



Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0992)

FY2008/09 INTERIM RESULTS ANNOUNCEMENT

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, 2008 together with comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED INCOME STATEMENT

		3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
	Note				
Continuing operations					
Sales	2	4,326,116	8,538,775	4,310,323	8,123,419
Cost of sales		(3,780,787)	(7,398,943)	(3,665,683)	(6,913,614)
Gross profit		545,329	1,139,832	644,640	1,209,805
Other (expense)/income – net	3	(138)	888	28	2,142
Selling and distribution expenses		(270,702)	(520,953)	(303,892)	(558,318)
Administrative expenses		(157,764)	(332,100)	(142,923)	(271,662)
Research and development expenses		(47,086)	(101,199)	(57,589)	(106,407)
Other operating expenses		(39,984)	(29,598)	(20,341)	(66,358)
Operating profit		29,655	156,870	119,923	209,202
Finance income		18,624	38,434	14,484	20,409
Finance costs	4	(9,419)	(18,968)	(9,572)	(17,606)
Share of profits/(losses) of associated companies		255	(319)	65	59
Profit before taxation		39,115	176,017	124,900	212,064
Taxation	5	(15,673)	(42,082)	(17,533)	(33,124)
Profit from continuing operations		23,442	133,935	107,367	178,940
Discontinued operations					
Loss from discontinued operations	6	-	-	(2,112)	(6,846)
Profit for the period		23,442	133,935	105,255	172,094
Profit attributable to shareholders of the Company:					
- Continuing operations		23,442	133,935	107,367	178,940
- Discontinued operations		-	-	(2,112)	(6,846)
		23,442	133,935	105,255	172,094
Minority interests		-	-	-	-
		23,442	133,935	105,255	172,094
Dividend	7		35,575		34,715

	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
Note Basic earnings per share attributable to shareholders of the Company - Continuing operations - Discontinued operations	8(a) US0.27 cents -	US1.51 cents -	US1.24 cents (US0.02 cents)	US2.08 cents (US0.08 cents)
	US0.27 cents	US1.51 cents	US1.22 cents	US2.00 cents
Diluted earnings per share attributable to shareholders of the Company - Continuing operations - Discontinued operations	8(b) US0.25 cents -	US1.38 cents -	US1.14 cents (US0.02 cents)	US1.93 cents (US0.07 cents)
	US0.25 cents	US1.38 cents	US1.12 cents	US1.86 cents

CONSOLIDATED BALANCE SHEET

		September 30, 2008 (unaudited) US\$'000	March 31, 2008 (audited) US\$'000
Non-current assets			
Property, plant and equipment		359,141	364,778
Prepaid lease payments		5,927	6,099
Construction-in-progress		49,135	51,237
Intangible assets		1,866,687	1,838,368
Investments in associated companies		2,425	2,690
Deferred tax assets		160,282	156,440
Available-for-sale financial assets		59,752	67,697
Derivative financial assets		3,446	-
Other non-current assets		7,736	7,172
		2,514,531	2,494,481
Current assets			
Inventories		635,793	471,557
Trade receivables	9(a)	1,228,374	860,543
Notes receivable		290,636	371,126
Derivative financial assets		27,400	3,392
Deposits, prepayments and other receivables		793,597	767,268
Income tax recoverable		35,677	40,002
Bank deposits		673,448	540,058
Cash and cash equivalents		1,311,814	1,651,420
		4,996,739	4,705,366
Total assets		7,511,270	7,199,847
Share capital	11	29,529	29,699
Reserves		1,572,784	1,583,390
Shareholders' funds		1,602,313	1,613,089
Minority interests		174	174
Total equity		1,602,487	1,613,263
Non-current liabilities	12	1,015,125	1,098,123
Current liabilities			
Trade payables	9(b)	2,810,269	2,282,199
Notes payable		57,731	46,421
Derivative financial liabilities		7,733	18,197
Provisions, accruals and other payables	10	1,790,936	1,944,724
Income tax payable		65,247	87,209
Short-term bank loans		15,694	61,130
Current portion of non-current liabilities		146,048	48,581
		4,893,658	4,488,461
Total liabilities		5,908,783	5,586,584
Total equity and liabilities		7,511,270	7,199,847
Net current assets		103,081	216,905
Total assets less current liabilities		2,617,612	2,711,386

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
Continuing operations		
Net cash generated from operating activities	63,958	904,639
Net cash used in investing activities	(173,937)	(113,953)
Net cash (used in)/generated from financing activities	(252,437)	53,910
	(362,416)	844,596
Discontinued operations		
Decrease in cash and cash equivalents from discontinued operations	-	(15,747)
Effect of foreign exchange rate changes	22,810	(10,595)
Cash and cash equivalents at the beginning of the period	1,651,420	1,063,716
Cash and cash equivalents at the end of the period	1,311,814	1,881,970

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	Exchange reserve (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Hedging reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) US\$'000
At April 1, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263
Fair value change on available-for-sale financial assets	-	-	-	-	(7,192)	-	-	-	-	-	-	-	(7,192)
Fair value change on interest rate swap contracts	-	-	-	-	-	-	-	-	5,220	-	-	-	5,220
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	133,935	-	133,935
Exchange differences	-	-	-	47,503	-	-	-	-	-	-	-	-	47,503
Reserve realized on disposal of available-for-sale financial assets	-	-	-	-	(465)	-	-	-	-	-	-	-	(465)
Vesting of shares under long-term incentive program	-	-	-	-	-	-	24,641	(32,721)	-	-	-	-	(8,080)
Exercise of share options	79	9,267	-	-	-	-	-	-	-	-	-	-	9,346
Share-based compensation	-	-	-	-	-	-	-	25,304	-	-	-	-	25,304
Repurchase of shares	(249)	(53,658)	-	-	-	-	-	-	-	-	-	-	(53,907)
Contributions to employee share trusts	-	-	-	-	-	-	(17,169)	-	-	-	-	-	(17,169)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(145,271)	-	(145,271)
At September 30, 2008	29,529	1,106,293	42,159	(19,157)	33,479	497	(164,763)	71,320	3,432	30,738	468,786	174	1,602,487
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	(49,027)	58,443	497	(113,904)	56,845	-	12,850	227,688	744	1,335,124

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed interim financial statements. These 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 certain financial assets and financial liabilities are stated at fair values. These condensed interim financial statements should be read in conjunction with the 2007/08 annual financial statements.

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, 2008.

The following interpretations are mandatory for the year ending March 31, 2009. The Group has adopted these new interpretations where considered appropriate and relevant to its operations.

- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after January 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 following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending March 31, 2009 and have not been early adopted:

- HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation", effective for annual periods beginning on or after January 1, 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
- HKFRS 7 (Amendment), "Financial instruments: disclosures", 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
- HKAS 1 (Revised), "Presentation of financial statements", effective for annual periods beginning on or after January 1, 2009
- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after January 1, 2009
- HKAS 27 (Revised), "Consolidated and separate financial statements", effective for annual periods beginning on or after July 1, 2009
- HKAS 32 (Amendment), "Financial instruments: presentation", effective for annual periods beginning on or after January 1, 2009
- HKAS 39 (Amendment), "Financial instruments: recognition and measurement", effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 2 (Amendment), "Members' shares in co-operative entities and similar instruments", effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after July 1, 2008
- HK(IFRIC)-Int 15, "Agreements for the construction of real estate", effective for annual periods beginning on or after January 1, 2009
- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation", effective for annual periods beginning on or after October 1, 2008

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

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

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. On March 31, 2008, the Group completed the disposal of its entire interests in its Greater China mobile handset operations, and the results therein were accounted for as discontinued operations for the year then ended. The segment information presented below, including the comparative figures for the corresponding period of last year, represents the continuing operations of the Group.

(a) Primary reporting format – geographical segments

The segment results and capital expenditure information for the six months ended September 30, 2008 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	2,163,539	1,794,133	963,471	3,617,632	-	8,538,775
Segment operating results	4,894	(7,196)	(15,999)	224,684	(50,401)	155,982
Finance income						38,434
Finance costs						(18,968)
Loss on disposal of available-for-sale financial assets						(124)
Dividend income from available-for-sale financial assets						1,012
Share of losses of associated companies						(319)
Profit before taxation						176,017
Taxation						(42,082)
Profit for the period						133,935
Capital expenditure	26,386	6,543	11,065	21,622	40,446	106,062

Other significant segment items included in the income statement are as follows:

Depreciation of property, plant and equipment and amortization of prepaid lease payments	21,396	3,465	5,129	13,479	6,800	50,269
Amortization of intangible assets	637	966	257	13,791	16,900	32,551
Employee benefit costs, including	169,903	168,492	84,322	187,287	-	610,004
- long-term incentive awards	6,411	5,317	2,855	10,721	-	25,304
- severance and related costs	(102)	15,524	632	-	(523)	15,531
Termination of onerous contracts	6,653	-	-	-	-	6,653
Rental expenses under operating leases	5,179	5,828	5,896	6,321	-	23,224

Note:

Segment operating profit/(loss) presented above include the impact of one-off items of US\$23,964,000, comprising mainly costs on termination of onerous contracts and severance and related costs. The segment operating profit/(loss) before these one-off items are: Americas US\$13,224,000; Europe, Middle East and Africa US\$8,328,000; Asia Pacific (excluding Greater China) (US\$15,366,000); Greater China US\$224,684,000; and corporate or unallocated (US\$50,924,000).

The segment assets and liabilities at September 30, 2008 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
Segment assets	<u>1,373,460</u>	<u>678,926</u>	<u>860,403</u>	<u>3,580,867</u>		6,493,656
Investments in associated companies					2,425	
Deferred tax assets					160,282	
Available-for-sale financial assets					59,752	
Derivative financial assets					3,446	
Cash and cash equivalents					393,305	
Income tax recoverable					35,677	
Other unallocated assets					362,727	1,017,614
Consolidated total assets						<u>7,511,270</u>
Segment liabilities	<u>1,456,262</u>	<u>1,172,969</u>	<u>541,396</u>	<u>1,953,606</u>		5,124,233
Bank borrowings					500,000	
Convertible preferred shares					213,545	
Share-based compensation					1,889	
Income tax payable					65,247	
Other unallocated liabilities					3,869	784,550
Consolidated total liabilities						<u>5,908,783</u>

The segment results and capital expenditure information 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	3,118,016	-	8,123,419
Segment operating results	42,779	44,758	(7,349)	205,828	(78,956)	207,060
Finance income						20,409
Finance costs						(17,606)
Gain on disposal of investments and available-for-sale financial assets						2,142
Share of profits of associated companies						59
Profit before taxation						212,064
Taxation						(33,124)
Profit for the period						178,940
Capital expenditure	27,571	3,582	8,188	40,489	51,969	131,799

Other significant segment items included in the income statement are as follows:

Depreciation of property, plant and equipment and amortization of prepaid lease payments	19,721	4,507	5,054	12,077	-	41,359
Amortization of intangible assets	-	-	-	-	80,765	80,765
Employee benefit costs, including - long-term incentive awards	192,936	146,793	92,061	170,001	-	601,791
- severance and related costs	6,491	4,569	2,885	8,687	-	22,632
Termination of onerous contracts	13,396	13,252	12,547	737	-	39,932
Rental expenses under operating leases	3,126	79	3,222	202	-	6,629
	2,979	3,374	4,802	4,712	-	15,867

Note:

Segment operating profit/(loss) presented above include the impact of one-off items of US\$46,561,000, comprising mainly costs on termination of onerous contracts and severance and related costs. The segment operating profit/(loss) before these one-off items are: Americas US\$59,301,000; Europe, Middle East and Africa US\$58,089,000; Asia Pacific (excluding Greater China) US\$8,420,000; Greater China US\$206,689,000; and corporate or unallocated (US\$78,956,000).

The segment assets and liabilities at March 31, 2008 are as follows:

	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	<u>1,472,775</u>	<u>788,664</u>	<u>1,213,620</u>	<u>2,715,799</u>		6,190,858
Investments in associated companies					2,690	
Deferred tax assets					156,440	
Available-for-sale financial assets					67,697	
Cash and cash equivalents					449,576	
Income tax recoverable					40,002	
Other unallocated assets					292,584	1,008,989
Consolidated total assets						<u>7,199,847</u>
Segment liabilities	<u>1,384,307</u>	<u>1,029,253</u>	<u>933,348</u>	<u>1,414,180</u>		4,761,088
Bank borrowings					500,000	
Convertible preferred shares					211,181	
Share-based compensation					6,430	
Derivative financial liabilities					1,788	
Income tax payable					87,209	
Other unallocated liabilities					18,888	825,496
Consolidated total liabilities						<u>5,586,584</u>

(b) Secondary reporting format – business segments

	Personal computer		Total US\$'000	Others US\$'000	Total US\$'000
	Desktop US\$'000	Notebook US\$'000			
Six months ended September 30, 2008 (unaudited)					
Sales	<u>3,393,753</u>	<u>5,010,211</u>	<u>8,403,964</u>	<u>134,811</u>	<u>8,538,775</u>
Capital expenditure			<u>105,193</u>	<u>869</u>	<u>106,062</u>
At September 30, 2008 (unaudited)					
Total segment assets			<u>4,362,619</u>	<u>85,016</u>	<u>4,447,635</u>
Six months ended September 30, 2007 (unaudited)					
Sales	<u>3,439,884</u>	<u>4,575,113</u>	<u>8,014,997</u>	<u>108,422</u>	<u>8,123,419</u>
Capital expenditure			<u>130,318</u>	<u>1,481</u>	<u>131,799</u>
At March 31, 2008 (audited)					
Total segment assets			<u>4,397,096</u>	<u>115,144</u>	<u>4,512,240</u>

3 Other (expense)/income – net

	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
(Loss)/gain on disposal of investments and available-for-sale financial assets	<u>(138)</u>	<u>(124)</u>	<u>28</u>	<u>2,142</u>
Dividend income from available-for-sale financial assets	<u>-</u>	<u>1,012</u>	<u>-</u>	<u>-</u>
	<u>(138)</u>	<u>888</u>	<u>28</u>	<u>2,142</u>

4 Finance costs

	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
Interest on bank loans and overdrafts	5,479	11,190	3,529	5,366
Dividend and relevant finance costs on convertible preferred shares	3,526	7,053	5,474	10,947
Others	414	725	569	1,293
	9,419	18,968	9,572	17,606

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000	3 months ended September 30, 2007 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
Current taxation				
Hong Kong profits tax	79	137	113	160
Taxation outside Hong Kong	26,622	53,225	12,946	52,177
Deferred taxation	(11,028)	(11,280)	4,474	(19,213)
	15,673	42,082	17,533	33,124

6 Loss from discontinued operations

On March 31, 2008, the Group completed the disposal of its entire interests in its Greater China mobile handset operations. Accordingly, the comparative information for the corresponding period of last year is presented as discontinued operations in the condensed interim financial statements.

7 Dividend

	6 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2007 (unaudited) US\$'000
Interim dividend, declared after period end, of HK3.0 cents (2007/08: HK3.0 cents) per ordinary share	35,575	34,715

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, 2008 (unaudited)	6 months ended September 30, 2007 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	8,843,095,564	8,602,883,390
	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to shareholders of the Company		
– Continuing operations	133,935	178,940
– Discontinued operations	-	(6,846)
	133,935	172,094

(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.

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, 2008 (unaudited)	6 months ended September 30, 2007 (unaudited)
Weighted average number of ordinary shares in issue	8,843,095,564	8,602,883,390
Adjustments for assumed conversion of convertible preferred shares	651,375,784	1,001,834,862
Adjustments for share options, long-term incentive awards and warrants	727,138,433	220,241,974
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	10,221,609,781	9,824,960,226
	<hr/>	<hr/>
	<i>US\$'000</i>	<i>US\$'000</i>
Profit from continuing operations attributable to shareholders of the Company	133,935	178,940
Interest expense on convertible preferred shares	7,053	10,947
	<hr/>	<hr/>
	140,988	189,887
Loss from discontinued operations attributable to shareholders of the Company	-	(6,846)
	<hr/>	<hr/>
	140,988	183,041
	<hr/>	<hr/>

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, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
0 – 30 days	993,959	788,126
31 – 60 days	135,992	32,240
61 – 90 days	44,516	21,729
Over 90 days	71,476	32,333
	<hr/>	<hr/>
	1,245,943	874,428
Less: provision for impairment	(17,569)	(13,885)
	<hr/>	<hr/>
Trade receivables – net	1,228,374	860,543
	<hr/> <hr/>	<hr/> <hr/>

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

	September 30, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
0 – 30 days	2,078,358	1,618,188
31 – 60 days	496,221	466,068
61 – 90 days	190,841	176,094
Over 90 days	44,849	21,849
	<hr/>	<hr/>
	2,810,269	2,282,199
	<hr/> <hr/>	<hr/> <hr/>

10 Provisions, accruals and other payables

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

	Warranty <i>US\$'000</i>	Restructuring <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2008 (audited)			
At the beginning of the year	448,333	5,645	453,978
Exchange adjustment	-	1,227	1,227
Provisions made	665,912	50,820	716,732
Amounts utilized	(411,661)	(34,136)	(445,797)
Unused amounts reversed	-	(7,616)	(7,616)
Disposal of discontinued operations	(4,669)	(8,352)	(13,021)
	<u>697,915</u>	<u>7,588</u>	<u>705,503</u>
Long-term portion classified as non-current liabilities (Note 12)	(209,071)	-	(209,071)
	<u>488,844</u>	<u>7,588</u>	<u>496,432</u>
Six months ended September 30, 2008 (unaudited)			
At the beginning of the period	697,915	7,588	705,503
Exchange adjustment	-	(489)	(489)
Provisions made	229,744	17,241	246,985
Amounts utilized	(243,831)	(3,685)	(247,516)
Unused amounts reversed	-	(751)	(751)
	<u>683,828</u>	<u>19,904</u>	<u>703,732</u>
Long-term portion classified as non-current liabilities (Note 12)	(199,029)	-	(199,029)
	<u>484,799</u>	<u>19,904</u>	<u>504,703</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, 2008 (unaudited)		March 31, 2008 (audited)	
	Number of Shares	HK\$'000	Number of shares	HK\$'000
<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>				
<i>Voting ordinary shares:</i>				
At the beginning of the period/year	8,888,786,650	28,496	8,517,981,022	27,301
Conversion from Series A cumulative convertible preferred shares	-	-	350,459,078	1,130
Conversion from non-voting ordinary shares (Note 11(a))	375,282,756	1,203	-	-
Exercise of share options	24,664,000	79	90,436,550	290
Repurchase of shares (Note 11(b))	(77,628,000)	(249)	(70,090,000)	(225)
At the end of the period/year	<u>9,211,105,406</u>	<u>29,529</u>	<u>8,888,786,650</u>	<u>28,496</u>
<i>Non-voting ordinary shares:</i>				
At the beginning of the period/year	375,282,756	1,203	375,282,756	1,203
Conversion to voting ordinary shares (Note 11(a))	(375,282,756)	(1,203)	-	-
At the end of the period/year	<u>-</u>	<u>-</u>	<u>375,282,756</u>	<u>1,203</u>
Issued and fully paid ordinary shares	<u>9,211,105,406</u>	<u>29,529</u>	<u>9,264,069,406</u>	<u>29,699</u>
<i>Total issued and fully paid Series A cumulative convertible preferred shares:</i>				
At the beginning of the period/year	1,774,999	2,081	2,730,000	3,211
Conversion to voting ordinary shares	-	-	(955,001)	(1,130)
At the end of the period/year	<u>1,774,999</u>	<u>2,081</u>	<u>1,774,999</u>	<u>2,081</u>

(a) On May 15, 2008, all non-voting ordinary shares have been converted into 375,282,756 voting ordinary shares.

(b) For the year ended March 31, 2008, included in the 70,090,000 shares were 18,936,000 shares repurchased in March 2008 that were subsequently cancelled in April 2008.

12 Non-current liabilities

	September 30, 2008 (unaudited) <i>US\$'000</i>	March 31, 2008 (audited) <i>US\$'000</i>
Amount payable for marketing rights	1,805	5,417
Interest-bearing bank loans repayable within five years	365,000	465,000
Share-based compensation	1,889	6,430
Convertible preferred shares	213,545	211,181
Warranty provision	199,029	209,071
Retirement benefit obligations	75,253	85,490
Deferred revenue	125,405	88,701
Derivative financial liabilities	-	1,788
Other non-current liabilities	33,199	25,045
	1,015,125	1,098,123

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 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 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 on May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK\$2.725 per share. The warrant will expire on May 17, 2010.

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

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.0 cents (2007/08: HK3.0 cents) per ordinary share for the six months ended September 30, 2008, absorbing an aggregate amount of approximately HK\$276 million (approximately US\$36 million) (2007/08: HK\$269 million (approximately US\$35 million)), to shareholders of ordinary shares whose names appear on the Register of Members of the Company on Friday, November 28, 2008. The interim dividend will be paid on Friday, December 5, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Monday, November 24, 2008 to Friday, November 28, 2008, 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 21, 2008.

FINANCIAL REVIEW

The Group completed the disposal of its entire interests in the Greater China mobile handset operations on March 31, 2008. The analysis presented below covers the continuing operations of the Group for the six months ended September 30, 2008.

Results

For the six months ended September 30, 2008, the Group achieved total sales of approximately US\$8,539 million. Profit attributable to shareholders for the period was approximately US\$134 million, representing a decrease of US\$45 million as compared to the corresponding period of last year. Gross profit margin for the period was 13.3 percent down from 14.9 percent reported in the corresponding period of last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents totaled US\$1,985 million as at September 30, 2008. Basic earnings per share and diluted earnings per share of the Group's continuing operations were US1.51 cents and US1.38 cents, representing a decrease of US0.57 cent and US0.55 cent respectively as compared with the corresponding period of last year.

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

Other (expense)/ income – net

Other income comprises mainly dividend income from available-for-sale financial assets. The US\$2 million other income reported during the corresponding period of last year represents gain on disposal of investments and available-for-sale financial assets.

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, 2008 decreased by 6.7 percent as compared to the corresponding period of last year. This is principally attributable to a US\$48 million decrease in amortization of intangible assets coupled with increased employee benefit costs related to the Group's salary increment plan, performance bonuses, and commissions.

Administrative expenses

The Group also experienced an increase in administrative expenses for the six months ended September 30, 2008 of 22.2 percent as compared to the corresponding period of last year. The increase is driven by employee benefit costs and contracted services.

Research and development expenses

The Group continues making investment towards its commitment to deliver the most innovative products in the industry. Research and development spending for the six months ended September 30, 2008 decreased by 4.9 percent as compared to the corresponding period of last year.

Other operating expenses - net

The Group recorded net other operating expenses for the six months ended September 30, 2008 of US\$30 million, a decrease of 55.4 percent as compared to the corresponding period of last year. Other operating expenses mainly comprise one-off items, totaling US\$24 million (2007/08: US\$47 million), associated with actions taken to streamline processes, consolidate Lenovo's expertise across the globe, and increase global operational efficiency.

Capital Expenditure

The Group incurred capital expenditures of US\$106 million (2007/08: US\$132 million) during the six months ended September 30, 2008, mainly for the acquisition of property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At September 30, 2008, total assets of the Group amounted to US\$7,511 million (March 31, 2008: US\$7,200 million), which were financed by shareholders' funds of US\$1,602 million (March 31, 2008: US\$1,613 million), minority interests of US\$174,000 (March 31, 2008: US\$174,000), and non-current and current liabilities of US\$5,909 million (March 31, 2008: US\$5,587 million). At September 30, 2008, the current ratio of the Group was 1.02 (March 31, 2008: 1.05).

The Group has a solid financial position and continues to maintain a strong and steady cash inflow from its operating activities. At September 30, 2008, bank deposits, cash and cash equivalents totaled US\$1,985 million (March 31, 2008: US\$2,191 million), of which 61.0 (March 31, 2008: 63.9) percent was denominated in US dollars, 27.1 (March 31, 2008: 20.4) percent in Renminbi, 2.7 (March 31, 2008: 2.2) percent in Euros, 1.3 (March 31, 2008: 2.9) percent in Japanese Yen, and 7.9 (March 31, 2008: 10.6) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2008, 76.9 (March 31, 2008: 72.1) percent of cash are bank deposits, and 23.1 (March 31, 2008: 27.9) 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, 2008, the Group had a US\$400 million (March 31, 2008: 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, 2008: US\$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US\$500 million at September 30, 2008 (March 31, 2008: US\$500 million).

The Group has also arranged other short-term credit facilities. At September 30, 2008, the Group's total available credit facilities amounted to US\$2,797 million (March 31, 2008: US\$2,628 million), of which US\$369 million (March 31, 2008: US\$384 million) was in trade lines, US\$590 million (March 31, 2008: US\$406 million) in short-term and revolving money market facilities and US\$1,838 million (March 31, 2008: US\$1,838 million) in foreign exchange forward contracts. At September 30, 2008, the amounts drawn down were US\$156 million (March 31, 2008: US\$150 million) in trade lines, US\$1,290 million (March 31, 2008: US\$1,127 million) being used for the foreign exchange forward contracts; and US\$16 million (March 31, 2008: US\$61 million) in short-term bank loans.

At September 30, 2008, the Group's outstanding bank loans represented the term loans of US\$500 million (March 31, 2008: US\$500 million) and short-term bank loans of US\$16 million (March 31, 2008: US\$61 million). When compared with total equity of US\$1,602 million (March 31, 2008: US\$1,613 million), the Group's gearing ratio was 0.32 (March 31, 2008: 0.35). The net cash position of the Group at September 30, 2008 is US\$1,469 million (March 31, 2008: US\$1,630 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, 2008, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to US\$1,290 million (March 31, 2008: US\$1,127 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.

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. On November 2, 2007, 955,001 convertible preferred shares were converted into 350,459,078 voting ordinary shares. The fair value of the liability component and equity component of the convertible preferred shares, and warrants at September 30, 2008 amounted to approximately US\$214 million (March 31, 2008: US\$211 million), US\$7 million (March 31, 2008: US\$7 million) and US\$35 million (March 31, 2008: US\$35 million) respectively. The warrants will expire on May 17, 2010.

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, 2008, the Group had a total of 23,906 (2007/08 Q2: 25,409) employees, 17,104 (2007/08 Q2: 19,362) of whom were employed in Chinese mainland and 2,040 (2007/08 Q2: 1,859) in the U.S. and 4,762 (2007/08 Q2: 4,188) 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

During the six months ended September 30, 2008, the business environment for Lenovo had become more challenging. Though Lenovo continued to perform well in its principal segments of business – commercial, premium products and China, the natural disasters in China and the unprecedented global economic crisis had adversely affected these business segments. The growth in these segments lagged the overall industry growth which was driven by the consumer segment and low price notebooks. As a result, the Group saw its overall performance during the interim period affected, and its shipment growth lag behind the industry.

Lenovo's worldwide PC shipments grew approximately 11 percent year-on-year during the six months ended September 30, 2008. Based on preliminary industry data, Lenovo's share of the worldwide PC market was approximately 7.7 percent during the period under review.

Lenovo recorded US\$8,539 million in PC sales, representing a 5 percent year-on-year growth in the six months ended September 30, 2008. Slower PC shipment growth, aggressive competitive pricing and the strengthening of US dollars against major currencies resulted in 6 percent year-on-year decrease in gross profit which amounted to US\$1,140 million. Gross margin for the interim period decreased to 13.3 percent from 14.9 percent in the same period last year. Profit before taxation (excluding the cost of restructuring actions) decreased 23 percent to US\$200 million. Profit attributable to shareholders for the interim period decreased 22 percent year-on-year to US\$134 million.

Performance of Geographies

Greater China accounted for approximately 43 percent of Lenovo's total sales during the interim period. Based on its outstanding execution and leadership position, the Group continued to deliver strong results in the geography. Although the overall China PC market growth was impacted by the earthquake, floods and softer consumer demand, Lenovo increased its PC shipments by 14 percent year-on-year, higher than market average. The Group continued to gain share in the China PC market by 0.4 percentage points, accounting for approximately 28.5 percent during the six months ended September 30, 2008 based on preliminary industry data.

The Americas accounted for approximately 25 percent of the Group's total sales during the interim period. The Group's efforts to increase its presence in the transaction segment and in the emerging markets helped offset the impact of slowing commercial spending on its PC unit shipments which were flat year-on-year. However, slowing commercial demand and aggressive competitive pricing impacted the Group's profitability in the geography.

Europe, Middle East and Africa (EMEA) accounted for approximately 21 percent of the Group's total sales during the interim period. Based on its solid performance in the desktop market, the mid-market segment and its transaction business, Lenovo was able to achieve 22 percent year-on-year PC shipment growth in EMEA. However, the Group began to see slowing commercial demand and more aggressive pricing in the geography toward the end of the interim period.

Asia Pacific (excluding Greater China) represented approximately 11 percent of Lenovo's total sales. Lenovo's PC shipments in Asia Pacific were flat year-on-year due to execution issues in both India and Japan, which offset the higher growth achieved in the rest of the geography. Lenovo initiated several actions during the interim period to improve its performance in India and Japan and has started to see better performance in its India operations.

Performance of Product Groups

During the interim period, Lenovo's notebook business increased its share of the Group's total sales to 59 percent, with a 26 percent year-on-year increase in unit shipments. The Group's limited participation in the entry level segment and the consumer market outside of China impacted its shipment performance compared to the market.

The desktop business accounted for approximately 40 percent of Lenovo's total sales during the six months ended September 30, 2008. Lenovo's desktop unit shipments were flat year-on-year, in line with the worldwide desktop market.

Prospects

The Group expects the global economic environment to remain challenging for the rest of the fiscal year and to continue impacting its performance. At the same time, it is clear that the Group's existing focus to drive growth based on its five strategic pillars are on track and will position it to tap more growth when the economy – and the market – rebounds.

Lenovo's efforts *to pursue operational excellence* were effective in driving down its expense-to-revenue ratio during the interim period even with increased marketing costs relating to the Group's sponsorship of the Olympic Summer Games in Beijing. The Group's global supply chain continued to post double-digit improvements in both cost per box and serviceability, compared to the same period last year. Lenovo's new PC manufacturing facility in Mexico became operational recently and will be instrumental in driving additional efficiency from the global supply chain. In addition, the Group also eliminated jobs in some locations to drive efficiencies and plans to consolidate its business wherever necessary.

The Group *further enhanced customer ownership experience* through the successful launch of tailor-made notebook models. During the interim period, Lenovo introduced the ThinkPad SL series for the small- and medium-sized business (SMB) market, refreshed the existing ThinkPad product line, and expanded the IdeaPad consumer notebook line. Lenovo's consistently superior delivery of service and support was rewarded with number one rankings in both the notebook and desktop categories as ranked by Technology Business Research (TBR).

Under the challenging economic environment, *to win in priority businesses* has become even more critical. Lenovo's expansion into emerging markets and the consumer segment outside China is well on track. The Group started to ship netbooks by the end of September 2008 to respond to the accelerated growth in the entry level notebook market, and believes this will help drive growth in the coming quarters. At the same time, Lenovo has made steady progress in expanding into the higher-margin product category by gaining traction in the workstation segment and launching x86 servers during the period under review.

Lenovo demonstrated its ability *to gain scale profitably* during the interim period by posting further increases in its share of the China PC market and its success in driving profitable growth in the mid-market segment in EMEA. Its expansion of its transaction business has also helped offset part of the impact from the slowing growth of its worldwide relationship business amidst the global financial crisis.

Lenovo's marketing campaign to support its sponsorship of the Olympic Summer Games in Beijing earned the Group a record number of media mentions and caught the attention of millions of viewers across the globe. Benefiting from its sponsorships, Lenovo's *brand building* efforts reached new heights with significant increases in all of its brand metrics in both the commercial and consumer markets.

Going forward, Lenovo will continue its rigorous focus on its strategic pillars. In the near term, it will also focus on a number of tactical actions to mitigate the impact of the slowing growth in its major markets. First, Lenovo will continue to strictly manage expenses and take out costs from its operations whenever necessary. Second, it will accelerate expansion into fast-growing industry segments, including the transaction market and the netbook market, and build on its success in select emerging markets. Third, Lenovo will drive growth in the commercial sector by replicating its successful mid-market model in EMEA to other geographies as well as focusing on the expansion of key global accounts.

The global PC market environment is likely to remain challenging; however, the Group expects the strategies and tactics that it has put in place will enable it to emerge as a player more capable to tap market growth in the longer term.

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

During the period, the Company purchased 77,628,000 ordinary shares of HK\$0.025 each in the capital of the Company at prices ranging from HK\$5.00 to HK\$5.99 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>
April 2008	29,228,000	5.58	5.00	154,574,380
May 2008	3,000,000	5.99	5.79	17,573,000
June 2008	42,400,000	5.96	5.20	231,088,920
July 2008	3,000,000	5.49	5.13	15,947,540

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.

During the period, the trustee of the Long Term Incentive Program purchased 24,710,000 ordinary shares from the market for award to employees upon vesting. Details of the program will be set out in the 2008/09 interim report of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the above-mentioned period.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the interim results for the six months ended September 30, 2008. 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, 2008, 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 2007/08 annual report of the Company.

By order of the Board
Yang Yuanqing
Chairman

San Francisco, November 6, 2008

As of the date of this announcement, the Executive Directors are Mr. Yang Yuanqing and Mr. William J. Amelio; the Non-Executive Directors are Mr. Liu Chuanzhi, Mr. Zhu Linan, Ms. Ma Xuezheng, Mr. James G. Coulter, Mr. William O. Grabe and Mr. Justin T. Chang (alternate Director to Mr. James G. Coulter); and the Independent Non-Executive Directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. John W. Barter III and Dr. Tian Suning.