Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2010/11 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company) announces the unaudited results of the Company and its subsidiaries (the "Group") for the nine months ended December 31, 2010 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended December 31, 2010 (unaudited)** *US$'000*	**9 months ended December 31, 2010 (unaudited)** *US$'000*	3 months ended December 31, 2009 (unaudited) *US$'000*	9 months ended December 31, 2009 (unaudited) *US$'000*
Sales	*2*	**5,808,331**	**16,714,986**	4,759,414	12,287,423
Cost of sales		**(5,159,944)**	**(14,950,617)**	(4,228,963)	(10,947,092)
Gross profit		**648,387**	**1,764,369**	530,451	1,340,331
Other income - net	*3*	**116**	**289**	43,433	83,126
Selling and distribution expenses		**(291,271)**	**(757,141)**	(225,037)	(626,473)
Administrative expenses		**(173,986)**	**(525,541)**	(134,845)	(410,976)
Research and development expenses		**(75,784)**	**(211,800)**	(54,418)	(157,822)
Other operating income/(expense) - net		**17,128**	**42,617**	(59,751)	(37,055)
Operating profit	*4*	**124,590**	**312,793**	99,833	191,131
Finance income	*5(a)*	**6,797**	**18,085**	7,459	15,005
Finance costs	*5(b)*	**(10,817)**	**(33,276)**	(13,698)	(50,040)
Share of profit of associated companies		**177**	**104**	156	226
Profit before taxation		**120,747**	**297,706**	93,750	156,322
Taxation	*6*	**(21,097)**	**(66,609)**	(14,229)	(39,728)
Profit for the period		**99,650**	**231,097**	79,521	116,594
Profit attributable to:					
Equity holders of the Company		**99,650**	**231,096**	79,521	116,594
Non-controlling interests		**-**	**1**	-	-
		99,650	**231,097**	79,521	116,594
Dividend	*7*		**32,581**		12,264
Basic earnings per share attributable to equity holders of the Company	*8(a)*	**US 1.03 cents**	**US 2.41 cents**	US 0.86 cent	US 1.29 cents
Diluted earnings per share attributable to equity holders of the Company	*8(b)*	**US 0.98 cent**	**US 2.29 cents**	US 0.79 cent	US 1.21 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2010 (unaudited) ***US$'000***	**9 months ended December 31, 2010 (unaudited)** ***US$'000***	3 months ended December 31, 2009 (unaudited) *US$'000*	9 months ended December 31, 2009 (unaudited) *US$'000*
Profit for the period	**99,650**	**231,097**	79,521	116,594
Other comprehensive (loss)/income				
Fair value change on available-for-sale financial assets	**(10,308)**	**(33,603)**	36,376	81,312
Fair value change on interest rate swap contracts	**1,697**	**2,218**	1,045	3,521
Fair value change on forward foreign exchange contracts	**38,705**	**(11,021)**	(1,109)	1,367
Fair value change on forward currency options	**(163)**	**(416)**	-	-
Currency translation differences	**(6,152)**	**(12,553)**	11,530	(37,150)
Reserve realized on disposal of available-for-sale financial assets	**-**	**-**	(46,260)	(70,809)
	123,429	**175,722**	81,103	94,835
Total comprehensive income attributable to:				
Equity holders of the Company	**123,429**	**175,721**	81,103	94,835
Non-controlling interests	**-**	**1**	-	-
	123,429	**175,722**	81,103	94,835

CONSOLIDATED BALANCE SHEET

	Note	**December 31, 2010 (unaudited)** *US$'000*	March 31, 2010 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**215,322**	248,261
Prepaid lease payments		**3,803**	3,748
Construction-in-progress		**43,037**	24,711
Intangible assets		**2,048,140**	2,066,337
Interests in associated companies		**1,228**	1,061
Deferred tax assets		**278,684**	254,978
Available-for-sale financial assets		**60,887**	112,520
Other non-current assets		**14,333**	8,699
		2,665,434	2,720,315
Current assets			
Inventories		**817,701**	878,887
Trade receivables	*9(a)*	**1,604,512**	1,021,062
Notes receivable		**369,741**	386,746
Derivative financial assets		**15,068**	13,283
Deposits, prepayments and other receivables		**2,265,836**	1,463,422
Income tax recoverable		**39,192**	33,562
Bank deposits		**153,626**	200,456
Cash and cash equivalents		**3,273,975**	2,238,195
		8,539,651	6,235,613
Total assets		**11,205,085**	8,955,928

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**December 31, 2010 (unaudited)** *US$'000*	March 31, 2010 (audited) *US$'000*
Share capital	*11*	**32,114**	31,388
Reserves		**1,739,475**	1,574,453
Equity attributable to owners of the Company		**1,771,589**	1,605,841
Non-controlling interests		**178**	177
Total equity		**1,771,767**	1,606,018
Non-current liabilities			
Interest-bearing bank loans		**200,000**	200,000
Convertible preferred shares		**-**	94,980
Warranty provision	*10*	**381,579**	301,234
Deferred revenue		**259,381**	218,034
Retirement benefit obligations		**79,494**	80,867
Derivative financial liabilities		**1,172**	248
Deferred tax liabilities		**22,867**	10,331
Other non-current liabilities		**33,103**	24,863
		977,596	930,557
Current liabilities			
Trade payables	*9(b)*	**2,819,514**	3,141,426
Notes payable		**124,800**	94,427
Derivative financial liabilities		**39,053**	11,259
Provisions, accruals and other payables	*10*	**5,062,684**	2,585,850
Income tax payable		**87,083**	84,329
Short-term bank loans		**44,738**	64,706
Current portion of non-current liabilities		**277,850**	437,356
		8,455,722	6,419,353
Total liabilities		**9,433,318**	7,349,910
Total equity and liabilities		**11,205,085**	8,955,928
Net current assets/(liabilities)		**83,929**	(183,740)
Total assets less current liabilities		**2,749,363**	2,536,575

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months ended December 31, 2010 (unaudited)	9 months ended December 31, 2009 (unaudited)
	US$'000	*US$'000*
Net cash generated from operating activities	**1,328,328**	1,172,450
Net cash used in investing activities	**(12,108)**	(178,106)
Net cash used in financing activities	**(340,617)**	(95,326)
Increase in cash and cash equivalents	**975,603**	899,018
Effect of foreign exchange rate changes	**60,177**	26,902
Cash and cash equivalents at the beginning of the period	**2,238,195**	1,863,379
Cash and cash equivalent at the end of the period	**3,273,975**	2,789,299

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital (unaudited) *US$'000*	Share premium (unaudited) *US$'000*	Convertible rights in respect of convertible preferred shares and warrants (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Share redemption reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Hedging reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Retained earnings (unaudited) *US$'000*	Non-controlling interests (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2010	**31,388**	**1,341,118**	**2,836**	**72,366**	**497**	**(111,054)**	**76,054**	**6,069**	**(35,969)**	**34,430**	**188,106**	**177**	**1,606,018**
Profit for the period	-	-	-	-	-	-	-	-	-	-	**231,096**	**1**	**231,097**
Other comprehensive loss	-	-	-	**(33,603)**	-	-	-	**(9,219)**	**(12,553)**	-	-	-	**(55,375)**
Total comprehensive (loss)/income for the period	-	-	-	**(33,603)**	-	-	-	**(9,219)**	**(12,553)**	-	**231,096**	**1**	**175,722**
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	**22,181**	**(22,181)**	-	-
Conversion of Series A cumulative convertible preferred shares	**891**	**98,073**	**(2,836)**	-	-	-	-	-	-	-	-	-	**96,128**
Repurchase of shares	**(287)**	**(50,022)**	-	-	**287**	-	-	-	-	-	-	-	**(50,022)**
Vesting of shares under long-term incentive program	-	-	-	-	-	**19,842**	**(31,708)**	-	-	-	-	-	**(11,866)**
Exercise of share options	**122**	**17,174**	-	-	-	-	-	-	-	-	-	-	**17,296**
Share-based compensation	-	-	-	-	-	-	**26,414**	-	-	-	-	-	**26,414**
Dividend paid	-	-	-	-	-	-	-	-	-	-	**(87,923)**	-	**(87,923)**
At December 31, 2010	**32,114**	**1,406,343**	-	**38,763**	**784**	**(91,212)**	**70,760**	**(3,150)**	**(48,522)**	**56,611**	**309,098**	**178**	**1,771,767**
At April 1, 2009	29,530	1,106,379	42,159	75,501	497	(157,461)	92,684	(16,576)	25,691	30,738	81,596	177	1,310,915
Profit for the period	-	-	-	-	-	-	-	-	-	-	116,594	-	116,594
Other comprehensive income/(loss)	-	-	-	10,503	-	-	-	4,888	(37,150)	-	-	-	(21,759)
Total comprehensive income/(loss) for the period	-	-	-	10,503	-	-	-	4,888	(37,150)	-	116,594	-	94,835
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	122	(122)	-	-
Conversion of Series A cumulative convertible preferred shares	735	77,979	(2,485)	-	-	-	-	-	-	-	-	-	76,229
Exercise and repurchase of warrants	205	31,578	(35,353)	-	-	-	-	-	-	3,570	-	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	26,748	(35,796)	-	-	-	-	-	(9,048)
Exercise of share options	48	5,205	-	-	-	-	-	-	-	-	-	-	5,253
Share-based compensation	-	-	-	-	-	-	37,391	-	-	-	-	-	37,391
Dividend paid	-	-	-	-	-	-	-	-	-	-	(12,273)	-	(12,273)
At December 31, 2009	30,518	1,221,141	4,321	86,004	497	(130,713)	94,279	(11,688)	(11,459)	34,430	185,795	177	1,503,302

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 2009/10 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, 2010.

The following new and revised standards, new interpretations, and amendments to existing standards and interpretations (including certain amendments from improvements to Hong Kong Financial Reporting Standards ("HKFRSs") published in October 2008 and May 2009) are mandatory for the year ending March 31, 2011. The Group has adopted these new and revised standards, new interpretations, and amendments to existing standards and interpretations where considered appropriate and relevant to its operations.

(a) Major relevant revised standards adopted by the Group

HKFRS 3 (revised), "Business combinations" (effective for annual periods beginning on or after July 1, 2009) continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group applies HKFRS 3 (revised) prospectively. The adoption of HKFRS 3 (revised) does not result in a material impact on the Group's financial statements because there was no business combination during the nine months ended December 31, 2010.

HKAS 27 (revised), "Consolidated and separate financial statements" (effective for annual periods beginning on or after July 1, 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting requirements when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The amendment does not have a material impact on the Group's financial statements.

(b) Relevant new interpretations and amendments to existing standards and interpretations adopted by the Group

New interpretations

- HK(IFRIC)-Int 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, "Transfers of assets from customers", effective for annual periods beginning on or after July 1, 2009
- HK-Int 5, "Presentation of financial statements - classification by the borrower of a term loan that contains a repayment on demand clause", effective upon issuance on November 29, 2010

Improvements to HKFRSs 2008 and 2009 published in October 2008 and May 2009

- HKFRS 2 (Amendment), "Share-based payment", effective for annual periods beginning on or after July 1, 2009
- HKFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations", effective for annual periods beginning on or after July 1, 2009 and January 1, 2010
- HKFRS 8 (Amendment), "Operating segments", effective for annual periods beginning on or after January 1, 2010
- HKAS 1 (Revised) (Amendment), "Presentation of financial statements", effective for annual periods beginning on or after January 1, 2010
- HKAS 7 (Amendment), "Statement of cash flows", effective for annual periods beginning on or after January 1, 2010
- HKAS 17 (Amendment), "Leases", effective for annual periods beginning on or after January 1, 2010
- HKAS 18 (Amendment), "Revenue", effective for annual periods beginning on or after January 1, 2010
- HKAS 36 (Amendment), "Impairment of assets", effective for annual periods beginning on or after January 1, 2010
- HKAS 38 (Amendment), "Intangible assets", effective for annual periods beginning on or after July 1, 2009
- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement", effective for annual periods beginning on or after January 1, 2010
- HK(IFRIC)-Int 9 (Amendment), "Reassessment of embedded derivatives", effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 16 (Amendment), "Hedges of a net investment in a foreign operation", effective for annual periods beginning on or after July 1, 2009

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

(c) The following new and revised standards, new interpretation, and amendments to existing standards and interpretation have been issued but are not effective for the year ending March 31, 2011 and have not been early adopted:

New and revised standards, new interpretation and amendments to existing standard and interpretation

- HKFRS 9, "Financial instruments", effective for annual periods beginning on or after January 1, 2013
- HKAS 12 (Amendment), "Income taxes", effective for annual periods beginning on or after January 1, 2012
- HKAS 24 (Revised), "Related party disclosures", effective for annual periods beginning on or after January 1, 2011
- HK(IFRIC)-Int 14 (Amendment), "The limit on a defined benefit asset, minimum funding requirement and their interaction", effective for annual periods beginning on or after January 1, 2011

– HK(IFRIC)-Int 19, “Extinguishing financial liabilities with equity instruments”, effective for annual periods beginning on or after July 1, 2010

Improvements to HKFRSs 2010 published in May 2010

– HKFRS 3 (Revised) (Amendment), “Business combinations”, effective for annual periods beginning on or after July 1, 2010
– HKFRS 7 (Amendment), “Financial instruments: Disclosures”, effective for annual periods beginning on or after January 1, 2011
– HKAS 1 (Revised) (Amendment), “Presentation of financial statements”, effective for annual periods beginning on or after January 1, 2011
– HKAS 21 (Amendment), “The effect of changes in foreign exchange rates”, effective for annual periods beginning on or after July 1, 2010
– HKAS 28 (Amendment), “Investments in associates”, effective for annual periods on or after July 1, 2010
– HKAS 31 (Amendment), “Interests in joint ventures”, effective for annual periods beginning on or after July 1, 2010
– HKAS 32 (Amendment), “Financial instruments: Presentation”, effective for annual periods beginning on or after July 1, 2010
– HKAS 34 (Amendment), “Interim financial reporting”, effective for annual periods beginning on or after January 1, 2011
– HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, effective for annual periods beginning on or after July 1, 2010
– HK(IFRIC)-Int 13 (Amendment), “Customer loyalty programmes”, effective for annual periods beginning on or after January 1, 2011

The Group is currently assessing the impact of the adoption of the new and revised standards, new interpretation, and amendments to existing standards and interpretation (from Improvements to HKFRSs 2010 published in May 2010) above to the Group in future periods. So far, it has concluded that the adoption of the above do not have material impact on the Group’s financial statements.

A reclassification among sales, cost of sales and other operating expenses - net has been made to the comparative income statement for the nine months ended December 31, 2009.

During the quarter, certain classifications of expenses between functions have been changed and comparative figures for the previous two quarters have been reclassified to conform to the current period’s presentation. For the respective quarters ended June 30, 2010 and September 30, 2010, $7,295,000 and $9,496,000 which were previously included in research and development expenses have been reclassified to administrative expenses.

The above reclassifications do not result in any net impact on the comparative financial result of the Group. Management considered the current classifications more appropriate and consistent with industry practice.

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the “LEC”) that are used to make strategic decisions.

The LEC considers business from a market perspective. The Group has three market segments, China, emerging markets (excluding China) and mature markets.

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss) for reportable segments. 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. 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.

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the period ended December 31, 2010 and its comparatives are as follows:

	China *US$'000*	**Emerging Markets (excluding China)** *US$'000*	**Mature Markets** *US$'000*	**Total** *US$'000*
For the nine months ended December 31, 2010				
Sales to external customers	**7,819,898**	**3,009,680**	**5,885,408**	**16,714,986**
Adjusted pre-tax income/(loss)	**419,902**	**(54,728)**	**42,007**	**407,181**
Depreciation and amortization	**50,698**	**17,600**	**64,174**	**132,472**
Restructuring costs	**-**	**(29)**	**652**	**623**
Additions to non-current assets*	**33,014**	**6,816**	**10,626**	**50,456**
At December 31, 2010				
Total Assets	**3,970,293**	**2,845,102**	**1,428,208**	**8,243,603**
Total liabilities	**3,180,877**	**3,134,416**	**1,541,525**	**7,856,818**

	China *US$'000*	Emerging Markets (excluding China) *US$'000*	Mature Markets *US$'000*	Total *US$'000*
For the nine months ended December 31, 2009				
Sales to external customers	5,936,980	1,895,397	4,455,046	12,287,423
Adjusted pre-tax income/(loss)	335,806	(58,093)	(58,928)	218,785
Depreciation and amortization	60,796	13,188	54,629	128,613
Restructuring costs	2,113	5,173	(4,384)	2,902
Additions to non-current assets*	39,422	2,164	18,034	59,620
At March 31, 2010				
Total Assets	3,094,515	1,586,158	1,199,948	5,880,621
Total liabilities	2,190,074	1,929,730	1,258,603	5,378,407

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

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

	9 months ended December 31, 2010 *US$'000*	9 months ended December 31, 2009 *US$'000*
Adjusted pre-tax income	**407,181**	218,785
Unallocated headquarters and corporate expenses	**(90,310)**	(104,292)
Restructuring costs	**(4,367)**	(6,488)
Finance income	**18,085**	15,005
Finance costs	**(33,276)**	(50,040)
Net gain on disposal of investments and available-for-sale financial assets	**196**	82,090
Dividend income from available-for-sale financial assets	**93**	1,558
Impairment of investments	**-**	(522)
Share of profit of associated companies	**104**	226
Consolidated profit before taxation	**297,706**	156,322

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

	December 31, 2010 *US$'000*	March 31, 2010 *US$'000*
Segment assets for reportable segments	**8,243,603**	5,880,621
Unallocated:		
Deferred tax assets	**278,684**	254,978
Derivative financial assets	**15,068**	13,283
Available-for-sale financial assets	**60,887**	112,520
Interests in associated companies	**1,228**	1,061
Unallocated cash and cash equivalents	**2,126,305**	1,644,904
Unallocated inventories	**206,427**	311,455
Other unallocated assets	**272,883**	737,106
Total assets per consolidated balance sheet	**11,205,085**	8,955,928

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

	December 31, 2010 *US$'000*	March 31, 2010 *US$'000*
Segment liabilities for reportable segments	**7,856,818**	5,378,407
Unallocated:		
Income tax payable	**87,083**	84,329
Derivative financial liabilities	**40,225**	11,507
Deferred tax liabilities	**22,867**	10,331
Bank borrowings	**230,000**	430,000
Convertible preferred shares	**-**	94,980
Other unallocated liabilities	**1,196,325**	1,340,356
Total liabilities per consolidated balance sheet	**9,433,318**	7,349,910

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$1,854 million (March 31, 2010: US$1,854 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives at December 31, 2010 and March 31, 2010 are presented below:

	China US$ million	REM ** US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,027	143	24	151	92	37	1,474
Trademarks and trade names	209	55	9	58	35	14	380

** Previously known as HARIE, includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan and Turkey

Management has completed the allocation of the goodwill attributable to the acquisition of Lenovo Mobile Communication Limited. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives and the development of customer-focused products to capitalize on the mobile internet device business growth in China. The entire amount of goodwill of US$177 million has been allocated to the China market segment.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at December 31, 2010 (March 31, 2010: Nil).

3 Other income - net

	3 months ended December 31, 2010 ***US$'000***	**9 months ended December 31, 2010** ***US$'000***	3 months ended December 31, 2009 *US$'000*	9 months ended December 31, 2009 *US$'000*
Net gain on disposal of investments and available-for-sale financial assets	**99**	**196**	43,402	82,090
Dividend income from available-for-sale financial assets	**17**	**93**	31	1,558
Impairment of investments	**-**	**-**	-	(522)
	116	**289**	43,433	83,126

4 Operating profit

Operating profit is stated after charging the following:

	3 months ended December 31, 2010 ***US$'000***	**9 months ended December 31, 2010** ***US$'000***	3 months ended December 31, 2009 *US$'000*	9 months ended December 31, 2009 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**19,862**	**60,535**	27,238	77,922
Amortization of intangible assets	**22,248**	**72,674**	18,787	50,691
Employee benefit costs, including	**352,143**	**1,038,036**	304,646	864,809
- long-term incentive awards	***8,013***	***26,414***	*13,313*	*37,391*
- severance and related costs	***(956)***	***2,271***	*1,908*	*5,667*
Rental expenses under operating leases	**13,201**	**39,739**	11,041	33,554

5 Finance income and costs

(a) Finance income

	3 months ended December 31, 2010 ***US$'000***	**9 months ended December 31, 2010** ***US$'000***	3 months ended December 31, 2009 *US$'000*	9 months ended December 31, 2009 *US$'000*
Interest on bank deposits	**6,350**	**17,137**	7,194	13,722
Interest on money market funds	**339**	**717**	193	810
Others	**108**	**231**	72	473
	6,797	**18,085**	7,459	15,005

(b) Finance costs

	3 months ended December 31, 2010 ***US$'000***	**9 months ended December 31, 2010** ***US$'000***	3 months ended December 31, 2009 *US$'000*	9 months ended December 31, 2009 *US$'000*
Interest on bank loans and overdrafts	**4,426**	**14,342**	6,883	22,912
Dividend and relevant finance costs on convertible preferred shares	**703**	**3,810**	2,311	9,058
Factoring cost	**5,072**	**12,849**	3,000	8,200
Others	**616**	**2,275**	1,504	9,870
	10,817	**33,276**	13,698	50,040

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2010 ***US$'000***	**9 months ended December 31, 2010** ***US$'000***	3 months ended December 31, 2009 *US$'000*	9 months ended December 31, 2009 *US$'000*
Current taxation				
Hong Kong profits tax	**56**	**1,523**	(41)	49
Taxation outside Hong Kong	**17,647**	**59,028**	28,436	42,018
Deferred taxation	**3,394**	**6,058**	(14,166)	(2,339)
	21,097	**66,609**	14,229	39,728

Hong Kong profits tax has been provided for at the rate of 16.5% (2009/10: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Dividend

	9 months ended December 31, 2010	9 months ended December 31, 2009
	US$'000	*US$'000*
Interim dividend, for the six months ended September 30, 2010, of HK2.6 cents (2009/10: HK1.0 cent) per ordinary share, paid on December 9, 2010	**32,581**	12,264

8 Earnings per share

(a) Basic

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

	3 months ended December 31, 2010	**9 months ended December 31, 2010**	3 months ended December 31, 2009	9 months ended December 31, 2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,658,857,983**	**9,571,070,098**	9,215,702,105	9,021,208,279
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**99,650**	**231,096**	79,521	116,594

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

	3 months ended December 31, 2010	**9 months ended December 31, 2010**	3 months ended December 31, 2009	9 months ended December 31, 2009
Weighted average number of ordinary shares in issue	**9,658,857,983**	**9,571,070,098**	9,215,702,105	9,021,208,279
Adjustments for convertible preferred shares	**138,063,488**	**234,021,797**	423,394,137	-
Adjustments for share options and long-term incentive awards	**461,420,100**	**444,649,144**	710,966,140	651,045,227
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,258,341,571**	**10,249,741,039**	10,350,062,382	9,672,253,506
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**99,650**	**231,096**	79,521	116,594
Interest expense on convertible preferred shares	**703**	**3,810**	2,311	-
	100,353	**234,906**	81,832	116,594

Adjustments for the dilutive potential ordinary shares are as follows:

– The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs. For the nine months ended December 31, 2009, convertible preferred shares were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

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

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

9 Ageing analysis

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

	December 31, 2010	March 31, 2010
	US$'000	*US$'000*
0 – 30 days	**1,475,884**	907,412
31 – 60 days	**67,798**	65,335
61 – 90 days	**45,797**	32,730
Over 90 days	**32,293**	32,904
	1,621,772	1,038,381
Less: provision for impairment	**(17,260)**	(17,319)
Trade receivables – net	**1,604,512**	1,021,062

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

	December 31, 2010	March 31, 2010
	US$'000	*US$'000*
0 – 30 days	**1,751,282**	2,425,237
31 – 60 days	**652,933**	609,720
61 – 90 days	**337,154**	74,499
Over 90 days	**78,145**	31,970
	2,819,514	3,141,426

10 Provisions, accruals and other payables

Included in provisions, accruals and other payables are warranty and restructuring costs provisions:

	Warranty *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2010			
At the beginning of the year	533,399	97,603	631,002
Exchange adjustment	(2,739)	2,673	(66)
Provisions made	480,402	6,631	487,033
Acquisition of subsidiaries	4,701	-	4,701
Amounts utilized	(451,065)	(81,943)	(533,008)
Unused amounts reversed	(14,009)	(13,623)	(27,632)
	550,689	11,341	562,030
Long-term portion classified as non-current liabilities	(301,234)	-	(301,234)
At the end of the year	249,455	11,341	260,796
Nine months ended December 31, 2010			
At the beginning of the period	**550,689**	**11,341**	**562,030**
Exchange adjustment	**5,403**	**71**	**5,474**
Provisions made	**508,075**	**3,126**	**511,201**
Amounts utilized	**(387,383)**	**(2,760)**	**(390,143)**
Unused amounts reversed	**-**	**(2,073)**	**(2,073)**
	676,784	**9,705**	**686,489**
Long-term portion classified as non-current liabilities	**(381,579)**	**-**	**(381,579)**
At the end of the period	**295,205**	**9,705**	**304,910**

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.

11 Share capital

	December 31, 2010		March 31, 2010	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Authorized:				
At the beginning and the end of the period/year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**9,788,044,282**	**31,388**	9,211,389,406	29,530
Issue of ordinary shares	**-**	**-**	111,668,936	359
Conversion from series A cumulative convertible preferred shares	**282,263,115**	**891**	369,112,652	1,190
Exercise of share options	**37,878,500**	**122**	32,370,500	104
Exercise of warrants	**-**	**-**	63,502,788	205
Repurchase of shares	**(89,334,000)**	**(287)**	-	-
At the end of the period/year	**10,018,851,897**	**32,114**	9,788,044,282	31,388
Series A cumulative convertible preferred shares:				
At the beginning of the period/year	**769,167**	**891**	1,774,999	2,081
Conversion to voting ordinary shares	**(769,167)**	**(891)**	(1,005,832)	(1,190)
At the end of the period/year	**-**	**-**	769,167	891

FINANCIAL REVIEW

Results

For the nine months ended December 31, 2010, the Group achieved total sales of approximately US$16,715 million. Profit attributable to equity holders for the period was approximately US$231 million, representing an increase of US$114 million as compared with corresponding period of last year. Gross profit margin for the nine months was 0.3 percent point down from 10.9 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$989 million as compared to March 31, 2010. Basic earnings per share and diluted earnings per share were US2.41 cents and US2.29 cents, representing an increase of US1.12 cents and US1.08 cents respectively as compared with the corresponding period of last year.

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

For the nine months ended December 31, 2010, overall operating expenses across the board increased when compared to the corresponding period of last year as the current period includes Lenovo Mobile. Employee benefit costs increased by 20 percent as compared to the corresponding period of last year due to increased performance-driven incentive payments.

Further analyses of income and expense by function for the nine months ended December 31, 2010 are set out below:

Other income – net

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

Selling and distribution expenses

Selling and distribution expenses for the period increased by 20.9 percent as compared to the corresponding period of last year. This is principally attributable to a US$106 million increase in promotional activities and a US$32 million increase in employee benefit costs. The increase is partially offset by savings in information technology expenses of $4 million.

Administrative expenses

The Group experienced an increase of 27.9 percent in administrative expenses for the period as compared to the corresponding period of last year. This is mainly attributable to a US$95 million increase in employee benefit costs, a US$10 million increase in depreciation and amortization expenses, and a US$4 million increase in operating lease payments. The increase is partially offset by a decrease in contracted service expense of US$44 million.

Research and development expenses

Research and development spending for the period increased by 34.2 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$24 million, R&D related office expenses of $10 million, depreciation and amortization expenses of $4 million and costs in relation to the relocation of R&D laboratory of US$9 million.

Other operating income - net

Net other operating income for the period increased by US$80 million as compared to a net other operating expense of US$37 million in the corresponding period of last year. The increase is attributable to the one off expense items such as warranty costs not reimbursable by suppliers of US$30 million and an IP license fee of US$12 million noted in corresponding period of last year, and net a exchange gain of US$16 million reported this period (2009/10: net exchange loss of US$10 million).

Capital Expenditure

The Group incurred capital expenditures of US$103 million (2009/10: US$80 million) during the nine months ended December 31, 2010, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At December 31, 2010, total assets of the Group amounted to US$11,205 million (March 31, 2010: US$8,956 million), which were financed by equity attributable to owners of the Company of US$1,772 million (March 31, 2010: US$1,606 million), non-controlling interests of US$178,000 (March 31, 2010: US$177,000), and total liabilities of US$9,433 million (March 31, 2010: US$7,350 million). At December 31, 2010, the current ratio of the Group was 1.01 (March 31, 2010: 0.97).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At December 31, 2010, bank deposits, cash and cash equivalents totaled US$3,428 million (March 31, 2010: US$2,439 million), of which 45.8 (March 31, 2010: 42.9) percent was denominated in US dollars, 46.7 (March 31, 2010: 46.6) percent in Renminbi, 1.1 (March 31, 2010: 1.6) percent in Euros, 0.6 (March 31, 2010: 0.2) percent in Japanese Yen, and 5.8 (March 31, 2010: 8.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At December 31, 2010, 76.9 (March 31, 2010: 78.2) percent of cash are bank deposits, and 23.1 (March 31, 2010: 21.8) 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 had a US$30 million 5-Year fixed rate loan facility and a US$300 million 3-year loan facility with a bank in China. At March 31 and December 31, 2010, the former was fully utilized and will expire before the end of March 2011; the latter was utilized to the extent of US$200 million and expires in March 2012.

In addition, the Group has entered into another 5-Year loan facility agreement with a bank of US$300 million on July 17, 2009. The facility has not been utilized as at December 31, 2010 (March 31, 2010: Nil).

On February 2, 2011, the Group entered into a 5-Year term loan agreement for US$500 million.

The Group has also arranged other short-term credit facilities. At December 31, 2010, the Group's total available credit facilities amounted to US$5,369 million (March 31, 2010: US$4,936 million), of which US$323 million (March 31, 2010: US$276 million) was in trade lines, US$471 million (March 31, 2010: US$485 million) in short-term and revolving money market facilities and US$4,575 million (March 31, 2010: US$4,175 million) in forward foreign exchange contracts. At December 31, 2010, the amounts drawn down were US$185 million (March 31, 2010: US$191 million) in trade lines, US$3,638 million (March 31, 2010: US$2,641 million) being used for the forward foreign exchange contracts; and US$45 million (March 31, 2010: US$65 million) in short-term bank loans.

At December 31, 2010, the Group's outstanding bank loans represented the term loans of US$230 million (March 31, 2010: US$430 million) and short-term bank loans of US$45 million (March 31, 2010: US$65 million). At March 31, 2010, short-term bank loans of US$28 million were secured by the same amount of bank deposits. The security was released following repayment of the loan during the period. When compared with total equity of US$1,772 million (March 31, 2010: US$1,606 million), the Group's gearing ratio was 0.16 (March 31, 2010: 0.31). The net cash position of the Group at December 31, 2010 is US$3,153 million (March 31, 2010: US$1,944 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2010, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$3,638 million (March 31, 2010: US$2,641 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 the identified assets and liabilities.

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 ordinary 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 at May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share.

All warrants were either exercised or repurchased by the Company.

On November 15, 2010, the remaining 769,167 convertible preferred shares were converted into 282,263,115 voting ordinary shares.

Under the general mandate authorized by the shareholders in the annual general meeting, the Company repurchases ordinary shares in order to increase shareholder value. For the nine months ended December 31, 2010, the Company repurchased 89,334,000 ordinary shares at par value of HK$0.025 each in the capital of the Company at an aggregate consideration of approximately US$50 million (2009/10: Nil).

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.

Human Resources

At December 31, 2010, the Group had a total of 26,669 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 December 31, 2010, worldwide PC market unit shipments growth moderated to 3.4 percent year-on-year according to preliminary industry estimates, largely due to a softening consumer market and higher comparison base in certain markets. Commercial PC demand recovery continued to drive global PC market growth and helped to offset the weakening consumer PC demand. The worldwide commercial PC unit shipments grew by 8.7 percent year-on-year for the quarter, while consumer PC unit shipments fell by 0.6 percent year-on-year. Lenovo continued to achieve a strong balanced growth in all geographies covering China, Mature Markets and Emerging Markets, as well as in all products and customer segments, through solid execution of its successful "Protect and Attack" strategy. The Group's PC business recorded 20.6 percent year-on-year unit shipments growth in fiscal quarter three and it was the fifth consecutive quarter that Lenovo was being the fastest growing PC company among the top global PC companies. The Group has also outperformed the worldwide PC market for the seventh consecutive quarter. As a result, Lenovo's worldwide PC market share increased by 1.5 percentage points year-on-year to 10.2 percent. This solid performance was mainly due to the Group's leading market position in China, unique commercial PC segment exposure in Mature Markets and expanding footprint in Emerging Markets. The Group's mobile business also performed well during the quarter under review. The feature phone business continued to show strong unit shipments growth of 39.1 percent year-on-year, while its 3G smartphone LePhone sales recaptured growth momentum during the quarter after the supply shortage of display screens was resolved. As a result, the Group's mobile business recorded a growth of 52.2 percent year-on-year in unit shipments if this is compared to its own performance last year prior to acquisition.

For the three months ended December 31, 2010, the Group's sales increased by 22.0 percent year-on-year to US$5,808 million. Sales of the Group's PC business were US$5,590 million, representing a year-on-year increase of 17.4 percent, while the mobile business recorded sales of US$218 million. Gross profit increased by 22.3 percent year-on-year to US$648 million. Gross margin for the fiscal quarter three was 11.2 percent, slightly increased by 0.1 percentage points year-on-year but significantly increased by 0.9 percentage points quarter-on-quarter. Improvement in the gross margin was a result of the Group's effective margin management, increased mix of the Think branded products and softened key component prices. The Group made investments during the quarter in product innovation and branding with an objective to drive long-term sustainable growth and better profitability in the future. The Group also invested in its 3G smartphone LePhone promotion to drive future growth after the supply shortage of display screens was resolved. Therefore, operating expenses exclude restructuring expenses, one-off items and other income (net) increased by 20.9 percent year-on-year to US$521 million and expenses-to-revenue ratio as a result increased sequentially to 9.0 percent, but it was still lower than the ratio recorded last year. This expense figure has also included its mobile operation expenses that were not included in the last year figure. Profit before taxation margin was at 2.1 percent for the quarter, improved 0.1 percentage points year-on-year. The Group recorded profit before taxation of US$121 million and profit attributed to shareholders amounted to US$100 million, increased by 28.7 percent and 25.0 percent respectively from the same corresponding period in last year. It was the first time for the Group to reach the US$100 million mark for profit attributed to shareholders since the financial crisis in fiscal year 2008/09.

Performance of Geographies

During the three months ended December 31, 2010, Lenovo achieved solid and balanced performance in all geographies it has operations. The Group's PC market share in China achieved record high level and further extended its leadership position. Profitability of Mature Markets continued to improve, benefiting from the corporate PC demand recovery, and Emerging Markets maintained its faster-than-market growth momentum under its share growth strategy.

China accounted for 46.2 percent of the Group's total sales, of which sales from the PC and mobile businesses accounted for 42.4 and 3.8 percent of the Group's total sales respectively. During the quarter, the China PC market growth further moderated to 4.2 percent year-on-year according to preliminary industry estimates as consumption sentiment remained soft, affected by volatility in the domestic stock and real estate markets, inflation concerns and the government's measures in tightening market liquidity, as well as the high comparison base established last year. Nevertheless, Lenovo continued to outperform the market by growing at 12.7 percent year-on-year in unit shipments, and as a result, the Group's market share reached a record high of 32.2 percent, representing an increase of 2.4 percentage points year-on-year. The market share gaps between Lenovo and its major competitors also widened. The Group's mobile business also posted a strong unit shipments growth of 52.2 percent, compared to its own performance in the same corresponding period in last fiscal year prior to acquisition. Lenovo remained the number one local mobile handset brand in China. The Group's 3G smartphone LePhone sales recaptured growth momentum during the quarter and doubled its unit shipments, sequentially. Operating profit in this region was down slightly year-on-year to US$132 million, and operating margin was 4.9%, down from 5.9% year-on-year and 5.7% quarter-on-quarter. The drop in operating margin was primarily due to increase in marketing expenses incurred to drive 3G smartphone Lephone business during the quarter. Operating margin for PC business was 5.6%, down from 5.9% in the same corresponding period last year and 6.1% in previous quarter. This was due to increase in selling and marketing expense.

Emerging Markets (excluding China) accounted for 19.2 percent of the Group's total sales. During the quarter, Lenovo's unit shipments in Emerging Markets grew by 42.5 percent year-on-year, about three times the market growth rate. Its market share further increased to 6.6 percent, gaining 1.2 percentage points from a year ago according to preliminary industry estimates. Unit shipments growth and share gains were recorded across all key regions such as RUCIS (+101.7%), ASEAN (+28.9%), India (+61.7%) and Latin America (+31.4%). Lenovo's market shares in certain key regions reached the double-digit market share target. For example, Lenovo India's market share reached 10.3 percent during the fiscal quarter three and it recorded an operating profit. The Group recorded an operating loss of US$13 million in Emerging Markets, against an operating loss of US$17 million recorded in previous quarter, and an operating loss of US$6 million in the same corresponding period last year.

Mature Markets accounted for 34.6 percent of the Group's total sales. The Group's performance in the Mature Markets benefited from the gradual recovery in the commercial PC demand. Given its exposure in the commercial segment in Mature Markets, therefore, Lenovo continued to significantly outperform the market. During the quarter, Lenovo grew 22.8 percent year-on-year in unit shipments against a decline of 3.6 percent year-on-year for the market, according to preliminary industry estimates. Unit shipments growth and share gains were recorded in most key regions such as North America (+29.5%), Japan (+49.6%) and Western Europe (+12.0%). As a result, Lenovo's market share in Mature Markets increased by 1.1 percentage points year-on-year to 5.2 percent. The Group's operating profit and profitability in Mature Markets continued to improve sequentially during the quarter, and it was the first time that all regions in Mature Markets recorded operating profit since the financial crisis in fiscal year 2008/09. With the continuing improvements of its commercial business, the Group's operating profit in this region continued to improve and recorded US$22 million operating profit for the quarter with an operating margin of 1.1%, slightly better than 1.0% operating margin recorded in previous quarter. The Group recorded an operating loss of US$7 million in the same corresponding period last year.

Performance of Product Groups

During the three months ended December 31, 2010, Lenovo recorded strong, balanced unit shipments growth in both commercial and consumer products. Unit shipments growth of the Think Product Group, which mainly targets commercial customers, was 23.6 percent year-on-year for the period and its share of the Group's total sales increased to 64.0 percent. During the quarter, Lenovo launched a powerful all-in-one desktop PC ThinkCentre M70z. The Idea Product Group, which primarily focuses on the consumer and entry SMB products, posted 17.0 percent year-on-year unit shipments growth for fiscal quarter three and accounted for 32.1 percent of the Group's total sales. Lenovo launched the high fashion notebook IdeaPad U260, designed for consumers who enjoy a sophisticated sense of style. As a result, Lenovo continued to outperform in both global commercial and consumer PC markets and its market shares increased by 2.1 and 0.6 percentage points from a year ago, respectively, according to preliminary industry estimates.

The Group's performance by product segment also recorded a balanced strong growth. Unit shipments for the Group's notebook PCs and desktop PCs grew by 18.6 percent and 23.2 percent year-on-year respectively during fiscal quarter three. Lenovo's market share in the worldwide notebook PC market increased by 1.2 percentage points from a year ago to 9.6 percent, while its worldwide desktop PC market share increased by 1.9 percentage points from the same corresponding period last year to 11.1 percent according to preliminary industry estimates.

Lenovo's mobile business continued to record strong growth in the quarter from the strong demand in mobile handset market in China. Total mobile handset unit shipments of the Group grew over five times the market growth rate at 52.2 percent year-on-year and Lenovo remained as the number one domestic handset brand in China. Unit shipments of the Group's 3G smartphone LePhone recaptured its growth momentum and doubled its unit shipments sequentially after the supply shortage of display screens was resolved.

Outlook

The worldwide PC market growth has further moderated in the quarter, and certain challenges in the global economy and debt crisis in the mature markets remain. Lenovo, however, remains cautiously optimistic about the market outlook and confident that the Group will continue to outperform the worldwide PC market.

The China PC market will continue to show moderate growth in the short term amid weakened consumption sentiment and high comparison base. Nevertheless, the Group remains optimistic that China's economy and the PC market will grow at a high level in the longer term. Lenovo will endeavor to protect its market positions in key cities, and simultaneously attack the opportunities arising from increasing PC penetration in small cities, with the aim of extending its leadership position and protecting profitability in China. Corporate PC replacement demand momentum has gradually picked up, especially in Mature Markets, and it is expected that the trend will continue for the next several quarters. Lenovo will benefit given its exposure in the commercial PC segment. The Group will continue to focus on improving profitability in Mature Markets through broadening our product portfolio and stringent cost control. The Group will also continue to drive its strong growth momentum in Emerging Markets with an aim to reach the optimal market positions. At the recent Consumer Electronics Show in Las Vegas, Lenovo has launched several awards winning Think products such as ThinkPad X120e and Think Edge E220s targeting at small-to-medium sized businesses. The Group will continue to invest in product innovation and branding to drive sustainable growth and better margins in the future.

Lenovo will continue to invest and launch new innovative mobile internet products in the future to seize the opportunities of mobile convergence and increasing mobile internet penetration in China. The Group plans to launch its first pad product, LePad, in China in fiscal quarter four to capture the tablet market opportunities. The Group will continue to enrich the content of its mobile internet application platform to enhance user experience and to look for the opportunities to team with more channel partners in order to reach out to customers more efficiently. Meanwhile, the Group has established a new Mobile Internet and Digital Home business group to better coordinate the overall mobile internet development and to attack new growth opportunities.

In January 2011, Lenovo and NEC Corporation announced a strategic joint venture between the two companies to form the largest PC group in Japan. The new joint venture will give Lenovo a unique opportunity to grow its commercial and consumer PC businesses in Japan, the third largest PC market in the world, through a stronger market position, enhanced product portfolios, and expanded distribution channels. The Group will continue to actively look for inorganic growth opportunities within the PC industry to supplement its organic growth strategy to further accelerate its future growth.

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

During the period, the Company purchased 89,334,000 ordinary shares of HK$0.025 each in the capital of the Company at prices ranging from HK$4.11 to HK$4.60 per share on The Stock Exchange of Hong Kong Limited.

Month/Year	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregate Consideration paid (excluding expenses)**
		HK$	***HK$***	***HK$***
6 / 2010	34,456,000	4.50	4.17	149,427,360
7 / 2010	43,026,000	4.49	4.11	185,729,660
8 / 2010	6,000,000	4.53	4.41	26,738,540
9 / 2010	5,852,000	4.60	4.42	26,391,160

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

On November 15, 2010, group companies / funds of TPG Capital, Newbridge Capital and General Atlantic, the holders of the Company’s convertible preferred shares, converted 769,167 convertible preferred shares into 282,263,115 fully paid ordinary shares 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 nine months ended December 31, 2010.

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. Nicholas C. Allen, and currently comprises four members including Mr. Allen, the other two independent non-executive directors, Professor Woo Chia-Wei and Mr. Ting Lee Sen, and a non-executive director, Ms. Ma Xuezheng.

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the nine months ended December 31, 2010. 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.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the nine months ended December 31, 2010, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the deviation under Code A.4.1 as disclosed in the 2009/10 annual report of the Company and that under Code E.1.2 whereby the Chairman of the Board was unable to attend the Company's annual general meeting held on July 30, 2010 as he had an engagement that was important to the Company's business.

By order of the Board
Liu Chuanzhi
Chairman

San Francisco, February 16, 2011

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