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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2009/10 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, 2009 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Sales	2	3,457,482	4,212,634
Cost of sales		(3,077,124)	(3,611,587)
Gross profit		380,358	601,047
Other income – net	3	1,527	1,026
Selling and distribution expenses		(189,422)	(250,251)
Administrative expenses		(139,191)	(174,336)
Research and development expenses		(49,220)	(54,113)
Other operating income – net		8,838	9,561
Operating profit		12,890	132,934
Finance income		3,420	19,810
Finance costs	4	(18,676)	(15,268)
Share of losses of associated companies		(51)	(574)
(Loss)/profit before taxation		(2,417)	136,902
Taxation	6	(13,592)	(26,409)
(Loss)/profit for the period		(16,009)	110,493
(Loss)/profit attributable to:			
Equity holders of the Company		(16,009)	110,493
Minority interests		-	-
		(16,009)	110,493
Basic (loss)/earnings per share attributable to equity holders of the Company	8(a)	(US0.18 cents)	US1.25 cents
Diluted (loss)/earnings per share attributable to equity holders of the Company	8(b)	(US0.18 cents)	US1.15 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2009 (unaudited) <i>US\$'000</i>	3 months ended June 30, 2008 (unaudited) <i>US\$'000</i>
(Loss)/profit for the period	(16,009)	110,493
Other comprehensive income/(loss)		
Fair value change on available-for-sale financial assets	23,708	23,038
Fair value change on interest rate swap contracts	720	7,710
Fair value change on forward foreign exchange contracts	(3,424)	(1,577)
Currency translation differences	(16,498)	8,735
Reserve realized on disposal of available-for-sale financial assets	-	(465)
	(11,503)	147,934
Total comprehensive (loss)/income for the period	(11,503)	147,934
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(11,503)	147,934
Minority interests	-	-
	(11,503)	147,934

CONSOLIDATED BALANCE SHEET

		June 30, 2009 (unaudited) US\$'000	March 31, 2009 (audited) US\$'000
Non-current assets			
Property, plant and equipment		300,573	314,142
Prepaid lease payments		5,489	5,833
Construction-in-progress		41,778	47,062
Intangible assets		1,859,123	1,852,861
Investments in associated companies		2,582	2,635
Deferred tax assets		200,116	190,844
Available-for-sale financial assets		125,638	101,916
Other non-current assets		9,261	5,653
		<u>2,544,560</u>	<u>2,520,946</u>
Current assets			
Inventories		550,414	450,370
Trade receivables	9(a)	1,150,396	903,103
Notes receivable		152,894	221,575
Derivative financial assets		6,194	13,163
Deposits, prepayments and other receivables		643,294	613,826
Income tax recoverable		42,189	35,301
Bank deposits		203,634	-
Cash and cash equivalents		1,898,791	1,863,379
		<u>4,647,806</u>	<u>4,100,717</u>
Total assets		<u>7,192,366</u>	<u>6,621,663</u>
Share capital	11	29,534	29,530
Reserves		1,274,955	1,281,208
Equity holders' funds		1,304,489	1,310,738
Minority interests		177	177
Total equity		<u>1,304,666</u>	<u>1,310,915</u>
Non-current liabilities	12	1,124,415	891,208
Current liabilities			
Trade payables	9(b)	2,574,661	1,991,286
Notes payable		20,693	34,180
Derivative financial liabilities		21,783	23,674
Provisions, accruals and other payables	10	1,813,679	1,823,289
Income tax payable		75,042	89,459
Short-term bank loans		19,805	20,293
Current portion of non-current liabilities		237,622	437,359
		<u>4,763,285</u>	<u>4,419,540</u>
Total liabilities		<u>5,887,700</u>	<u>5,310,748</u>
Total equity and liabilities		<u>7,192,366</u>	<u>6,621,663</u>
Net current liabilities		<u>(115,479)</u>	<u>(318,823)</u>
Total assets less current liabilities		<u>2,429,081</u>	<u>2,202,123</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Net cash generated from operating activities	237,429	182,309
Net cash used in investing activities	(210,970)	(285,618)
Net cash used in financing activities	(139)	(106,662)
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Increase/(decrease) in cash and cash equivalents	26,320	(209,971)
Effect of foreign exchange rate changes	9,092	27,268
Cash and cash equivalents at the beginning of the period	1,863,379	1,651,420
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Cash and cash equivalents at the end of the period	1,898,791	1,468,717
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares and warrants (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Hedging reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) US\$'000
At April 1, 2009	29,530	1,106,379	42,159	25,691	75,501	497	(157,461)	92,684	(16,576)	30,738	81,596	177	1,310,915
Loss for the period	-	-	-	-	-	-	-	-	-	-	(16,009)	-	(16,009)
Other comprehensive income/(loss)	-	-	-	(16,498)	23,708	-	-	-	(2,704)	-	-	-	4,506
Total comprehensive income/(loss) for the period	-	-	-	(16,498)	23,708	-	-	-	(2,704)	-	(16,009)	-	(11,503)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	37	(37)	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	-	14,961	(20,716)	-	-	-	-	(5,755)
Exercise of share options	4	345	-	-	-	-	-	-	-	-	-	-	349
Share-based compensation	-	-	-	-	-	-	-	10,660	-	-	-	-	10,660
At June 30, 2009	29,534	1,106,724	42,159	9,193	99,209	497	(142,500)	82,628	(19,280)	30,775	65,550	177	1,304,666
At April 1, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263
Profit for the period	-	-	-	-	-	-	-	-	-	-	110,493	-	110,493
Other comprehensive income	-	-	-	8,735	22,573	-	-	-	6,133	-	-	-	37,441
Total comprehensive income for the period	-	-	-	8,735	22,573	-	-	-	6,133	-	110,493	-	147,934
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	-	20,013	(27,717)	-	-	-	-	(7,704)
Exercise of share options	41	5,077	-	-	-	-	-	-	-	-	-	-	5,118
Share-based compensation	-	-	-	-	-	-	-	11,888	-	-	-	-	11,888
Repurchase of shares	(239)	(51,618)	-	-	-	-	-	-	-	-	-	-	(51,857)
Contributions to employee share trusts	-	-	-	-	-	-	(14,489)	-	-	-	-	-	(14,489)
At June 30, 2008	29,501	1,104,143	42,159	(57,925)	63,709	497	(166,711)	62,908	4,345	30,738	590,615	174	1,704,153

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed quarterly financial statements. The condensed quarterly financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed quarterly financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. The condensed quarterly financial statements should be read in conjunction with the 2008/09 annual financial statements.

Except as described below, the principal accounting policies and methods of computation used in the preparation of these condensed quarterly financial statements are consistent with those used in the annual financial statements for the year ended March 31, 2009.

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

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

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

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

- HKFRS 1 (Revised), "First-time adoption of Hong Kong Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009
- HKFRS 2 (Amendment), "Share-based payment", effective for annual periods beginning on or after July 1, 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
- HKFRS 8 (Amendment), "Operating segments", effective for annual periods beginning on or after January 1, 2010
- HKAS 1 (Amendment), "Presentation of financial statements", effective for annual periods beginning on or after January 1, 2010
- HKAS 7 (Amendment), "Cash flow statements", effective for annual periods beginning on or after January 1, 2010
- HKAS 17 (Amendment), "Lease", effective for annual periods beginning on or after January 1, 2010

- HKAS 18 (Amendment), “Revenue”, effective for annual periods beginning on or after January 1, 2010
- HKAS 27 (Revised), “Consolidated and separate financial statements”, effective for annual periods beginning on or after July 1, 2009
- HKAS 36 (Amendment), “Impairment of assets”, effective for annual periods beginning on or after January 1, 2010
- HKAS 38 (Amendment), “Intangible assets”, effective for annual periods beginning on or after January 1, 2010
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on eligible hedged items, effective for annual periods beginning on or after July 1, 2009
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on embedded derivatives, apply retrospectively for annual periods ending on or after June 30, 2009
- HK(IFRIC)-Int 9 (Amendment), “Reassessment of embedded derivatives”, apply retrospectively for annual periods ending on or after June 30, 2009
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, “Transfers of assets from customers”, effective for annual periods beginning on or after July 1, 2009

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

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

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

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

- Exchange (loss)/gain on cash flow hedges of (US\$319,000) and (US\$38,852,000) for the quarter (2008/09: (US\$25,000) and US\$6,569,000) previously recorded in other operating income/(expenses) has been reclassified to sales and cost of sales respectively
- Costs associated with factoring of US\$3,000,000 for the quarter (2008/09: US\$5,719,000) previously recorded in other operating expense have been reclassified to finance costs
- Future billing discounts of US\$339,553,000 at June 30, 2009 (March 31, 2009: US\$313,364,000) previously netted with trade receivables have been reclassified to other payables

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

2 Segment information

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

The segment results and capital expenditure information for the three months ended June 30, 2009 are as follows:

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	1,670,962	473,537	1,312,983	-	3,457,482
Cost of sales					(3,077,124)
Gross profit					380,358
Operating expenses					(368,995)
Segment operating results	103,262	(35,477)	(34,705)	(21,717)	11,363
Finance income				3,420	3,420
Finance costs				(18,676)	(18,676)
Dividend income from available-for-sale financial assets				1,527	1,527
Share of losses of associated companies				(51)	(51)
Loss before taxation					(2,417)
Taxation				(13,592)	(13,592)
Loss for the period					(16,009)
Capital expenditure	15,001	1,308	10,410	1,384	28,103

Note: Segment operating profit/(loss) presented above include the impact of restructuring costs of US\$2,739,000. The segment operating profit/(loss) before restructuring costs are: China US\$105,150,000; Emerging Markets (excluding China) (US\$32,351,000); Mature Markets (US\$37,044,000); and corporate or unallocated (US\$21,653,000).

The segment assets and liabilities at June 30, 2009 are as follows:

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Inventories	201,099	53,398	60,867	235,050	550,414
Trade receivables	473,389	333,906	338,448	4,653	1,150,396
Bank deposits	203,634	-	-	-	203,634
Cash and cash equivalents	1,596,425	70,857	79,572	151,937	1,898,791
Other current assets	235,645	311,466	109,559	187,901	844,571
Deferred tax assets	-	-	-	200,116	200,116
Other non-current assets	170,792	30,856	113,401	2,029,395	2,344,444
Total assets	2,880,984	800,483	701,847	2,809,052	7,192,366
Trade payables	995,436	294,368	164,112	1,120,745	2,574,661
Income tax payable	-	-	-	75,042	75,042
Short-term bank loans	-	19,805	-	-	19,805
Other current liabilities	612,746	136,160	651,739	102,451	1,503,096
Interest-bearing bank loans (current and non-current)	-	-	-	665,000	665,000
Deferred taxation	-	-	-	6,134	6,134
Other non-current liabilities	277,944	97,912	424,946	243,160	1,043,962
Total liabilities	1,886,126	548,245	1,240,797	2,212,532	5,887,700

Note: Included in other non-current assets are goodwill and trademarks and trade names with indefinite useful lives in aggregate amounted to US\$1,677 million. As explained above, the Group underwent an organizational structure change under which these intangible assets have been reallocated to the cash-generating units affected using a relative value approach in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names as reallocated as at June 30, 2009 are presented below:

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

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

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

The segment results and capital expenditure information for the three months ended June 30, 2008 are as follows:

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	1,660,894	645,459	1,906,281	-	4,212,634
Cost of sales					(3,611,587)
Gross profit					601,047
Operating expenses					(469,139)
Segment operating results	113,629	21,977	18,503	(22,201)	131,908
Finance income				19,810	19,810
Finance costs				(15,268)	(15,268)
Gain on disposal of available-for-sale financial assets				14	14
Dividend income from available-for-sale financial assets				1,012	1,012
Share of losses of associated companies				(574)	(574)
Profit before taxation					136,902
Taxation				(26,409)	(26,409)
Profit for the period					110,493
Capital expenditure	8,943	7,908	11,080	13,909	41,840

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

	China (audited) US\$'000	Emerging Markets (excluding China) (audited) US\$'000	Mature Markets (audited) US\$'000	Corporate or unallocated (audited) US\$'000	Total (audited) US\$'000
Inventories	131,963	97,170	46,983	174,254	450,370
Trade receivables	233,338	327,105	336,180	6,480	903,103
Cash and cash equivalents	1,589,428	60,346	68,431	145,174	1,863,379
Other current assets	342,306	183,809	25,957	331,793	883,865
Deferred tax assets	-	-	-	190,844	190,844
Other non-current assets	177,928	28,088	116,962	2,007,124	2,330,102
Total assets	2,474,963	696,518	594,513	2,855,669	6,621,663
Trade payables	744,179	139,925	144,344	962,838	1,991,286
Income tax payable	-	-	-	89,459	89,459
Short-term bank loans	-	20,293	-	-	20,293
Other current liabilities	559,562	120,018	512,620	255,326	1,447,526
Interest-bearing bank loans (current and non-current)	-	-	-	665,000	665,000
Other non-current liabilities	275,560	102,469	405,093	314,062	1,097,184
Total liabilities	1,579,301	382,705	1,062,057	2,286,685	5,310,748

3 Other income – net

	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Gain on disposal of investments and available-for-sale financial assets	-	14
Dividend income from available-for-sale financial assets	<u>1,527</u>	<u>1,012</u>
	<u>1,527</u>	<u>1,026</u>

4 Finance costs

	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Interest on bank loans and overdrafts	7,689	5,711
Dividend and relevant finance costs on convertible preferred shares	3,532	3,527
Factoring cost	3,000	5,719
Others	<u>4,455</u>	<u>311</u>
	<u>18,676</u>	<u>15,268</u>

5 (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging the following:

	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	26,423	25,625
Amortization of intangible assets	14,334	17,074
Employee benefit costs, including	266,053	303,699
- long-term incentive awards	10,660	11,888
- severance and related costs	2,626	921
Termination of onerous contracts	28	-
Rental expenses under operating leases	<u>10,868</u>	<u>11,893</u>

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2009 (unaudited) US\$'000	3 months ended June 30, 2008 (unaudited) US\$'000
Current taxation		
– Hong Kong profits tax	33	58
– Taxation outside Hong Kong	11,108	26,603
Deferred taxation	2,451	(252)
	13,592	26,409

The weighted average applicable tax rate is not presented as this is not meaningful given the Group incurred a loss before taxation for the period (2008/09: 19.3%).

7 Dividend

No dividend has been declared to the ordinary shareholders for the three months ended June 30, 2009 (2008/09: Nil).

8 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	3 months ended June 30, 2009 (unaudited)	3 months ended June 30, 2008 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,871,888,920	8,855,771,072
	US\$'000	US\$'000
(Loss)/profit attributable to equity holders of the Company	(16,009)	110,493

(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.

For the three months ended June 30, 2009, all dilutive potential ordinary shares were antidilutive as the Group incurred a loss for the period.

For the three months ended June 30, 2008, adjustments for the dilutive potential ordinary shares are as follows:

- For the convertible preferred shares, they were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- 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, 2009 (unaudited)	3 months ended June 30, 2008 (unaudited)
Weighted average number of ordinary shares in issue	8,871,888,920	8,855,771,072
Adjustments for assumed conversion of convertible preferred shares	-	651,375,784
Adjustments for share options, long-term incentive awards and warrants	-	373,428,157
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Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	8,871,888,920	9,880,575,013
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	US\$'000	US\$'000
(Loss)/profit attributable to equity holders of the Company	(16,009)	110,493
Interest expense on convertible preferred shares	-	3,527
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	(16,009)	114,020
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9 Ageing analysis

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

	June 30, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	939,052	695,774
31 – 60 days	119,603	100,157
61 – 90 days	55,631	27,716
Over 90 days	53,353	109,211
	<hr/>	<hr/>
	1,167,639	932,858
Less: provision for impairment	(17,243)	(29,755)
	<hr/>	<hr/>
Trade receivables – net	1,150,396	903,103
	<hr/> <hr/>	<hr/> <hr/>

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

	June 30, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	1,637,746	1,209,795
31 – 60 days	580,934	563,269
61 – 90 days	270,177	140,562
Over 90 days	85,804	77,660
	<hr/>	<hr/>
	2,574,661	1,991,286
	<hr/> <hr/>	<hr/> <hr/>

10 Provisions, accruals and other payables

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

	Warranty <i>US\$'000</i>	Restructuring <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2009 (audited)			
At the beginning of the year	697,915	7,588	705,503
Exchange adjustment	(2,191)	(520)	(2,711)
Provisions made	404,564	108,041	512,605
Amounts utilized	(483,898)	(16,755)	(500,653)
Unused amounts reversed	(82,991)	(751)	(83,742)
	<hr/>	<hr/>	<hr/>
	533,399	97,603	631,002
Long-term portion classified as non-current liabilities (Note 12)	(170,008)	-	(170,008)
	<hr/>	<hr/>	<hr/>
At the end of the year	363,391	97,603	460,994
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Three months ended June 30, 2009 (unaudited)			
At the beginning of the period	533,399	97,603	631,002
Exchange adjustment	1,228	2,300	3,528
Provisions made	69,306	3,433	72,739
Amounts utilized	(83,427)	(53,271)	(136,698)
Unused amounts reversed	-	(4,569)	(4,569)
	<hr/>	<hr/>	<hr/>
	520,506	45,496	566,002
Long-term portion classified as non-current liabilities (Note 12)	(167,031)	-	(167,031)
	<hr/>	<hr/>	<hr/>
At the end of the period	353,475	45,496	398,971
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

11 Share capital

	June 30, 2009 (unaudited)		March 31, 2009 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>				
At the beginning and the end of the period/year				
Ordinary shares	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares	3,000,000	27,525	3,000,000	27,525
		<u>527,525</u>		<u>527,525</u>
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the period/year	9,211,389,406	29,530	8,888,786,650	28,496
Conversion from non-voting ordinary shares	-	-	375,282,756	1,203
Exercise of share options	1,100,000	4	24,948,000	80
Repurchase of shares	-	-	(77,628,000)	(249)
	<u>9,212,489,406</u>	<u>29,534</u>	<u>9,211,389,406</u>	<u>29,530</u>
Non-voting ordinary shares:				
At the beginning of the period/year	-	-	375,282,756	1,203
Conversion to voting ordinary shares	-	-	(375,282,756)	(1,203)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Issued and fully paid ordinary shares	<u>9,212,489,406</u>	<u>29,534</u>	<u>9,211,389,406</u>	<u>29,530</u>
Total issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning and end of the period/year	<u>1,774,999</u>	<u>2,081</u>	<u>1,774,999</u>	<u>2,081</u>

12 Non-current liabilities

	June 30, 2009 (unaudited) <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
Marketing rights	11,708	-
Interest-bearing bank loans repayable within five years (Note 12(a))	430,000	230,000
Convertible preferred shares (Note 12(b))	216,951	215,974
Warranty provision	167,031	170,008
Retirement benefit obligations	69,786	68,000
Deferred revenue	180,252	165,980
Derivative financial liabilities	6,826	7,382
Deferred tax liabilities	6,134	-
Other non-current liabilities	35,727	33,864
	1,124,415	891,208

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

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

FINANCIAL REVIEW

Results

For the three months ended June 30, 2009, the Group achieved total sales of approximately US\$3,457 million. Loss attributable to equity holders for the period was approximately US\$16 million, representing a decrease of US\$127 million as compared to the corresponding period of last year. Gross profit margin for the period was 3.3 percentage points down from 14.3 percent reported in the corresponding period of last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US\$239 million as compared to March 31, 2009. Basic loss per share and diluted loss per share were US0.18 cents and US0.18 cents, representing a decrease of US1.43 cents and US1.33 cents respectively as compared with the corresponding period of last year.

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

Other income – net

Other income represents dividend income from available-for-sale financial assets.

Selling and distribution expenses

Selling and distribution expenses for the three months ended June 30, 2009 decreased by 24 percent as compared to the corresponding period of last year. This is principally attributable to a US\$22 million decrease in promotion activities coupled with US\$7 million decrease in employee benefit costs.

Administrative expenses

The Group experienced a decrease in administrative expenses for the three months ended June 30, 2009 of 20 percent as compared to the corresponding period of last year. The decrease is driven by employee benefit costs and contracted services.

Research and development expenses

Research and development spending for the three months ended June 30, 2009 decreased by 9 percent as compared to the corresponding period of last year.

Other operating income - net

Other operating income for the three months ended June 30, 2009 decreased by 8 percent as compared to the corresponding period of last year. This is mainly driven by increase in cost associated with restructuring actions.

Capital Expenditure

The Group incurred capital expenditures of US\$28 million (2008/09: US\$42 million) during the three months ended June 30, 2009, mainly for the acquisition of marketing rights, property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At June 30, 2009, total assets of the Group amounted to US\$7,192 million (March 31, 2009: US\$6,622 million), which were financed by equity holders' funds of US\$1,304 million (March 31, 2009: US\$1,311 million), minority interests of US\$177,000 (March 31, 2009: US\$177,000), and non-current and current liabilities of US\$5,888 million (March 31, 2009: US\$5,311 million). At June 30, 2009, the current ratio of the Group was 0.98 (March 31, 2009: 0.93).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At June 30, 2009, bank deposits, cash and cash equivalents totaled US\$2,103 million (March 31, 2009: US\$1,863 million), of which 44.4 (March 31, 2009: 65.7) percent was denominated in US dollars, 47.2 (March 31, 2009: 24.5) percent in Renminbi, 1.2 (March 31, 2009: 2.8) percent in Euros, 1.0 (March 31, 2009: 1.9) percent in Japanese Yen, and 6.2 (March 31, 2009: 5.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At June 30, 2009, 78.9 (March 31, 2009: 81.0) percent of cash are bank deposits, and 21.1 (March 31, 2009: 19.0) percent of cash are investments in liquid money market fund of investment grade.

Due to the unprecedented global economic challenges, the Group incurred a significant operating loss in the last quarter of the previous year, which was largely caused by the global resource redeployment plan announced in January that realized a significant restructuring charge. The substantial loss incurred triggered a breach of certain financial covenants in connection with the US\$400 million 5-year revolving and term loan facility with syndicated banks. The Group has obtained consent from the syndicated banks the waiver from strict compliance with those financial covenants and has entered into a revised loan agreement on May 21, 2009. At March 31 and June 30, 2009, this facility was fully utilized and the facility will expire in March 2011.

The Group also has a 5-year fixed rate loan facility with a bank in China expiring in March 2011. At June 30, 2009, the outstanding loan balance was US\$65 million (March 31, 2009: US\$65 million).

To secure more long-term funding for the Group in case the economy continues to stay weak, the Group obtained a new US\$300 million 3-year term loan facility with a bank in China in March 2009. This facility was utilized to the extent of US\$200 million at June 30, 2009 (March 31, 2009: US\$200 million). In addition, the Group has entered into another 5 years loan agreement with a bank of US\$300 million on July 17, 2009. The Group is in confidence that all the secured loan facilities on hand can meet the funding requirement of the Group in the operation and business development.

The Group has also arranged other short-term credit facilities. At June 30, 2009, the Group's total available credit facilities amounted to US\$4,156 million (March 31, 2009: US\$4,210 million), of which US\$207 million (March 31, 2009: US\$279 million) was in trade lines, US\$466 million (March 31, 2009: US\$498 million) in short-term and revolving money market facilities and US\$3,483 million (March 31, 2009: US\$3,433 million) in forward foreign exchange contracts. At June 30, 2009, the amounts drawn down were US\$117 million (March 31, 2009: US\$91 million) in trade lines, US\$2,594 million (March 31, 2009: US\$1,964 million) being used for the forward foreign exchange contracts; and US\$20 million (March 31, 2009: US\$20 million) in short-term bank loans.

At June 30, 2009, the Group's outstanding bank loans represented the term loans of US\$665 million (March 31, 2009: US\$665 million) and short-term bank loans of US\$20 million

(March 31, 2009: US\$20 million). When compared with total equity of US\$1,304 million (March 31, 2009: US\$1,311 million), the Group's gearing ratio was 0.52 (March 31, 2009: 0.52). The net cash position of the Group at June 30, 2009 is US\$1,418 million (March 31, 2009: US\$1,178 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2009, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$2,594 million (March 31, 2009: US\$1,964 million).

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

Contingent Liabilities

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

Human Resources

At June 30, 2009, the Group had a total of 21,296 (2008/09 Q1: 23,200) employees.

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

BUSINESS REVIEW AND OUTLOOK

During the three months ended June 30, 2009, the worldwide PC market continued to show negative growth as the decrease in commercial PC unit shipments offset the growth of the consumer market. The China PC market reversed its negative growth of the past two quarters and showed solid unit shipments increase. Benefiting from its strong position in China and expansion into consumer and emerging markets, Lenovo outperformed the overall market with approximately one percent year-on-year growth in its worldwide PC shipments and increased its overall market share by 0.4 percentage points to record high of 8.6 percent since acquisition.

The Group's sales reduced 18 percent year-on-year to US\$3,457 million during the quarter because the continued decrease of average selling price (ASP) offset Lenovo's unit shipment growth. The ASP decline was partly due to price competition and a shift in the product mix to lower price points. Its gross profit reduced by 37 percent year-on-year to US\$380 million with gross margin decreased to 11.0 percent, impacted by market price trend and aggressive pricing under weak market demand. Nevertheless, the Group's resource restructuring plan was on track to generate savings which helped drive its

expense-to-revenue ratio (excluding the restructuring costs and one-off charges) to a historical low of 10.6 percent despite reduced sales. As a result, Lenovo reported US\$16 million operating profit (excluding the restructuring costs and one-off charges) and its pre-tax results being breakeven for the quarter. During the quarter, the Group recorded US\$3 million costs from the restructuring actions announced in January this year. Loss attributable to equity holders amounted to US\$16 million, compared to a profit attributable to equity holders of US\$110 million in the corresponding quarter a year ago.

Performance of Geographies

The Group saw initial signs of improvement in its geographic performance during the quarter, benefiting from its strategic priorities and focus on execution. In particular, Lenovo's profitability in China and Emerging Markets (excluding China) delivered solid quarter-to-quarter improvement.

China – Accounted for approximately 48 percent of the Group's sales. The China PC market posted 14 percent year-on-year growth during the quarter, benefiting from steady economic growth under the government's stimulus package, improved consumer sentiment and increasing interests in notebook computers. Lenovo continued to expand its leadership in China by achieving 15 percent growth in unit shipments and increased its share by 0.3 percentage points to approximately 28.6 percent based on preliminary industry estimates.

Emerging Markets (excluding China) – Accounted for approximately 14 percent of the Group's sales. During the quarter, Lenovo showed initial success in its aggressive pursuit of opportunities in a number of emerging markets and gained share in Russia, Turkey and Latin America. However, the Group's overall unit shipment in the Emerging Markets (excluding China) geography showed a year-on-year decline of 6 percent during the quarter mainly due to the negative growth in India. To drive improvement in future performance, Lenovo focused on introducing new product line-up, improving its business systems and channel operation to invigorate its business in India during the quarter.

Mature Markets – Accounted for approximately 38 percent of the Group's sales. Lenovo's unit shipments in Mature Markets decreased 17 percent year-on-year, impacted by the sluggish demand in commercial market which is the Group's primary focus in this geography. In particular, Western Europe saw gross margin weakness due to aggressive pricing. However, the Group made progress toward restoring profitability in Mature Markets by successfully reducing losses in North America, Australia/New Zealand and Japan.

Performance of Product Groups

During the quarter, Lenovo posted share gains in both desktop and notebook computer markets. Driven by the outstanding performance of its consumer business, Lenovo reported a 21 percent year-on-year increase in overall notebook unit shipments.

Outlook

While the worldwide PC market shows slight improvement in its outlook, the operating environment continues to be challenging for Lenovo during the 2009/10 fiscal year. As the global economy remains uncertain, enterprise customers are still conservative about PC spending. In addition, the ongoing shift of product mix toward entry-level PCs also exerts pressure on Lenovo's operation. Nevertheless, the Group's progress in the first fiscal quarter

demonstrated the strengths of its strategic priorities. Lenovo will continue to focus on the execution of its strategies, address issues and drive improvement in its core strengths.

Lenovo will leverage its well-established core strengths in China and continue to invest in the market to further expand its leadership and profitability. The market offers good growth opportunities for the Group with the government's economic stimulus program, rural PC subsidy program, urban PC upgrade program, 3G adoption, etc. The Group will enhance its distribution network to cater for these new growth drivers.

The Group has made some progress in restoring profitability in its global commercial business but requires further improvement in Western Europe in particular. Lenovo plans to enhance margin management systems, improve product mix and increase attach rates of service, software and peripherals to drive better profitability performance.

Lenovo demonstrated initial success in its expansion of its transaction business model in the first fiscal quarter with share gain in consumer market outside China. It will roll out more consumer product models, including all-in-one desktop, netbook, CULV-based notebook computers, further develop channel network and drive sales campaign process to make further inroads. By focusing on speed, efficiency and precise execution, Lenovo aims to build a sustainable transaction model that can drive more growth.

With regards to its expansion into emerging markets, Lenovo will continue to drive growth by leveraging synergies that exist among similar markets. At the same time, the Group will implement its action plans to address the profitability issues in select countries such as India.

The resource restructuring plan that Lenovo announced in January 2009 is on track to deliver annual savings of approximately US\$300 million on an annual run rate basis. In addition, the Group will continue to control expenses and drive cost reduction to mitigate impact from slow commercial demand and rising component price trends.

Undoubtedly, the market environment will continue to pose challenges for Lenovo. The Group is encouraged by its improved performance in the first fiscal quarter. Through effective execution of strategic priorities and focus on strengthening its core strengths, Lenovo endeavors to bring sustainable long-term returns to its shareholders.

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, 2009.

CORPORATE GOVERNANCE

During the three months ended June 30, 2009, the Company has complied with the Code on Corporate Governance Practices to the extent detailed in Corporate Governance Report contained in the Company's 2008/09 Annual Report.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the three months ended June 30, 2009. 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.

By order of the Board
Liu Chuanzhi
Chairman

Raleigh, August 5, 2009

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