo will build on its success by continuing to focus on scaling its growth and controlling costs, thereby enhancing its competitiveness to ensure future sustainable profitable growth.

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

During the three months ended June 30, 2012, the Company repurchased a total of 8,010,000 ordinary shares of HK$0.025 each in the capital of the Company at prices ranging from HK$6.24 to HK$6.49 per share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of repurchases of such ordinary shares were as follows:

Month of repurchases	**Number of ordinary shares repurchased**	**Highest price paid per share** *HK$*	**Lowest price paid per share** *HK$*	**Aggregate consideration paid (excluding expenses)** *HK$*
June 2012	8,010,000	6.49	6.24	51,131,740

Out of the 8,010,000 ordinary shares repurchased, 4,800,000 ordinary shares were cancelled on delivery of the share certificates during the period and the issued share capital of the Company was accordingly diminished by the nominal value of the repurchased ordinary shares so cancelled. The remaining 3,210,000 ordinary shares repurchased were cancelled subsequent to the period end date. The premium paid on repurchase of such ordinary shares was charged against the share premium account of the Company.

During the three months ended June 30, 2012, the trustee of the long term incentive program of the Company purchased 12,886,000 ordinary shares from the market for award to employees upon vesting. Details of the program are set out in the 2011/12 Annual Report of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the three months ended June 30, 2012.

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 three members including Mr. Allen, an independent non-executive director, Mr. Ting Lee Sen, and a non-executive director, Ms. Ma Xuezheng.

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the three months ended June 30, 2012. 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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, 2012, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange save for the deviation under code provision A.2.1 as disclosed in the Corporate Governance Report of the 2011/12 Annual Report of the Company.

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

New York, August 15, 2012

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