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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)

FY2010/11 INTERIM RESULTS ANNOUNCEMENT

INTERIM 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 six months ended September 30, 2010 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

		3 months ended September 30, 2010 (unaudited) US\$'000	6 months ended September 30, 2010 (unaudited) US\$'000	3 months ended September 30, 2009 (unaudited) US\$'000	6 months ended September 30, 2009 (unaudited) US\$'000
Sales	2	5,759,983	10,906,655	4,087,231	7,528,009
Cost of sales		(5,166,997)	(9,790,673)	(3,654,563)	(6,718,129)
Gross profit		592,986	1,115,982	432,668	809,880
Other income - net	3	84	173	38,166	39,693
Selling and distribution expenses		(243,854)	(465,870)	(212,014)	(401,436)
Administrative expenses		(181,137)	(334,314)	(136,940)	(276,131)
Research and development expenses		(76,404)	(153,257)	(54,184)	(103,404)
Other operating income - net		15,221	25,489	10,712	22,696
Operating profit		106,896	188,203	78,408	91,298
Finance income	4(a)	6,406	11,288	4,126	7,546
Finance costs	4(b)	(11,622)	(22,459)	(17,666)	(36,342)
Share of (loss)/profit of associated companies		(120)	(73)	121	70
Profit before taxation	5	101,560	176,959	64,989	62,572
Taxation	6	(24,973)	(45,512)	(11,907)	(25,499)
Profit for the period		76,587	131,447	53,082	37,073
Profit attributable to:					
Equity holders of the Company		76,586	131,446	53,082	37,073
Minority interests		1	1	-	-
		76,587	131,447	53,082	37,073
Dividend	7		32,581		12,264
Basic earnings per share attributable to equity holders of the Company	8(a)	US 0.81 cents	US 1.38 cents	US 0.59 cents	US 0.42 cents
Diluted earnings per share attributable to equity holders of the Company	8(b)	US 0.76 cents	US 1.30 cents	US 0.55 cents	US 0.39 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2010 (unaudited) US\$'000	6 months ended September 30, 2010 (unaudited) US\$'000	3 months ended September 30, 2009 (unaudited) US\$'000	6 months ended September 30, 2009 (unaudited) US\$'000
Profit for the period	76,587	131,447	53,082	37,073
Other comprehensive (loss)/income				
Fair value change on available-for-sale financial assets	(7,253)	(23,295)	21,228	44,936
Fair value change on interest rate swap contracts	(99)	521	1,756	2,476
Fair value change on forward foreign exchange contracts	(39,378)	(49,726)	5,900	2,476
Fair value change on forward currency options	(253)	(253)	-	-
Currency translation differences	(16,322)	(6,401)	(32,182)	(48,680)
Reserve realized on disposal of available-for-sale financial assets	-	-	(24,549)	(24,549)
	<u>13,282</u>	<u>52,293</u>	<u>25,235</u>	<u>13,732</u>
Total comprehensive income attributable to:				
Equity holders of the Company	13,281	52,292	25,235	13,732
Minority interests	1	1	-	-
	<u>13,282</u>	<u>52,293</u>	<u>25,235</u>	<u>13,732</u>

CONSOLIDATED BALANCE SHEET

		September 30, 2010 (unaudited) US\$'000	March 31, 2010 (audited) US\$'000
Non-current assets	<i>Note</i>		
Property, plant and equipment		228,280	248,261
Prepaid lease payments		3,778	3,748
Construction-in-progress		21,186	24,711
Intangible assets		2,062,912	2,066,337
Interests in associated companies		1,026	1,061
Deferred tax assets		270,295	254,978
Available-for-sale financial assets		71,182	112,520
Other non-current assets		14,192	8,699
		<u>2,672,851</u>	<u>2,720,315</u>
Current assets			
Inventories		983,249	878,887
Trade receivables	<i>9(a)</i>	1,661,696	1,021,062
Notes receivable		392,776	386,746
Derivative financial assets		6,984	13,283
Deposits, prepayments and other receivables		2,564,247	1,463,422
Income tax recoverable		36,993	33,562
Bank deposits		173,945	200,456
Cash and cash equivalents		2,522,126	2,238,195
		<u>8,342,016</u>	<u>6,235,613</u>
Total assets		<u><u>11,014,867</u></u>	<u><u>8,955,928</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

		September 30, 2010 (unaudited) US\$'000	March 31, 2010 (audited) US\$'000
Share capital	11	31,140	31,388
Reserves		<u>1,535,524</u>	<u>1,574,453</u>
Equity attributable to owners of the Company		1,566,664	1,605,841
Minority interests		<u>178</u>	<u>177</u>
Total equity		<u>1,566,842</u>	<u>1,606,018</u>
Non-current liabilities			
Interest-bearing bank loans		200,000	200,000
Convertible preferred shares		95,907	94,980
Warranty provision	10	348,567	301,234
Deferred revenue		236,401	218,034
Retirement benefit obligations		94,375	80,867
Derivative financial liabilities		1,691	248
Deferred tax liabilities		14,893	10,331
Other non-current liabilities		<u>30,852</u>	<u>24,863</u>
		<u>1,022,686</u>	<u>930,557</u>
Current liabilities			
Trade payables	9(b)	3,066,001	3,141,426
Notes payable		109,632	94,427
Derivative financial liabilities		84,384	11,259
Provisions, accruals and other payables	10	4,673,899	2,585,850
Income tax payable		75,108	84,329
Short-term bank loans		47,795	64,706
Current portion of non-current liabilities		<u>368,520</u>	<u>437,356</u>
		<u>8,425,339</u>	<u>6,419,353</u>
Total liabilities		<u>9,448,025</u>	<u>7,349,910</u>
Total equity and liabilities		<u>11,014,867</u>	<u>8,955,928</u>
Net current liabilities		<u>(83,323)</u>	<u>(183,740)</u>
Total assets less current liabilities		<u>2,589,528</u>	<u>2,536,575</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended September 30, 2010 (unaudited) US\$'000	6 months ended September 30, 2009 (unaudited) US\$'000
Net cash generated from operating activities	463,563	561,573
Net cash used in investing activities	(6,370)	(292,819)
Net cash used in financing activities	(216,647)	(85,594)
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Increase in cash and cash equivalents	240,546	183,160
Effect of foreign exchange rate changes	43,385	15,372
Cash and cash equivalents at the beginning of the period	2,238,195	1,863,379
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Cash and cash equivalent at the end of the period	2,522,126	2,061,911
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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	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	Minority 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	-	-	-	-	-	-	-	-	-	-	131,446	1	131,447
Other comprehensive loss	-	-	-	(23,295)	-	-	-	(49,458)	(6,401)	-	-	-	(79,154)
Total comprehensive (loss)/income for the period	-	-	-	(23,295)	-	-	-	(49,458)	(6,401)	-	131,446	1	52,293
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	22,181	(22,181)	-	-
Repurchase of shares	(287)	(50,022)	-	-	287	-	-	-	-	-	-	-	(50,022)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(55,181)	-	(55,181)
Vesting of shares under long-term incentive program	-	-	-	-	-	16,001	(26,135)	-	-	-	-	-	(10,134)
Exercise of share options	39	5,428	-	-	-	-	-	-	-	-	-	-	5,467
Share-based compensation	-	-	-	-	-	-	18,401	-	-	-	-	-	18,401
At September 30, 2010	31,140	1,296,524	2,836	49,071	784	(95,053)	68,320	(43,389)	(42,370)	56,611	242,190	178	1,566,842
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	-	-	-	-	-	-	-	-	-	-	37,073	-	37,073
Other comprehensive income/(loss)	-	-	-	20,387	-	-	-	4,952	(48,680)	-	-	-	(23,341)
Total comprehensive income/(loss) for the period	-	-	-	20,387	-	-	-	4,952	(48,680)	-	37,073	-	13,732
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	110	(110)	-	-
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	-	-	-	-	-	20,063	(26,233)	-	-	-	-	-	(6,170)
Exercise of share options	8	745	-	-	-	-	-	-	-	-	-	-	753
Share-based compensation	-	-	-	-	-	-	24,077	-	-	-	-	-	24,077
At September 30, 2009	30,478	1,216,681	4,321	95,888	497	(137,398)	90,528	(11,624)	(22,989)	34,418	118,559	177	1,419,536

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed interim financial statements. The condensed interim 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 interim 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 interim 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 interim 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 achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date of 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 six months ended September 30, 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 minority interest 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

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), “Cash flow statements”, 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 and new interpretation

- HKFRS 9, “Financial instruments”, effective for annual periods beginning on or after January 1, 2013
- HKAS 24 (Revised), “Related party disclosures”, 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 six months ended September 30, 2009. The reclassification does not result in net impact on the comparative financial result of the Group.

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 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 from the operating segments such as restructuring costs, etc. The measure 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 September 30, 2010 and its comparatives are as follows:

	China <i>US\$'000</i>	Emerging Markets (excluding China) <i>US\$'000</i>	Mature Markets <i>US\$'000</i>	Total <i>US\$'000</i>
For the six months ended September 30, 2010				
Sales to external customers	<u>5,137,774</u>	<u>1,892,233</u>	<u>3,876,648</u>	<u>10,906,655</u>
Adjusted pre-tax income	<u>288,287</u>	<u>(41,527)</u>	<u>20,049</u>	<u>266,809</u>
Depreciation and amortization	<u>34,198</u>	<u>11,580</u>	<u>45,321</u>	<u>91,099</u>
Restructuring costs	<u>-</u>	<u>(46)</u>	<u>1,393</u>	<u>1,347</u>
Additions to non-current assets*	<u>21,263</u>	<u>3,021</u>	<u>7,645</u>	<u>31,929</u>
At September 30, 2010				
Total Assets	<u>4,268,679</u>	<u>2,597,370</u>	<u>1,490,473</u>	<u>8,356,522</u>
Total liabilities	<u>2,975,076</u>	<u>3,093,422</u>	<u>1,415,503</u>	<u>7,484,001</u>
	<i>China</i> <i>US\$'000</i>	<i>Emerging Markets (excluding China)</i> <i>US\$'000</i>	<i>Mature Markets</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
For the six months ended September 30, 2009				
Sales to external customers	<u>3,664,297</u>	<u>1,062,540</u>	<u>2,801,172</u>	<u>7,528,009</u>
Adjusted pre-tax income	<u>200,476</u>	<u>(52,192)</u>	<u>(52,237)</u>	<u>96,047</u>
Depreciation and amortization	<u>42,350</u>	<u>7,050</u>	<u>33,188</u>	<u>82,588</u>
Restructuring costs	<u>2,166</u>	<u>3,763</u>	<u>(3,634)</u>	<u>2,295</u>
Additions to non-current assets*	<u>20,409</u>	<u>1,577</u>	<u>18,467</u>	<u>40,453</u>
At March 31, 2010				
Total Assets	<u>3,094,515</u>	<u>1,586,158</u>	<u>1,199,948</u>	<u>5,880,621</u>
Total liabilities	<u>2,190,074</u>	<u>1,929,730</u>	<u>1,258,603</u>	<u>5,378,407</u>

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

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

	6 months ended September 30, 2010 US\$'000	6 months ended September 30, 2009 US\$'000
Adjusted pre-tax income	266,809	96,047
Unallocated headquarters and corporate expenses	(76,277)	(38,953)
Restructuring costs	(2,502)	(5,489)
Finance income	11,288	7,546
Finance costs	(22,459)	(36,342)
Net gain on disposal of investments and available-for-sale financial assets	97	38,688
Dividend income from available-for-sale financial assets	76	1,527
Impairment of investments	-	(522)
Share of (loss)/profit of associated companies	(73)	70
Consolidated profit before taxation	<u>176,959</u>	<u>62,572</u>

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

	September 30, 2010 US\$'000	March 31, 2010 US\$'000
Segment assets for reportable segments	8,356,522	5,880,621
Unallocated:		
Deferred tax assets	270,295	254,978
Derivative financial assets	6,984	13,283
Available-for-sale financial assets	71,182	112,520
Interests in associated companies	1,026	1,061
Unallocated cash and cash equivalents	1,707,890	1,644,904
Unallocated inventories	298,154	311,455
Other unallocated assets	302,814	737,106
Total assets per consolidated balance sheet	<u>11,014,867</u>	<u>8,955,928</u>

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

	September 30, 2010 US\$'000	March 31, 2010 US\$'000
Segment liabilities for reportable segments	7,484,001	5,378,407
Unallocated:		
Income tax payable	75,108	84,329
Derivative financial liabilities	86,075	11,259
Deferred tax liabilities	14,893	10,331
Bank borrowings	330,000	430,000
Convertible preferred shares	95,907	94,980
Other unallocated liabilities	1,362,041	1,340,604
Total liabilities per consolidated balance sheet	<u>9,448,025</u>	<u>7,349,910</u>

- (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 September 30, 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	Amounts pending allocation US\$ million	Total US\$ million
Goodwill	850	143	24	151	92	37	177	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

Goodwill pending allocation represents the amount 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 in the development of customer-focused products to capitalize on the mobile internet device business growth. Management is in the process of determining the allocation of goodwill to the appropriate cash generating unit of the Group.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at September 30, 2010 (March 31, 2010: nil).

3 Other income - net

	3 months ended September 30, 2010 US\$'000	6 months ended September 30, 2010 US\$'000	3 months ended September 30, 2009 US\$'000	6 months ended September 30, 2009 US\$'000
Net gain on disposal of investments and available-for-sale financial assets	8	97	38,688	38,688
Dividend income from available-for- sale financial assets	76	76	-	1,527
Impairment of investments	-	-	(522)	(522)
	84	173	38,166	39,693

4 Finance income and costs

- (a) Finance income

	3 months ended September 30, 2010 US\$'000	6 months ended September 30, 2010 US\$'000	3 months ended September 30, 2009 US\$'000	6 months ended September 30, 2009 US\$'000
Interest on bank deposits	6,058	10,787	3,535	6,528
Interest on money market funds	243	378	368	617
Others	105	123	223	401
	6,406	11,288	4,126	7,546

(b) Finance costs

	3 months ended September 30, 2010 US\$'000	6 months ended September 30, 2010 US\$'000	3 months ended September 30, 2009 US\$'000	6 months ended September 30, 2009 US\$'000
Interest on bank loans and overdrafts	4,952	9,916	8,340	16,029
Dividend and relevant finance costs on convertible preferred shares	1,554	3,107	3,215	6,747
Factoring cost	4,259	7,777	2,200	5,200
Others	857	1,659	3,911	8,366
	<u>11,622</u>	<u>22,459</u>	<u>17,666</u>	<u>36,342</u>

5 Profit before taxation

Profit before taxation is stated after charging the following:

	3 months ended September 30, 2010 US\$'000	6 months ended September 30, 2010 US\$'000	3 months ended September 30, 2009 US\$'000	6 months ended September 30, 2009 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	20,186	40,673	24,261	50,684
Amortization of intangible assets	24,770	50,426	17,570	31,904
Employee benefit costs, including	353,516	685,893	294,110	560,163
- long-term incentive awards	8,216	18,401	13,417	24,077
- severance and related costs	833	2,271	1,133	3,759
Rental expenses under operating leases	13,397	26,538	11,645	22,513
	<u>13,397</u>	<u>26,538</u>	<u>11,645</u>	<u>22,513</u>

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2010 US\$'000	6 months ended September 30, 2010 US\$'000	3 months ended September 30, 2009 US\$'000	6 months ended September 30, 2009 US\$'000
Current taxation				
Hong Kong profits tax	1,396	1,467	57	90
Taxation outside Hong Kong	17,645	41,381	2,474	13,582
Deferred taxation	5,932	2,664	9,376	11,827
	<u>24,973</u>	<u>45,512</u>	<u>11,907</u>	<u>25,499</u>

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

	6 months ended September 30, 2010 US\$'000	6 months ended September 30, 2009 US\$'000
Interim dividend, declared after period end – HK2.6 cents (2009/10: HK1.0 cent) per ordinary share	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 September 30, 2010	6 months ended September 30, 2010	3 months ended September 30, 2009	6 months ended September 30, 2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	9,504,308,541	9,526,936,298	8,974,410,775	8,923,429,962
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company	76,586	131,446	53,082	37,073

(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 September 30, 2010	6 months ended September 30, 2010	3 months ended September 30, 2009	6 months ended September 30, 2009
Weighted average number of ordinary shares in issue	9,504,308,541	9,526,936,298	8,974,410,775	8,923,429,962
Adjustments for convertible preferred shares	282,263,132	282,263,132	596,858,434	-
Adjustments for share options and long-term incentive awards	543,868,709	537,249,423	686,209,147	690,351,787
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	10,330,440,382	10,346,448,853	10,257,478,356	9,613,781,749
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company	76,586	131,446	53,082	37,073
Interest expense on convertible preferred shares	1,554	3,107	3,215	-
	78,140	134,553	56,297	37,073

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 six months ended September 30, 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.
- All warrants were exercised or repurchased on September 9, 2009 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 of 30 days. Ageing analysis of trade receivables of the Group at the balance sheet date is as follows:

	September 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
0 – 30 days	1,558,520	907,412
31 – 60 days	82,974	65,335
61 – 90 days	28,458	32,730
Over 90 days	14,752	32,904
	1,684,704	1,038,381
Less: provision for impairment	(23,008)	(17,319)
Trade receivables – net	1,661,696	1,021,062

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

	September 30, 2010	March 31, 2010
	<i>US\$'000</i>	<i>US\$'000</i>
0 – 30 days	2,085,369	2,425,237
31 – 60 days	628,520	609,720
61 – 90 days	288,048	74,499
Over 90 days	64,064	31,970
	<u>3,066,001</u>	<u>3,141,426</u>

10 Provisions, accruals and other payables

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

	Warranty	Restructuring	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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)
	<u>550,689</u>	<u>11,341</u>	<u>562,030</u>
Long-term portion classified as non-current liabilities	(301,234)	-	(301,234)
At the end of the year	<u>249,455</u>	<u>11,341</u>	<u>260,796</u>
Six months ended September 30, 2010			
At the beginning of the period	550,689	11,341	562,030
Exchange adjustment	4,015	14	4,029
Provisions made	322,333	2,736	325,069
Amounts utilized	(237,673)	(1,998)	(239,671)
Unused amounts reversed	-	(1,332)	(1,332)
	<u>639,364</u>	<u>10,761</u>	<u>650,125</u>
Long-term portion classified as non-current liabilities	(348,567)	-	(348,567)
At the end of the period	<u>290,797</u>	<u>10,761</u>	<u>301,558</u>

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

	September 30, 2010		March 31, 2010	
	<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	9,788,044,282	31,388	9,211,389,406	29,530
Issue of ordinary shares	-	-	111,668,936	359
Conversion from series A cumulative convertible preferred shares	-	-	369,112,652	1,190
Exercise of share options	12,110,710	39	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	<u>9,710,820,992</u>	<u>31,140</u>	<u>9,788,044,282</u>	<u>31,388</u>
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	-	-	(1,005,832)	(1,190)
At the end of the period/year	<u>769,167</u>	<u>891</u>	<u>769,167</u>	<u>891</u>

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.6 cents (2009/10: HK1.0 cent) per ordinary share for the six months ended September 30, 2010, absorbing an aggregate amount of approximately HK\$252.6 million (approximately US\$32.6 million) (2009/10: approximately HK\$95 million (approximately US\$12 million)), to shareholders whose names appear on the Register of Members of ordinary shares of the Company on Wednesday, December 1, 2010. The interim dividend will be paid on Thursday, December 9, 2010.)

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Monday, November 29, 2010 to Wednesday, December 1, 2010, both days inclusive, during which period no transfer of ordinary shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, November 26, 2010.

INTERIM RESULTS

Results

For the six months ended September 30, 2010, the Group achieved total sales of approximately US\$10,907 million. Profit attributable to equity holders for the period was approximately US\$131 million, representing an increase of US\$94 million as compared with corresponding period of last year. Gross profit margin for the six months was 0.6 percent point down from 10.8 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\$257 million as compared to March 31, 2010. Basic earnings per share and diluted earnings per share were US1.38 cents and US1.30 cents, representing an increase of US0.96 cent and US0.91 cent respectively as compared with last year.

The Group has adopted 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 six months ended September 30, 2010, overall operating expenses across the board increased when compared to corresponding period of last year as current period includes Lenovo Mobile. Depreciation and amortization charges increased by 10.3 percent as compared to corresponding period of last year as a result of the roll out of the Group's information technology systems. Employee benefit costs increased by 22.4 percent as compared to corresponding period of last year due to increased performance-driven incentive payments.

Further analyses of income and expense by function for the six months ended September 30, 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 16.1 percent as compared to corresponding period of last year. This is principally attributable to US\$54 million increase in promotional activities and US\$17 million increase in employee benefit costs. The increase is partially offset by savings in information technology expense of \$4 million.

Administrative expenses

The Group experienced an increase of 21.1 percent in administrative expenses for the period as compared to corresponding period of last year. This is mainly attributable to the US\$64 million in increased employee benefit costs, US\$14 million increase in amortization of intangible assets and US\$3 million in operating lease payment. The increase is partially offset by decrease in contracted service expense of US\$30 million.

Research and development expenses

Research and development spending for the period increased by 48.2 percent as compared to corresponding period of last year. Major increase is attributable to increase in employee benefit costs of US\$29 million, R&D related office expenses of \$7 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 12.3 percent as compared to corresponding period of last year. Other operating income or expense mainly comprises restructuring costs, gain or loss on foreign exchange and IP license fee income.

Capital Expenditure

The Group incurred capital expenditures of US\$64 million (2009/10: US\$45 million) during the six months ended September 30, 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 September 30, 2010, total assets of the Group amounted to US\$11,015 million (March 31, 2010: US\$8,956 million), which were financed by equity attributable to owners of the Company of US\$1,567 million (March 31, 2010: US\$1,606 million), minority interests of US\$178,000 (March 31, 2010: US\$177,000), and non-current and current liabilities of US\$9,448 million (March 31, 2010: US\$7,350 million). At September 30, 2010, the current ratio of the Group was 0.99 (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 September 30, 2010, bank deposits, cash and cash equivalents totaled US\$2,696 million (2009/10: US\$2,439 million), of which 37.0 (March 31, 2010: 42.9) percent was denominated in US dollars, 53.3 (March 31, 2010: 46.6) percent in Renminbi, 1.5 (March 31, 2010: 1.6) percent in Euros, 0.3 (March 31, 2010: 0.2) percent in Japanese Yen, and 7.9 (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 September 30, 2010, 74.4 (March 31, 2010: 78.2) percent of cash are bank deposits, and 25.6 (March 31, 2010: 21.8) percent of cash are investments in liquid money market fund of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At September 30, 2010, the Group had a US\$100 million 5-Year revolving and term loan facility with syndicated banks; and a US\$30 million 5-Year fixed rate loan facility with a bank in China. These facilities were fully utilized at March 31 and September 30, 2010 and both of which will expire before the end of March 2011.

To secure more long-term funding, 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 September 30, 2010 (March 31, 2010: US\$200 million). 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 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 has also arranged other short-term credit facilities. At September 30, 2010, the Group's total available credit facilities amounted to US\$6,203 million (March 31, 2010: US\$4,936 million), of which US\$282 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\$5,450 million (March 31, 2010: US\$4,175 million) in forward foreign exchange contracts. At September 30, 2010, the amounts drawn down were US\$159 million (March 31, 2010: US\$191 million) in trade lines, US\$3,834 million (March 31, 2010: US\$2,641 million) being used for the forward foreign exchange contracts; and US\$48 million (March 31, 2010: US\$65 million) in short-term bank loans.

At September 30, 2010, the Group's outstanding bank loans represented the term loans of US\$330 million (March 31, 2010: US\$430 million) and short-term bank loans of US\$48 million (March 31, 2010: US\$65 million). Short-term bank loans of US\$22 million (March 31, 2010: US\$28 million) are secured by the same amount of bank deposits. When compared with total equity of US\$1,567 million (March 31, 2010: US\$1,606 million), the Group's gearing ratio was 0.24 (March 31, 2010: 0.31). The net cash position of the Group at September 30, 2010 is US\$2,318 million (March 31, 2010:

US\$1,944 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2010, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$3,834 million (March 31, 2010: US\$2,641 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.

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 of 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.

At September 30, 2010, the outstanding number of convertible preferred shares was 769,167 (March 31, 2010: 769,167).

Under the general mandate authorized by the shareholders in the annual general meeting, the Company purchases ordinary shares in order to increase shareholder value. For the six months ended September 30, 2010, the Company purchased 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 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 September 30, 2010, the Group had a total of 25,842 (2009/10 Q2: 20,757) employees.

The Group implements remuneration policy, bonus and long-term incentive schemes 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 six months ended September 30, 2010, worldwide PC market unit shipments continued to show steady growth at 14.8 percent year-on-year, according to preliminary industry estimates. This came in spite of continued uncertainty in the global economic recovery and the renewed debt crisis in Europe. Recovering commercial demand helped drive the global PC market growth and offset the contraction of consumer demand growth. Lenovo continued to demonstrate balanced, strong growth momentum in all geographies covering China, Mature Markets and Emerging Markets, as well as in all products and customer segments. Lenovo benefited from its leading market position in China,

unique commercial segment exposure in Mature Markets as well as expanded footprint in consumer and Emerging Markets. The Group believes that this strong balanced performance can be attributed to the successful execution of Lenovo's "Protect and Attack" strategy. The Group has successfully surpassed the threshold of double-digit worldwide market share in the past two consecutive quarters. In the fiscal second quarter, Lenovo achieved a record high market share of 10.4 percent, according to preliminary industry estimates. Likewise, for the interim period, the Group's unit shipments grew at 39.8 percent year-on-year compared to the worldwide PC unit shipments growth of 14.8 percent during the same period, demonstrating Lenovo's continued share increase in worldwide market by 1.8 percentage points from last year to 10.3 percent. Lenovo has outperformed the worldwide PC market in the past six consecutive quarters, and, in fact, it has also been the fastest growing PC company among the top global PC companies for the past four consecutive quarters. Moreover, the Group's newly initiated mobile business also demonstrated on-track performance during the period under review. Lenovo Mobile not only launched its first 3G smartphone in May this year, it also strived to further strengthen its distribution coverage in China by teaming up with China Telecom in late September this year, in addition to China Unicom.

For the six months ended September 30, 2010, the Group's sales increased by 44.9 percent year-on-year to US\$10,907 million. Sales of the Group's PC business were US\$10,508 million, representing a year-on-year increase of 39.6 percent, while mobile business recorded sales of US\$399 million, reflecting a full half-year contribution after the Group's acquisition of its mobile business in January 2010. The Group's gross profit increased by 37.8 percent year-on-year to US\$1,116 million. Although the Group's gross margin for the interim period declined to 10.2 percent from 10.8 percent in the same period last year, mainly due to business mix shift to small-to-medium sized businesses (SMBs) and consumer business and to the Emerging Markets, its gross margin for the fiscal second quarter has started to show slight sequential improvement. Meanwhile, the Group's continued stringent expense control and better scaling benefits from strong shipments growth that helped improve its profitability. During the first six months of the fiscal year, the Group's operating expenses – which included expenses incurred in its mobile operations – increased by 22.4 percent year-on-year to US\$928 million. The increase in expenses was slower than the Group's sales growth, and therefore, the expenses-to-revenue ratio before restructuring continued to fall to a historic low level at 8.4 percent. As a result, profit before taxation margin improved to 1.6 percent for the period. The Group recorded profit before taxation of US\$177 million and profit attributed to equity holders amounted to US\$131 million, increased by 182.8 percent and 254.6 percent respectively from the same period in last year.

Performance of Geographies

During the six months ended September 30, 2010, Lenovo achieved solid performance in all geographies. The Group further extended its leadership position in China and protected its profitability in the region amid intensified competition. Mature Markets returned to profit for the first time since the global financial crisis in late 2008, supported by the recovery of corporate refreshment demand. Emerging Markets continued the hyper-growth in unit shipments and rapidly gained market share with reduced operating losses.

China accounted for 47.1 percent of the Group's total sales, of which sales from the PC and mobile businesses accounted for 43.4 and 3.7 percent respectively of the Group's sales. For the interim period, the China PC market showed moderate growth largely due to the high comparison base and lower consumption demand from slower economic growth, stock market consolidation and government's measures in tightening market liquidity. Nevertheless, Lenovo continued to grow faster than the market and recorded 31.1 percent year-on-year growth in unit shipments, against the China PC market year-on-year growth rate of 20.4 percent for the same period. Thus Lenovo's leadership position further expanded by 2.4 percentage points from last year to 28.8 percent market share, based on preliminary industry estimates. Lenovo continued to sustain a wide gap with the competition. The Group's mobile business also posted a strong unit shipments growth of 57.0 percent in its first full half-year reporting after its integration into the Group, compared to its own performance in the same period last year prior to acquisition.

Emerging Markets (excluding China) accounted for 17.3 percent of the Group's total sales. For the interim period, Lenovo successfully expanded the operating scale in the region through continued improvement in distribution channels, a strengthened product portfolio and enhancement in business processes, together with better macroeconomic conditions in most of the markets in the region. The Group grew 66.8 percent year-on-year in unit shipments, with 1.6 percentage points share gain from a year ago to 5.9 percent according to preliminary industry estimates. Unit shipments growth and share gains were also recorded across all key regions such as RUCIS (+226.4%), ASEAN (+47.9%), India (+71.4%), Latin America (+63.5%). The Group's operating loss in Emerging Markets was reduced year-on-year due to its enhanced operating efficiency.

Mature Markets accounted for 35.6 percent of the Group's total sales. Lenovo continued to show unit shipments growth in Mature Markets at 43.8 percent year-on-year for the interim period, boosted by the on-going recovery in commercial PC demand especially the SMBs. The Group recorded promising unit shipments growth and share gains in most regions within Mature Markets. Lenovo's market share in Mature Markets increased by 1.4 percentage points from last year to 5.6 percent, according to preliminary industry estimates. The Group's profitability in Mature Markets improved significantly and returned to profit in the fiscal second quarter for the first time since the global financial crisis in 2008, with an operating margin of 1.0 percent for that quarter.

Performance of Product Groups

During the six months ended September 30, 2010, Lenovo posted strong unit shipments growth in both commercial and consumer customer segments. The Think Product Group, which mainly targets commercial customers, accounted for 61.5 percent of the Group's total sales, while the Idea Product Group, which primarily focuses on the consumer and entry SMB products, accounted for 34.1 percent of the Group's total sales. The unit shipments for the Think Product Group increased by 30.0 percent year-on-year and the Idea Product Group posted 50.3 percent year-on-year unit shipments growth for the period. As a result, Lenovo's market shares in the worldwide commercial and consumer PC markets have been raised by 2.3 and 1.5 percentage points from a year ago, respectively, according to preliminary industry estimates.

Lenovo also delivered solid unit shipments growth and market share gains in both notebook and desktop PCs. The Group captured the robust demand for consumer notebooks in China and Emerging Markets, as well as commercial notebooks in Mature Markets. Unit shipments for notebook PCs grew by 46.7 percent year-on-year for interim period and Lenovo's market share in the worldwide notebook PC market increased by 1.9 percentage points from last year to 10.5 percent based on preliminary industry estimates. The strong shipments growth helped Lenovo to become the fourth largest notebook PC company in the world. During the period, Lenovo announced its first 3D multi-media notebook, the IdeaPad Y560d. Lenovo continued to maintain solid performance in desktop PCs through its All-in-One consumer desktops and SMB targeted desktops. The Group's desktop PCs unit shipments grew 31.1 percent year-on-year in the same period, while its worldwide market share increased by 1.7 percentage points from a year ago to 10.0 percent according to preliminary industry estimates. Lenovo launched the ThinkCenter A70 and M70e desktops that give customer new, stylish designs with powerful processing capabilities, targeting SMBs and large enterprises respectively.

The Group's mobile business in China also recorded strong growth during the first half of the fiscal year, boosted by the robust growth in the China handset market. Lenovo's overall mobile handset unit shipments grew by 57.0 percent year-on-year and the original handset business grew 50.9 percent year-on-year. Lenovo launched its first 3G smartphone in May this year and received good market response. As a result, Lenovo's market share in China's mobile handset market increased 0.7 percentage points from last year to 4.7 percent and continued to be the number one domestic handset brand in China, based on industry estimates.

Outlook

Despite challenges such as uncertainties in the pace of growth of global economy, debt crisis in Europe and macroeconomic tightening policies in China seen ahead, Lenovo remains cautiously optimistic that the worldwide PC market could continue the growth trend shown in the last several quarters.

PC demand growth in China will likely be moderate given the high comparison base, but it will continue to outperform the growth of worldwide PC market due to opportunities in areas of low penetration rates, such as smaller cities and suburban areas. Lenovo will leverage its core strengths in distribution channels, brand reputation and market knowledge to extend its leadership position and enhance the profitability in China. Corporate replacement demand has already shown improvement in Mature Markets and Lenovo will benefit, given its solid exposure in commercial segment in these markets. Lenovo has already made good progress in restoring profitability in Mature Markets by revamping its channel organization structure, rolling out its transaction business and broadening its product portfolios. Lenovo's strong unit shipments growth in Emerging Markets has helped grow its scale. The Group will continue to invest to expand its product portfolios and shipments growth to reach double digit market shares in key markets in order to establish an optimal market position and sustainable profit in the future.

Lenovo has already demonstrated initial success in its 3G smartphone launch. Sales performance will continue to improve after being teamed up with new telecom operators. The Group will continue to invest and launch more new innovative mobile internet products in the future to seize the opportunities of increasing mobile internet penetration in global markets. Lenovo will look for the opportunity to team up with more channel partners to more efficiently reach out its products to customers, thus to build a stronger market position and become a key player in the mobile internet device market.

Although the pricing of key components such as memory chips and panels has come down from recent peak levels, the Group expects its gross margin to only show gradual improvement in the short term due to business mix shift to SMB and consumer products and to Emerging Markets. Lenovo has already executed well to get a proper balance between growth and margins in the past few quarters, and will continue to focus on managing material costs, improving product mix and increasing service, software and peripherals attach rates. The Group will invest in R&D, branding and global supply chain to drive sustainable growth in products and market expansions, as well as refine its end-to-end business models to improve its operating efficiency. The Group is also actively looking for merger and acquisition opportunities within the PC industry to supplement its organic growth strategy to further expand the scale and efficiency of its operations.

In last several quarters, Lenovo delivered outstanding performance even under tough business environment and intense competition. The Group believes that as market conditions become more favorable, Lenovo will consistently deliver solid performance and create more values for the shareholders through successful execution of the "Protect & Attack" strategy.

PURCHASE, SALE OR REDEMPTION 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 <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate Consideration paid (excluding expenses) <i>HK\$</i>
June 2010	34,456,000	4.50	4.17	149,427,360
July 2010	43,026,000	4.49	4.11	185,729,660
August 2010	6,000,000	4.53	4.41	26,738,540
September 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.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended September 30, 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 interim results for the six months ended September 30, 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 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 the Chairman of the Board was unable to attend the Company's annual general meeting which was held on July 30, 2010 (as required under Code E.1.2) as he had an engagement that was important to the Company's business.

By order of the Board
Liu Chuanzhi
Chairman

Beijing, November 10, 2010

As at the date hereof, 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.