

FROM THE WORLD'S BEST ENGINEERS



Lenovo Group Limited Interim Report 2007/08

COME THE WORLD'S BEST ENGINEERED PCs



Interim Results

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

Consolidated Income Statement

	Note	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000	3 months ended September 30, 2006 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Sales	2	4,431,986	8,358,486	3,700,424	7,176,118
Cost of sales		(3,764,472)	(7,106,295)	(3,220,116)	(6,198,942)
Gross profit		667,514	1,252,191	480,308	977,176
Other income – net	3	28	2,142	9,288	14,821
Selling and distribution expenses		(321,959)	(596,660)	(267,438)	(564,074)
Administrative expenses		(145,067)	(277,148)	(113,159)	(227,849)
Research and development expenses		(64,542)	(119,526)	(55,809)	(107,110)
Other operating expenses		(17,993)	(62,981)	(9,013)	(30,516)
Operating profit		117,981	198,018	44,177	62,448
Finance income		14,484	20,409	6,918	11,336
Finance costs	4	(9,572)	(17,606)	(8,427)	(17,578)
Share of profits of associated companies		65	59	334	1,640
Profit before taxation	5	122,958	200,880	43,002	57,846
Taxation	6	(17,703)	(28,786)	(5,117)	(14,755)
Profit for the period		105,255	172,094	37,885	43,091
Profit attributable to:					
Shareholders of the Company		105,255	172,094	37,885	43,091
Minority interests		–	–	–	–
		105,255	172,094	37,885	43,091
Dividend	7		34,715		27,454
Earnings per share					
– Basic	8(a)	US1.22 cents	US2.00 cents	US0.44 cents	US0.50 cents
– Diluted	8(b)	US1.12 cents	US1.86 cents	US0.43 cents	US0.49 cents

Consolidated Balance Sheet

	Note	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
Non-current assets			
Property, plant and equipment		346,752	326,058
Prepaid lease payments		5,904	5,807
Construction-in-progress		22,881	20,438
Intangible assets		1,850,510	1,867,689
Investments in associated companies		4,030	3,908
Deferred tax assets		125,226	101,551
Available-for-sale financial assets		85,947	42,938
Other non-current assets		19,784	20,000
		2,461,034	2,388,389
Current assets			
Inventories		353,015	357,663
Trade receivables	9(a)	1,018,460	641,593
Notes receivable		255,393	190,857
Deposits, prepayments and other receivables		669,771	784,857
Tax recoverable		13,502	22,041
Cash and cash equivalents		1,881,970	1,063,716
		4,192,111	3,060,727
Total assets			
		6,653,145	5,449,116
Share capital			
	11	28,709	28,504
Reserves			
		1,305,671	1,105,028
Shareholders' funds			
		1,334,380	1,133,532
Minority interests			
		744	744
Total equity			
		1,335,124	1,134,276
Non-current liabilities			
	12	844,936	789,058
Current liabilities			
Trade payables	9(b)	2,601,393	1,977,206
Notes payable		66,337	49,154
Provisions, accruals and other payables	10	1,636,813	1,412,864
Tax payable		74,200	60,013
Short-term bank loans		81,224	18,028
Current portion of non-current liabilities		13,118	8,517
		4,473,085	3,525,782
Total liabilities			
		5,318,021	4,314,840
Total equity and liabilities			
		6,653,145	5,449,116
Net current liabilities			
		280,974	465,055
Total assets less current liabilities			
		2,180,060	1,923,334

Condensed Consolidated Cash Flow Statement

	6 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Net cash generated from operating activities	930,227	390,775
Net cash used in investing activities	(140,755)	(58,254)
Net cash generated from/(used in) financing activities	39,377	(226,914)
Increase in cash and cash equivalents	828,849	105,607
Effect of foreign exchange rate changes	(10,595)	(9,446)
Cash and cash equivalents at the beginning of the period	1,063,716	1,004,981
Cash and cash equivalents at the end of the period	1,881,970	1,101,142

Consolidated Statement of Changes in Equity

	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares and warrants (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Retained earnings/ (accumulated losses) (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) US\$'000
At April 1, 2007	28,504	1,042,579	45,979	-	(22,756)	15,078	497	(127,301)	51,420	99,532	744	1,134,276
Fair value change on available-for-sale financial assets	-	-	-	-	-	45,251	-	-	-	-	-	45,251
Transfer to statutory reserve	-	-	-	12,850	-	-	-	-	-	(12,850)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	172,094	-	172,094
Exchange differences	-	-	-	-	(26,271)	-	-	-	-	-	-	(26,271)
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	-	(1,886)	-	-	-	-	-	(1,886)
Vesting of shares under long-term incentive program	-	-	-	-	-	-	-	13,397	(17,207)	-	-	(3,810)
Exercise of share options	205	23,721	-	-	-	-	-	-	-	-	-	23,926
Share-based compensation	-	-	-	-	-	-	-	-	22,632	-	-	22,632
Dividend paid	-	-	-	-	-	-	-	-	-	(31,088)	-	(31,088)
At September 30, 2007	28,709	1,066,300	45,979	12,850	(49,027)	58,443	497	(113,904)	56,845	227,688	744	1,335,124
At April 1, 2006	28,504	1,043,260	10,769	-	(3,313)	(3,579)	396	(51,043)	22,791	(3,882)	744	1,044,647
Fair value change on available-for-sale financial assets	-	-	-	-	-	(2,836)	-	-	-	-	-	(2,836)
Profit for the period	-	-	-	-	-	-	-	-	-	43,091	-	43,091
Exchange differences	-	-	-	-	(30,517)	-	-	-	-	-	-	(30,517)
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	-	310	-	-	-	-	-	310
Issue of ordinary shares	31	2,919	-	-	-	-	-	-	-	-	-	2,950
Vesting of shares under long-term incentive program	-	-	-	-	-	-	-	7,733	(7,733)	-	-	-
Share-based compensation	-	-	-	-	-	-	-	-	16,562	-	-	16,562
Repurchase of shares	(50)	(4,602)	-	-	-	-	50	-	-	-	-	(4,602)
Contributions to employee share trusts	-	-	-	-	-	-	-	(73,654)	-	-	-	(73,654)
Dividend paid	-	-	-	-	-	-	-	-	-	(31,258)	-	(31,258)
At September 30, 2006	28,485	1,041,577	10,769	-	(33,830)	(6,105)	446	(116,964)	31,620	7,951	744	964,893

Notes to the Condensed Interim Financial Statements

1. Basis of preparation

The Board is responsible for the preparation of the Group's unaudited condensed interim financial statements. These unaudited 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. They have been prepared under the historical cost convention except that available-for-sale financial assets are stated at fair value. These unaudited condensed interim financial statements should be read in conjunction with the 2006/07 annual financial statements.

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

The following new standards, amendments to standards and interpretations are mandatory for the year ending March 31, 2008. The Group has adopted these new standards, amendments to standards and interpretations where considered appropriate and relevant to its operations.

- Amendment to HKAS 1, "Capital disclosures"
- HKFRS 7, "Financial instruments: Disclosures"
- HK(IFRIC)-Int 8, "Scope of HKFRS 2"
- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 10, "Interim financial reporting and impairment"
- HK(IFRIC)-Int 11, "HKFRS 2 – Group and treasury share transactions"

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

- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 1, 2008
- HK(IFRIC)-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after July 1, 2008
- HK(IFRIC)-Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions", effective for annual periods beginning on or after January 1, 2008

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

2. Segment information

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

(a) Primary reporting format – geographical segments

The segment results for the six months ended September 30, 2007 are as follows:

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	2,330,013	1,639,938	1,035,452	3,353,083	-	8,358,486
Segment operating results	42,779	44,758	(7,349)	194,644	(78,956)	195,876
Finance income						20,409
Finance costs						(17,606)
Gain on disposal of available-for-sale financial assets						2,142
Share of profits of associated companies						59
Profit before taxation						200,880
Taxation						(28,786)
Profit for the period						172,094

Notes to the Condensed Interim Financial Statements (continued)

2. Segment information (continued)

(a) Primary reporting format – geographical segments (continued)

At September 30, 2007

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Segment assets	1,270,819	589,504	1,158,258	2,743,454		5,762,035
Investments in associated companies					4,030	
Available-for-sale financial assets					85,947	
Cash and cash equivalents					557,426	
Deferred tax assets					125,226	
Tax recoverable					13,502	
Other unallocated assets					104,979	891,110
Consolidated total assets						6,653,145
Segment liabilities	1,391,166	997,202	550,543	1,779,139		4,718,050
Bank borrowings					100,000	
Convertible preferred shares					322,697	
Share-based compensation					7,706	
Tax payable					74,200	
Other unallocated liabilities					95,368	599,971
Consolidated total liabilities						5,318,021
Capital expenditure	27,571	3,582	8,188	43,899	51,969	135,209

The segment results for the six months ended September 30, 2006 are as follows:

	Americas (unaudited) US\$'000	Europe, Middle East and Africa (unaudited) US\$'000	Asia Pacific (excluding Greater China) (unaudited) US\$'000	Greater China (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	2,080,485	1,412,583	899,913	2,783,137	–	7,176,118
Segment operating results	(40,426)	(13,390)	(10,592)	173,873	(61,838)	47,627
Finance income						11,336
Finance costs						(17,578)
Impairment of assets						(3,762)
Fair value change on warrants						(355)
Gain on disposal of investments and available-for-sale financial assets						18,938
Share of profits of associated companies						1,640
Profit before taxation						57,846
Taxation						(14,755)
Profit for the period						43,091

Notes to the Condensed Interim Financial Statements (continued)

2. Segment information (continued)

(a) Primary reporting format – geographical segments (continued)

At March 31, 2007

	Americas (audited) US\$'000	Europe, Middle East and Africa (audited) US\$'000	Asia Pacific (excluding Greater China) (audited) US\$'000	Greater China (audited) US\$'000	Corporate or unallocated (audited) US\$'000	Total (audited) US\$'000
Segment assets	1,188,004	589,350	847,038	2,050,866		4,675,258
Investments in associated companies					3,908	
Available-for-sale financial assets					42,938	
Cash and cash equivalents					439,212	
Deferred tax assets					101,551	
Tax recoverable					22,041	
Other unallocated assets					164,208	773,858
Consolidated total assets						5,449,116
Segment liabilities	1,228,160	904,054	587,436	1,066,939		3,786,589
Bank borrowings					100,000	
Convertible preferred shares					317,495	
Share-based compensation					11,019	
Tax payable					60,013	
Other unallocated liabilities					39,724	528,251
Consolidated total liabilities						4,314,840
Capital expenditure	84,745	13,520	20,245	64,046	60,545	243,101

(b) Secondary reporting format – business segments

	Personal Computer			Mobile handset	Others	Total
	Desktop US\$'000	Notebook US\$'000	Total US\$'000	US\$'000	US\$'000	US\$'000
For the six months ended September 30, 2007 (unaudited)						
Sales	3,439,884	4,575,113	8,014,997	235,067	108,422	8,358,486
Capital expenditure			130,318	3,410	1,481	135,209
For the six months ended September 30, 2006 (unaudited)						
Sales	3,022,055	3,705,443	6,727,498	339,634	108,986	7,176,118
Capital expenditure			78,662	3,549	1,139	83,350
Total segment assets as at September 30, 2007 (unaudited)			8,656,954	157,965	160,456	8,975,375
Total segment assets as at March 31, 2007 (audited)			3,938,006	91,757	45,237	4,075,000

Notes to the Condensed Interim Financial Statements (continued)

3. Other income – net

	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000	3 months ended September 30, 2006 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Impairment of assets	–	–	–	(3,762)
Fair value change on warrants	–	–	(9,695)	(355)
Gain on disposal of investments and available-for-sale financial assets	28	2,142	18,983	18,938
	28	2,142	9,288	14,821

4. Finance costs

	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000	3 months ended September 30, 2006 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Interest on bank loans and overdrafts	3,529	5,366	2,373	5,591
Dividend and relevant finance costs on convertible preferred shares	5,474	10,947	5,529	10,984
Others	569	1,293	525	1,003
	9,572	17,606	8,427	17,578

5. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000	3 months ended September 30, 2006 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Amortization of intangible assets (including accelerated amortization of US\$28,058,000 (2006/07:Nil))	54,919	80,862	24,757	50,410
Cost of inventories sold	3,502,838	6,574,922	3,060,198	5,821,442
Depreciation expenses and amortization of prepaid lease payments	23,570	45,555	17,731	33,992
Employee benefit costs (including share-based compensation of US\$11,758,000 (2006/07: US\$9,835,000) for three-month period and US\$22,632,000 (2006/07: US\$16,562,000) for six-month period)	304,893	629,662	226,940	458,326
Rental expenses under operating leases	9,033	18,121	7,180	17,613
Restructuring costs				
– Staff related costs (included in employee benefit costs above)	1,880	39,932	4,068	5,686
– Others	(131)	6,629	(2,103)	15,675

Notes to the Condensed Interim Financial Statements (continued)

6. Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000	3 months ended September 30, 2006 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Current taxation				
Hong Kong profits tax	113	160	(51)	(4)
Taxation outside Hong Kong	13,116	47,839	(15,365)	4,234
Deferred taxation	4,474	(19,213)	20,533	10,525
	17,703	28,786	5,117	14,755

7. Dividend

	6 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2006 (unaudited) US\$'000
Interim dividend, declared after period end, of HK3.0 cents (2006/07: HK2.4 cents) per ordinary share	34,715	27,454

8. Earnings per share

(a) Basic

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

	6 months ended September 30, 2007 (unaudited)	6 months ended September 30, 2006 (unaudited)
Profit attributable to shareholders of the Company (US\$'000)	172,094	43,091
Weighted average number of ordinary shares in issue for the calculation of basic earnings per share	8,602,883,390	8,686,415,657

(b) Diluted

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

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

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

Notes to the Condensed Interim Financial Statements (continued)

8. Earnings per share (continued)

(b) Diluted (continued)

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.

	6 months ended September 30, 2007 (unaudited)	6 months ended September 30, 2006 (unaudited)
Profit attributable to shareholders of the Company (US\$'000)	172,094	43,091
Interest expense on convertible preferred shares (US\$'000)	10,947	–
Profit used to determine diluted earnings per share (US\$'000)	183,041	43,091
Weighted average number of ordinary shares in issue	8,602,883,390	8,686,415,657
Adjustments for assumed conversion of convertible preferred shares	1,001,834,862	–
Adjustments for share options, long-term incentive awards and warrants	220,241,974	118,992,518
Weighted average number of ordinary shares in issue for the calculation of diluted earnings per share	9,824,960,226	8,805,408,175

9. Ageing analysis

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

	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
0-30 days	866,355	532,247
31-60 days	98,978	69,188
61-90 days	22,706	14,816
Over 90 days	30,421	25,342
	1,018,460	641,593

Customers are generally granted credit terms of 30 days.

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

	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
0-30 days	1,863,131	1,484,771
31-60 days	557,512	298,943
61-90 days	160,788	178,380
Over 90 days	19,962	15,112
	2,601,393	1,977,206

Notes to the Condensed Interim Financial Statements (continued)

10. Provisions, accruals and other payables

Included in provisions, accruals and other payables are warranty, restructuring costs and battery recall provisions as follows:

	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
(a) Warranty provision		
At the beginning of the period/year	448,333	326,124
Provisions made	278,832	410,356
Amounts utilized	(187,977)	(288,147)
	539,188	448,333
Long-term portion classified as non-current liabilities	(197,208)	(166,525)
	341,980	281,808
(b) Restructuring costs provision		
At the beginning of the period/year	5,645	69,584
Exchange adjustment	1,266	(460)
Provisions made	33,802	–
Amounts utilized	(14,063)	(44,059)
Unused amounts reversed	(800)	(19,420)
	25,850	5,645
(c) Battery recall provision		
At the beginning of the period/year	8,693	–
Provisions made	2,000	23,750
Amounts utilized	(5,953)	(15,057)
	4,740	8,693

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

Notes to the Condensed Interim Financial Statements (continued)

11. Share capital

	September 30, 2007 (unaudited)		March 31, 2007 (audited)	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorized:				
Ordinary shares	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares	3,000,000	27,525	3,000,000	27,525
		527,525		527,525
	Number of shares	US\$'000	Number of shares	US\$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	8,517,981,022	27,301	8,517,920,623	27,301
Exercise of share options	64,068,000	205	31,450,399	101
Repurchase of shares	–	–	(31,390,000)	(101)
At the end of the period/year	8,582,049,022	27,506	8,517,981,022	27,301
Non-voting ordinary shares:				
At the beginning and the end of the period/year	375,282,756	1,203	375,282,756	1,203
Total issued and fully paid ordinary shares	8,957,331,778	28,709	8,893,263,778	28,504
Total issued and fully paid series A cumulative convertible preferred shares	2,730,000	3,211	2,730,000	3,211

12. Non-current liabilities

	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
Amount payable for marketing rights	13,199	18,123
Interest-bearing bank loans repayable within five years	100,000	100,000
Share-based compensation	7,706	11,019
Convertible preferred shares	322,697	317,495
Warranty provision	197,208	166,525
Retirement benefit obligations	99,141	102,948
Other non-current liabilities	104,985	72,948
	844,936	789,058

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares in the Company for an aggregate cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share. The warrant will expire on May 17, 2010.

Interim Dividend

The Board has declared an interim dividend of HK3.0 cents (2006/07: HK2.4 cents) per ordinary share for the six months ended September 30, 2007, absorbing an aggregate amount of approximately HK\$269 million (approximately US\$35 million) (2006/07: HK\$214 million (approximately US\$27 million)), to shareholders of ordinary shares whose names appear on the Register of Members of the Company on Friday, November 23, 2007. The interim dividend will be paid on Friday, November 30, 2007.

Closure of Register of Members

The Register of Members of ordinary shares of the Company will be closed from Monday, November 19, 2007 to Friday, November 23, 2007, 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 4:00 p.m. on Friday, November 16, 2007.

Financial Review

Results

	2007 (unaudited) US\$'000	2006 (unaudited) US\$'000
For the six months ended September 30		
Sales	8,358,486	7,176,118
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs (EBITDAR)	391,486	169,952
Profit attributable to shareholders	172,094	43,091
Dividends per ordinary share (HK cents)		
Interim dividend	3.0	2.4
Earnings per share (US cents)		
Basic	2.00	0.50
Diluted	1.86	0.49

For the six months ended September 30, 2007, the Group achieved a turnover of approximately US\$8,358 million representing a 16.5% year-on-year growth driven across all geographies. Profit attributable to shareholders of the Company was approximately US\$172 million during the period, representing an increase of US\$129 million as compared to the same period last year. Gross profit margin for the period was 15.0% up from 13.6% reported during the same period last year. The balance sheet position remained strong, cash and cash equivalents increased by US\$818 million as compared to March 31, 2007 period last year. Basic earnings per share and diluted earnings per share were US2.00 cents and US1.86 cents, representing an increase of US1.50 cents and US1.37 cents respectively as compared with the same period last year.

Financial Review *(continued)*

Segment Results

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

For the six months ended September 30	2007		2006	
	Turnover (unaudited) US\$'000	Segment operating results (unaudited) US\$'000	Turnover (unaudited) US\$'000	Segment operating results (unaudited) US\$'000
Americas	2,330,013	42,779	2,080,485	(40,426)
Europe, Middle East and Africa	1,639,938	44,758	1,412,583	(13,390)
Asia Pacific (excluding Greater China)	1,035,452	(7,349)	899,913	(10,592)
Greater China	3,353,083	194,644	2,783,137	173,873
Corporate or unallocated	–	(78,956)	–	(61,838)
	8,358,486	195,876	7,176,118	47,627
Finance income		20,409		11,336
Finance costs		(17,606)		(17,578)
Impairment of assets		–		(3,762)
Fair value change on warrants		–		(355)
Gain on disposal of investments and available-for-sale financial assets		2,142		18,938
Share of profits of associated companies		59		1,640
Profit before taxation		200,880		57,846
Taxation		(28,786)		(14,755)
Profit for the period		172,094		43,091

Analysis of Operating Expenses

Selling and distribution expenses

In addition to the Olympics, the Group has been successful in leveraging its alliance with prominent international sports teams to boost its brand awareness through advertising campaigns and sponsorship activities. Selling and distribution expenses for the six months ended September 30, 2007 increased by 6% as compared to the same period last year. This is principally attributable to a US\$28 million accelerated amortization for the use of the IBM logo, as a result of broader brand awareness and increased employee benefit costs related to the Group's salary increment plan, increased performance bonuses, and commissions.

Administrative expenses

The Group also experienced an increase in administrative expenses for the six months ended September 30, 2007 of 22% as compared to the same period last year. The increase is mainly due to the increased employee benefit costs related to increased headcount, the Group's salary increment plan, and increased performance bonuses.

Research and development expenses

Research and development spending for the six months ended September 30, 2007 increased by 12% as compared to the same period last year. This is a reflection of the continued investment the Group is making towards its commitment to deliver the most innovative products in the industry.

Other operating expenses

Other operating expenses for the six months ended September 30, 2007 increased by 106% as compared to the same period last year. This was driven by the costs associated with restructuring actions taken to streamline processes, consolidate Lenovo's expertise across the globe, and increase global operational efficiency. Restructuring costs incurred during the period under review amounted to US\$47 million (2006/07: US\$21 million).

Financial Review *(continued)*

Analysis of Operating Expenses *(continued)*

For the six months ended September 30	2007 (unaudited) US\$'000	2006 (unaudited) US\$'000
Amortization of intangible assets (including accelerated amortization of US\$28,058,000 (2006/07: Nil))	80,862	50,410
Cost of inventories sold	6,574,922	5,821,442
Depreciation expenses and amortization of prepaid lease payments	45,555	33,992
Employee benefit costs (including share-based compensation of US\$22,632,000 (2006/07: US\$16,562,000))	629,662	458,326
Rental expenses under operating leases	18,121	17,613
Restructuring costs		
– Staff related costs (included in employee benefit costs above)	39,932	5,686
– Others	6,629	15,675

Capital Expenditure

The Group incurred capital expenditures of US\$135 million (2006/07: US\$83 million) during the six months ended September 30, 2007, mainly for the acquisition of fixed assets, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At September 30, 2007, total assets of the Group amounted to US\$6,653 million (March 31, 2007: US\$5,449 million), which was financed by shareholders' funds of US\$1,334 million (March 31, 2007: US\$1,134 million), minority interests of US\$1 million (March 31, 2007: US\$1 million), and non-current and current liabilities of US\$5,318 million (March 31, 2007: US\$4,315 million). The current ratio of the Group was 0.94 (March 31, 2007: 0.87).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At September 30, 2007, cash and cash equivalents totaled US\$1,882 million (March 31, 2007: US\$1,064 million), of which 54.0 (March 31, 2007: 59.1) percent was denominated in US dollars, 31.7 (March 31, 2007: 20.3) percent in Renminbi, 2.3 (March 31, 2007: 4.6) percent in Euros, 2.3 (March 31, 2007: 3.9) percent in Japanese Yen, and 9.7 (March 31, 2007: 12.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At September 30, 2007, 72.2 (March 31, 2007: 65.8) percent of cash are deposits in banks and 27.8 (March 31, 2007: 34.2) 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, 2007, the Group had a US\$400 million (March 31, 2007: US\$400 million) 5-Year Revolving and Term Loan Facility with syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum; and a US\$100 million (March 31, 2007: US\$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US\$100 million (March 31, 2007: US\$100 million) at September 30, 2007.

The Group has also arranged other short-term credit facilities. At September 30, 2007, the Group's total available credit facilities amounted to US\$2,718 million (March 31, 2007: US\$2,502 million), of which US\$490 million (March 31, 2007: US\$476 million) was in trade lines, US\$393 million (March 31, 2007: US\$291 million) in short-term and revolving money market facilities and US\$1,835 million (March 31, 2007: US\$1,735 million) in forward foreign exchange contracts. At September 30, 2007, the amount drawn down was US\$112 million (March 31, 2007: US\$104 million) in trade lines, US\$1,012 million (March 31, 2007: US\$896 million) being used for the currency forward contracts and US\$81 million (March 31, 2007: US\$18 million) in short-term bank loans.

Financial Review (continued)

Liquidity and Financial Resources (continued)

At September 30, 2007, the Group's outstanding bank loan represented the term loan of US\$100 million (March 31, 2007: US\$100 million) and short-term bank loans of US\$81 million (March 31, 2007: US\$18 million). When compared with total equity of US\$1,335 million (March 31, 2007: US\$1,134 million), the Group's gearing ratio was 0.14 (March 31, 2007: 0.11). The net cash position of the Group at September 30, 2007 is US\$1,701 million (March 31, 2007: US\$946 million).

The net cash positions of the Group are as follows:

	September 30, 2007 (unaudited) US\$'000	March 31, 2007 (audited) US\$'000
Cash	1,882	1,064
Less: Bank loans	181	118
Net cash position	1,701	946

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2007, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US\$1,012 million (March 31, 2007: US\$896 million).

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

The Group issued 2,730,000 convertible preferred shares at the stated value of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated cash consideration of approximately US\$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the issue price of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. The fair value of the liability component and equity component of the convertible preferred shares, and warrants at September 30, 2007 amounted to approximately US\$323 million (March 31, 2007: US\$318 million), US\$11 million (March 31, 2007: US\$11 million) and US\$35 million (March 31, 2007: US\$35 million) respectively. The warrants will expire on May 17, 2010.

Contingent Liabilities

The Group had no material contingent liabilities at September 30, 2007 (March 31, 2007: Nil).

Human Resources

At September 30, 2007, the Group had a total of approximately 25,409 (2006/07: 23,500) employees, 19,362 (2006/07: 18,200) of whom were employed in Chinese mainland and 1,859 (2006/07: 2,000) in the U.S. and 4,188 (2006/07: 3,300) in other countries.

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 Prospects

Lenovo reported solid financial results for the six months ended September 30, 2007. The Group recorded double-digit growth in PC unit shipments and revenue in all the geographies. Consolidated turnover increased 16 percent year-on-year to approximately US\$8,358 million. Gross profit also increased 28 percent to US\$1,252 million. Gross profit margin for the period improved 1.4 percentage points year-on-year to 15.0 percent. Profit before taxation (excluding the cost of strategic restructuring actions) increased 212 percent to approximately US\$247 million, largely due to improvements in gross margin and operational efficiency. Profit attributable to shareholders increased nearly threefold to US\$172 million. The Group also benefited from continued weakness in the US dollar during the period under review.

Personal Computer Business

During the six months ended September 30, 2007, Lenovo's worldwide PC shipments increased approximately 23 percent year-on-year, better than the industry average growth of about 15 percent. Based on preliminary industry data, the Company gained 0.6 percentage points in market share, accounting for approximately 8.2 percent of the worldwide PC market during the period under review.

The Group continued its strong performance in China with approximately 30 percent year-on-year growth in PC unit shipments for the six months ended September 30, 2007. Based on preliminary industry estimates, Lenovo accounted for approximately 36 percent of China's PC market, representing a gain of approximately 0.3 percentage points. The outstanding performance reflected the market traction of Lenovo's dual business model and its increasing success in addressing the needs of key customer segments with the right mix of products and services in China.

In the Americas, Lenovo posted a 14 percent year-on-year increase in PC shipments for the first half of the fiscal year, benefiting from the transaction model roll-out and improved sales execution in relationship-based accounts following the transition of sales coverage to Lenovo's dedicated sales force. In EMEA (Europe, Middle East and Africa), the expanded roll-out of transaction model and smooth sales coverage transition also led to a 19 percent year-on-year increase in PC shipments and strong improvement in profitability. In Asia Pacific (excluding Greater China), Lenovo's PC shipments increased 18 percent year-on-year, driven by solid growth in India and the ASEAN countries.

During the six months ended September 30, 2007, Lenovo saw significant improvement in profitability outside China as a result of improved operational efficiency and solid implementation of Lenovo's four strategic initiatives: rolling out the transaction business model, improving the supply chain, enhancing desktop competitiveness and building a strong brand.

From the product segment perspective, notebooks continued to account for over 50 percent of the Group's revenue. Benefiting from significant growth in China and improving penetration in transaction business outside China, Lenovo's notebook shipments grew 35 percent year-on-year, in line with the worldwide market in the first half of the fiscal year. Lenovo's desktop business also showed strong improvements during the period. Desktop shipments rose 16 percent year-on-year and posted solid profitability, resulting from the Group's efforts to drive operational efficiency through supply chain simplification and enhanced focus on product competitiveness.

Mobile Handset Business

During the six months ended September 30, 2007, Lenovo held fourth place in China's mobile handset market with 6.4 percent share. Lenovo's mobile handset shipments decreased 8 percent year-on-year due to keen market competition. Nevertheless, the Group has already improved the business' operational efficiency, as illustrated by sequential improvement in key metrics.

Prospects

Lenovo will strive to grow faster and more profitably than the industry by providing the best-engineered PCs and an unequalled ownership experience for its customers. The Group will continue to implement its four strategic initiatives, namely transaction model roll-out, global supply chain improvement, desktop competitiveness enhancement, and brand building. These initiatives have helped deliver continued growth momentum over the past three fiscal quarters. As the Group's brand building efforts have successfully increased the Lenovo brand awareness ahead of schedule, the Group is transitioning its products to the Lenovo/Think brand.

Looking forward, the worldwide PC market is expected to continue to grow according to the industry analysts' forecast. The Group will continue to leverage its existing strengths in the PC market and actively pursue market opportunities. The Group will continue to invest in its operations, including IT infrastructure to enhance future operational efficiency.

The Group also intends to expand its product offerings to fuel growth. Complementing its plan to launch its consumer PC outside China in early 2008, the Group will expand into higher margin products such as workstations and servers.

The Group remains confident in its future growth prospects under the defined growth strategies and will strive to create better returns for its shareholders.

Directors' right to acquire shares or debentures

(A) Share Option Schemes

At the Extraordinary General Meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of its old share option scheme (the "Old Option Scheme"). Despite the fact that no further options may be granted under the Old Option Scheme, all other provisions shall remain in force to govern all the outstanding options previously granted. No options were granted, cancelled nor lapsed under these schemes during the six months ended September 30, 2007.

Details of the movement of share options of the Company for the six months ended September 30, 2007 were as follows:

	Options held at April 1, 2007	Options exercised during the period	Options held at September 30, 2007	Exercise price per ordinary share HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme						
<i>Directors</i>						
Mr. Yang Yuanqing	6,000,000	–	6,000,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	2,250,000	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Ms. Ma Xuezheng	2,920,000	–	2,920,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,600,000	–	1,600,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Mr. Liu Chuanzhi	2,250,000	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
<i>Continuous contract employees</i>						
	7,712,000	716,000	6,996,000	4.038	01.28.2000	01.28.2000 to 01.27.2010
	74,480,000	10,542,000	63,938,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
	26,630,000	3,640,000	22,990,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	832,000	–	832,000	2.904	08.29.2001	08.29.2001 to 08.28.2011
	53,314,000	10,800,000	42,514,000	2.876	08.31.2001	08.31.2001 to 08.30.2011

Directors' right to acquire shares or debentures (continued)

(A) Share Option Schemes (continued)

	Options held at April 1, 2007	Options exercised during the period	Options held at September 30, 2007	Exercise price per ordinary share HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
New Option Scheme						
<i>Directors</i>						
Mr. Yang Yuanqing	3,000,000	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Ma Xuezheng	1,600,000	–	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Liu Chuanzhi	3,000,000	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
<i>Continuous contract employees</i>						
	13,188,000	2,940,000	10,248,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	46,236,000	9,306,000	36,930,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	105,063,601	20,170,000	84,893,601	2.545	04.27.2004	04.27.2004 to 04.26.2014
	7,520,000	4,614,000	2,906,000	2.170	07.08.2004	07.08.2004 to 07.07.2014
<i>Other participants</i>						
	14,200,000	1,340,000	12,860,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,600,000	–	1,600,000	2.245	04.26.2003	04.26.2003 to 04.26.2013

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK\$4.393.
2. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK\$4.549.
3. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK\$4.616.

Directors' right to acquire shares or debentures (continued)

(B) Long-Term Incentive Program

The Company operates a Long-Term Incentive Program ("LTI Program") which was approved by the Company on May 26, 2005. The purpose of the LTI Program is to attract, retain, reward and motivate non-executive and executive directors, senior management and selected top-performing employees of the Company and its subsidiaries.

Under the LTI Program, the Company maintains three types of equity-based compensation vehicles: (i) share appreciation rights, (ii) restricted share units, and (iii) performance share units. These vehicles are described in more detail below. While the Company discontinued the use of performance share units, it continues to honor grants awarded in 2005. The Company continues to use at its discretion, share appreciation rights and restricted share units.

(i) *Share Appreciation Rights ("SARs")*

SARs entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level. SARs are typically subject to a vesting schedule of up to four years.

(ii) *Restricted Share Units ("RSUs")*

RSUs are equivalent to the value of one ordinary share of the Company. Once vested, RSUs are converted to ordinary shares, or its cash equivalent. RSUs are typically subject to a vesting schedule of up to four years. Dividends are typically not paid on RSUs.

(iii) *Performance Share Units ("PSUs")*

PSUs are assigned a value equal to a number of the Company's ordinary shares based on the Company's performance against pre-determined targets over a three-year period. The equivalent number of Company shares for each PSU can range from 0 to 2, depending on the Company's performance. PSUs typically vest in full at the end of the three-year performance period. Dividends are typically not paid on PSUs.

The Company reserves the right, at its discretion, to pay any awards under the LTI Program in cash or ordinary shares.

The total number of awards of the members of the Board, including the Chairman and CEO, under the LTI Program is set out below.

Name	Award type	Year of award	Effective price (HK\$)	Number of units					Total outstanding as at September 30, 2007	Max no. of shares subject to conditions	Vesting period (MM.DD.YYYY)
				As at April 1, 2007 (unvested)	Awarded during the period	Vested during the period	As at September 30, 2007 (unvested)	September 30, 2007			
Executive Directors											
Mr. Yang Yuanqing	SAR	2005	2.42	4,772,056	-	1,590,700	3,181,356	6,362,756	6,362,756	05.01.2006 – 05.01.2009	
	SAR	2006	2.35	13,385,665	-	3,346,416	10,039,249	13,385,665	13,385,665	06.01.2007 – 06.01.2010	
	SAR	2007	3.94	-	6,002,009	-	6,002,009	6,002,009	6,002,009	06.01.2008 – 06.01.2011	
	RSU	2005	2.42	696,595	-	232,200	464,395	464,395	464,395	05.01.2006 – 05.01.2009	
	RSU	2006	2.35	2,974,593	-	743,648	2,230,945	2,230,945	2,230,945	06.01.2007 – 06.01.2010	
	RSU	2007	3.94	-	3,556,710	-	3,556,710	3,556,710	3,556,710	06.01.2008 – 06.01.2011	
Mr. William J. Amelio	PSU	2005	2.42	928,795	-	-	928,795	928,795	1,857,590	Note 3	
	SAR	2006	2.35	17,831,489	-	4,457,872	13,373,617	17,831,489	17,831,489	06.01.2007 – 06.01.2010	
	SAR	2007	3.94	-	6,773,696	-	6,773,696	6,773,696	6,773,696	06.01.2008 – 06.01.2011	
	RSU	2006	3.10	10,013,000	-	-	10,013,000	10,013,000	10,013,000	01.01.2009	
	RSU	2006	2.35	3,962,553	-	990,638 ^e	2,971,915	2,971,915	2,971,915	06.01.2007 – 06.01.2010	
Non-Executive Directors	RSU	2007	3.94	-	4,014,002	-	4,014,002	4,014,002	4,014,002	06.01.2008 – 06.01.2011	
	Non-Executive Directors										
	Mr. Liu Chuanzhi	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008
		SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009
		SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010
RSU		2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
RSU		2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
Mr. Zhu Linan	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
Ms. Ma Xuezheng	SAR	2005	2.42	1,561,125	-	520,375	1,040,750	2,081,500	2,081,500	05.01.2006 – 05.01.2009	
	SAR	2006	2.35	4,109,895	-	1,027,474	3,082,421	4,109,895	4,109,895	06.01.2007 – 06.01.2010	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2005	2.42	227,925	-	75,975	151,950	151,950	151,950	05.01.2006 – 05.01.2009	
	RSU	2006	2.35	1,369,965	-	342,491	1,027,474	1,027,474	1,027,474	06.01.2007 – 06.01.2010	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
	PSU	2005	2.42	303,900	-	-	303,900	303,900	607,800	Note 3	

Directors' right to acquire shares or debentures (continued)

(B) Long-Term Incentive Program (continued)

Name	Award type	Year of award	Effective price (HK\$)	Number of units					Total outstanding as at September 30, 2007	Max no. of shares subject to conditions	Vesting period (MM.DD.YYYY)
				As at April 1, 2007 (unvested)	Awarded during the period	Vested during the period	As at September 30, 2007 (unvested)	As at September 30, 2007			
Mr. James G. Coulter	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
Mr. William O. Grabe	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.66	-	24,046	24,046	-	-	-	Note 1	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
	RSU	2007	4.63	-	679	679	-	-	-	Note 2	
	RSU	2007	5.20	-	18,822	18,822	-	-	-	Note 1	
Mr. Shan Weijian	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
Independent Non-Executive Directors											
Professor Woo Chia-Wei	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.66	-	21,374	21,374	-	-	-	Note 1	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
	RSU	2007	4.63	-	604	604	-	-	-	Note 2	
	RSU	2007	5.20	-	15,058	15,058	-	-	-	Note 1	
Mr. Ting Lee Sen	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.66	-	21,374	21,374	-	-	-	Note 1	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
	RSU	2007	4.63	-	604	604	-	-	-	Note 2	
	RSU	2007	5.20	-	15,058	15,058	-	-	-	Note 1	
Mr. John W. Barter III	SAR	2005	3.15	376,000	-	188,000	188,000	564,000	564,000	05.01.2006 – 05.01.2008	
	SAR	2006	2.99	390,000	-	130,000	260,000	390,000	390,000	06.01.2007 – 06.01.2009	
	SAR	2007	3.94	-	297,000	-	297,000	297,000	297,000	06.01.2008 – 06.01.2010	
	RSU	2006	2.99	130,000	-	43,333	86,667	86,667	86,667	06.01.2007 – 06.01.2009	
	RSU	2007	3.66	-	21,374	21,374	-	-	-	Note 1	
	RSU	2007	3.94	-	99,000	-	99,000	99,000	99,000	06.01.2008 – 06.01.2010	
	RSU	2007	4.63	-	604	604	-	-	-	Note 2	
	RSU	2007	5.20	-	22,587	22,587	-	-	-	Note 1	

Directors' right to acquire shares or debentures (continued)

(B) Long-Term Incentive Program (continued)

The total number of awards granted in the period (including members of the Board and employees) under the LTI Program is set out below.

Name	Award type	Effective price (HK\$)	Number of units							Total outstanding as at September 30, 2007	Max no. of shares subject to conditions	Vesting period (MM.DD.YYYY)
			As at April 1, 2007 (unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ Lapsed during the period	As at September 30, 2007 (unvested)				
All Directors												
	SAR	2.35-3.94	47,412,230	15,448,705	13,298,837	-	-	49,562,098	66,288,010	66,288,010	05.01.2006 – 06.01.2011	
	RSU	2.35-5.20	20,284,631	8,623,896	2,893,800	-	-	26,014,727	26,014,727	26,014,727	05.01.2006 – 06.01.2011	
	PSU	2.42	1,232,695	-	-	-	-	1,232,695	1,232,695	2,465,390	Note 3	
All other employees												
	SAR	2.32-5.14	264,575,640	78,671,242	85,139,754	33,011,226	14,014,745	244,092,383	339,959,587	339,959,587	05.01.2006 – 06.11.2011	
	RSU	2.32-5.14	127,441,035	44,015,898	36,427,193	-	7,767,375	127,262,365	127,262,365	127,262,365	05.01.2006 – 06.11.2011	
	PSU	2.32-3.73	10,080,353	-	-	-	214,030	9,866,323	9,866,323	19,732,646	Note 3	
Total												
	SAR	2.32-5.14	311,987,870	94,119,947	98,438,591	33,011,226	14,014,745	293,654,481	406,247,597	406,247,597	05.01.2006 – 06.11.2011	
	RSU	2.32-5.20	147,725,666	52,639,794	39,320,993	-	7,767,375	153,277,092	153,277,092	153,277,092	05.01.2006 – 06.11.2011	
	PSU	2.32-3.73	11,313,048	-	-	-	214,030	11,099,018	11,099,018	22,198,036	Note 3	

Note 1: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforeseen emergency.

Note 2: Dividends paid with respect to eligible deferral grants.

Note 3: Within 75 days following the announcement of the audited financial results of the Company for the financial year ending March 31, 2008.

Out of 990,638 units, 346,724 units were withheld for tax purpose.

Directors' Interests

As at September 30, 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/ underlying shares held				Aggregate long position
		Personal interests	Family interests	Trust	Corporate	
Mr. Yang Yuanqing	Ordinary voting shares	11,408,048	–	–	–	11,408,048
	Share options	11,250,000	–	–	–	11,250,000
	Share awards	33,860,070	–	–	–	33,860,070
						56,518,118
Mr. William J. Amelio	Ordinary voting shares	7,843,914	–	–	–	7,843,914
	Share awards	41,604,102	–	–	–	41,604,102
						49,448,016
Mr. Liu Chuanzhi	Ordinary voting shares	16,053,333	976,000	–	–	17,029,333
	Share options	5,250,000	–	–	–	5,250,000
	Share awards	1,436,667	–	–	–	1,436,667
						23,716,000
Mr. Zhu Linan	Ordinary voting shares	3,763,333	–	–	–	3,763,333
	Share awards	1,436,667	–	–	–	1,436,667
						5,200,000
Ms. Ma Xuezheng	Ordinary voting shares	16,328,441	–	7,240,000	–	23,568,441
	Share options	6,120,000	–	–	–	6,120,000
	Share awards	8,374,619	–	–	–	8,374,619
						38,063,060
Mr. James G. Coulter	Ordinary voting shares	43,333	–	–	885,180,238*	885,223,571
	Preferred shares	–	–	–	1,950,000	1,950,000
	Share awards	872,667	–	–	–	872,667
						888,046,238
Mr. William O. Grabe	Ordinary voting shares	175,154	–	–	–	175,154
	Share awards	1,436,667	–	–	–	1,436,667
						1,611,821
Mr. Shan Weijian	Ordinary voting shares	43,333	–	–	–	43,333
	Share awards	1,436,667	–	–	–	1,436,667
						1,480,000
Professor Woo Chia-Wei	Ordinary voting shares	158,836	–	–	–	158,836
	Share awards	1,436,667	–	–	–	1,436,667
						1,595,503
Mr. Ting Lee Sen	Ordinary voting shares	158,836	–	–	–	158,836
	Share awards	1,436,667	–	–	–	1,436,667
						1,595,503
Mr. John W. Barter III	Ordinary voting shares	166,365	–	–	–	166,365
	Share awards	1,436,667	–	–	–	1,436,667
						1,603,032

Note: Particulars of directors' interests in the share options of the Company are set out under the sub-section "Share Option Schemes".

Details of share awards are set out under the sub-section "Long-Term Incentive Program".

* Mr. James G. Coulter has a deemed corporate interest in these underlying shares derived from the preferred shares and warrants by virtue of his shareholding in TPG Advisors IV, Inc., TPG GenPar IV, L.P., TPG Partners IV, L.P., TPG IV Acquisition Company LLC, Tarrant Capital Advisors, Inc., Tarrant Advisors, Inc., Newbridge Asia Advisors III, Inc. and Newbridge Asia GenPar III, L.P..

Directors' Interests *(continued)*

Interests in the shares and underlying shares of the Company *(continued)*

Save as disclosed above, as at September 30, 2007, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of Substantial Shareholders

As at September 30, 2007, the following substantial shareholders had an interests in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

Name	Nature of interests in long position	Capacity and number of shares/ — underlying shares held —		Aggregate long position	Percentage <i>(Note 15)</i>
		Beneficial owner	Corporate interests		
Legend Holdings Limited <i>(Note 1)</i>	Ordinary voting shares	2,667,636,724	1,530,911,247 <i>(Note 2)</i>	4,198,547,971	49.21%
Employees' Shareholding Society of Legend Holdings Limited <i>(Note 3)</i>	Ordinary voting shares	—	4,198,547,971	4,198,547,971	49.21%
International Business Machines Corporation <i>(Note 4)</i>	Ordinary voting and non-voting shares	784,291,963	—	784,291,963	9.21%
Mr. James G. Coulter <i>(Note 5)</i>	Underlying shares Preferred Shares	916,000 —	885,180,238 1,950,000	886,096,238 1,950,000	10.33% 71.43%
Tarrant Advisors, Inc.	Preferred Shares	—	390,000	390,000	14.29%
Tarrant Capital Advisors, Inc.	Preferred Shares	—	390,000	390,000	14.29%
TPG Advisors IV, Inc.	Underlying shares Preferred Shares	— —	439,217,834 967,571	439,217,834 967,571	5.22% 35.44%
TPG GenPar IV, L.P.	Underlying shares Preferred Shares	— —	439,217,834 967,571	439,217,834 967,571	5.22% 35.44%
TPG Partners IV, L.P.	Underlying shares Preferred Shares	— —	439,217,834 967,571	439,217,834 967,571	5.22% 35.44%
TPG IV Acquisition Company LLC <i>(Note 6)</i>	Underlying shares Preferred Shares	439,217,834 967,571	— —	439,217,834 967,571	5.22% 35.44%
Mr. David Bonderman <i>(Note 7)</i>	Underlying shares Preferred Shares	— —	885,180,238 1,950,000	885,180,238 1,950,000	10.52% 71.43%
T ³ II Acquisition Company, LLC <i>(Note 8)</i>	Preferred Shares	280,429	—	280,429	10.27%
T ³ Partners II, L.P.	Preferred Shares	—	280,429	280,429	10.27%
T ³ GenPar II, L.P.	Preferred Shares	—	280,429	280,429	10.27%
T ³ Advisors II, Inc.	Preferred Shares	—	280,429	280,429	10.27%
TPG III Acquisition Company, LLC <i>(Note 9)</i>	Preferred Shares	312,000	—	312,000	11.43%
TPG Partners III, L.P.	Preferred Shares	—	312,000	312,000	11.43%
TPG GenPar III, L.P.	Preferred Shares	—	312,000	312,000	11.43%
TPG Advisors III, Inc.	Preferred Shares	—	312,000	312,000	11.43%

Interest of Substantial Shareholders (continued)

Name	Nature of interests in long position	Capacity and number of shares/ underlying shares held		Aggregate long position	Percentage (Note 15)
		Beneficial owner	Corporate interests		
Newbridge Asia Acquisition Company LLC (Note 10)	Preferred Shares	390,000	–	390,000	14.29%
Newbridge Asia III, L.P.	Preferred Shares	–	390,000	390,000	14.29%
Newbridge Asia GenPar III, L.P.	Preferred Shares	–	390,000	390,000	14.29%
Newbridge Asia Advisors III, Inc.	Preferred Shares	–	390,000	390,000	14.29%
GAP (Bermuda) Ltd.	Preferred Shares	–	655,114	655,114	24%
General Atlantic Partners (Bermuda) L.P. (Note 11)	Preferred Shares	655,114	–	655,114	24%
GAPCO GmbH & Co. KG (Note 12)	Preferred Shares	1,219	–	1,219	0.04%
GAPCO Management GmbH	Preferred Shares	–	1,219	1,219	0.04%
General Atlantic Partners 81, L.P. (Note 13)	Preferred Shares	60,251	–	60,251	2.21%
Gapstar, LLC (Note 14)	Preferred Shares	9,750	–	9,750	0.36%
General Atlantic LLC	Preferred Shares	–	70,001	70,001	2.56%
GAP Coinvestments IV, LLC	Preferred Shares	11,100	–	11,100	0.41%
GAP Coinvestments III, LLC	Preferred Shares	42,566	–	42,566	1.56%

Notes:

- The English company name “Legend Holdings Limited” is a direct transliteration of its Chinese company name.
- The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
- Employees’ Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested in any shares in which they are interested.
- International Business Machines Corporation (“IBM”) has an interest in an aggregate of 784,291,963 ordinary shares, comprising 409,009,207 ordinary voting shares and 375,282,756 ordinary non-voting shares. The ordinary non-voting shares have the same rights as the ordinary voting shares save that the ordinary non-voting shares shall not carry any voting rights until they are converted into listed ordinary voting shares.
- Mr. James G. Coulter has (i) a personal interest of 916,000 shares consisting of 43,333 ordinary voting shares and 872,667 share awards and (ii) a deemed corporate interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG GenPar IV, L.P., TPG Partners IV, L.P., TPG IV Acquisition Company LLC, Tarrant Capital Advisors, Inc., Tarrant Advisors, Inc., Newbridge Asia Advisors III, Inc. and Newbridge Asia GenPar III, L.P..
- TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.
- Mr. David Bonderman has a deemed corporate interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisors III, Inc., T³ Advisors II, Inc. and Tarrant Advisors, Inc. (Tarrant Advisors, Inc. owns 50% of the Shares of Newbridge Asia Advisors III, Inc.).
- T³ II Acquisition Company, LLC is indirectly wholly owned by T³ Advisors II, Inc.

Interest of Substantial Shareholders (continued)

Notes: (continued)

9. TPG III Acquisition Company, LLC is indirectly wholly owned by TPG Advisors III, Inc.
10. Newbridge Asia Acquisition Company LLC is indirectly wholly owned by Newbridge Asia Advisors III, Inc.
11. GAP (Bermuda) Ltd. is the general partner of General Atlantic Partners (Bermuda), L.P.
12. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.
13. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.
14. GapStar, LLC is directly wholly owned by General Atlantic LLC.
15. The percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.

Save as disclosed above, as at September 30, 2007, no other interest or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Review by Audit Committee

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

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

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, 2007, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules save for the deviation under Code A.4.1 as disclosed in the 2006/07 annual report of the Company.

Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules along with its guidance note to govern directors' securities transactions. Having made specific enquiry of the directors of the Company, all the directors of the Company have confirmed their compliance with the required standard set out in the Model Code and the guidance note throughout the accounting period covered by this interim report.

The Company has also adopted its own Trading in Securities Policy applicable to designated senior management of the Company which is on terms no less exacting than the required standard as set out in the Model Code.

By order of the Board

Yang Yuanqing

Chairman

Hong Kong, November 1, 2007

Corporate Information

Board of Directors

Executive directors

Mr. Yang Yuanqing
Mr. William J. Amelio

Non-executive directors

Mr. Liu Chuanzhi
Mr. Zhu Linan
Ms. Ma Xuezheng
Mr. James G. Coulter
Mr. William O. Grabe
Mr. Shan Weijian
Mr. Justin T. Chang
(Alternate director to Mr. James G. Coulter)
Mr. Daniel A. Carroll
(Alternate director to Mr. Shan Weijian)

Independent non-executive directors

Professor Woo Chia-Wei
Mr. Ting Lee Sen
Mr. John W. Barter III
Mr. Tian Suning

Qualified Accountant

Mr. Wong Wai Ming

Company Secretary

Mr. Mok Chung Fu

Registered Office

23rd Floor, Lincoln House, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong

Principal Bankers

BNP Paribas
Standard Chartered Bank (Hong Kong) Limited
ABN AMRO Bank N.V.
Industrial and Commercial Bank of China (Asia) Limited
China Merchants Bank
Citibank, N.A.
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building,
Central, Hong Kong

Share Registrar

Tricor Abacus Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Hong Kong

American Depositary Receipts

(Depository and Registrar)
Citibank, N.A.
14th Floor, 388 Greenwich Street,
New York, NY 10013, USA

Stock Codes

Hong Kong Stock Exchange: 992
American Depositary Receipts: LNVGY

Website

www.lenovo.com