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## Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

### FY2009/10 INTERIM RESULTS ANNOUNCEMENT

#### INTERIM RESULTS

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended September 30, 2009 together with comparative figures for the corresponding period of last year, as follows:

#### CONSOLIDATED INCOME STATEMENT

	Note	3 months ended September 30, 2009 (unaudited) US\$'000	6 months ended September 30, 2009 (unaudited) US\$'000	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000
Sales	2	4,099,096	7,556,578	4,326,225	8,538,859
Cost of sales		(3,665,639)	(6,742,763)	(3,757,443)	(7,369,030)
Gross profit		433,457	813,815	568,782	1,169,829
Other income/(expense) – net	3	38,166	39,693	(138)	888
Selling and distribution expenses		(212,014)	(401,436)	(270,702)	(520,953)
Administrative expenses		(136,940)	(276,131)	(157,764)	(332,100)
Research and development expenses		(54,184)	(103,404)	(47,086)	(101,199)
Other operating income/(expense) – net		9,923	18,761	(57,757)	(48,196)
Operating profit		78,408	91,298	35,335	168,269
Finance income		4,126	7,546	18,624	38,434
Finance costs	4	(17,666)	(36,342)	(15,099)	(30,367)
Share of profits/(losses) of associated companies		121	70	255	(319)
Profit before taxation	5	64,989	62,572	39,115	176,017
Taxation	6	(11,907)	(25,499)	(15,673)	(42,082)
Profit for the period		53,082	37,073	23,442	133,935
Profit attributable to:					
Equity holders of the Company		53,082	37,073	23,442	133,935
Minority interests		-	-	-	-
		53,082	37,073	23,442	133,935
Dividend	7		12,264		35,575
Basic earnings per share attributable to equity holders of the Company	8(a)	US 0.59 cents	US 0.42 cents	US0.27 cents	US1.51 cents
Diluted earnings per share attributable to equity holders of the Company	8(b)	US 0.55 cents	US 0.39 cents	US0.25 cents	US1.38 cents

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2009 (unaudited) <i>US\$'000</i>	6 months ended September 30, 2009 (unaudited) <i>US\$'000</i>	3 months ended September 30, 2008 (unaudited) <i>US\$'000</i>	6 months ended September 30, 2008 (unaudited) <i>US\$'000</i>
Profit for the period	53,082	37,073	23,442	133,935
Other comprehensive income/(loss)				
Fair value change on available-for-sale financial assets	21,228	44,936	(30,230)	(7,192)
Fair value change on interest rate swap contracts	1,756	2,476	(2,490)	5,220
Fair value change on forward foreign exchange contracts	5,900	2,476	1,577	-
Currency translation differences	(32,182)	(48,680)	38,768	47,503
Reserve realized on disposal of available-for-sale financial assets	(24,549)	(24,549)	-	(465)
	<b>25,235</b>	<b>13,732</b>	31,067	179,001
Total comprehensive income attributable to:				
Equity holders of the Company	25,235	13,732	31,067	179,001
Minority interests	-	-	-	-
	<b>25,235</b>	<b>13,732</b>	31,067	179,001

## CONSOLIDATED BALANCE SHEET

		September 30, 2009 (unaudited) US\$'000	March 31, 2009 (audited) US\$'000
Non-current assets			
Property, plant and equipment		276,209	314,142
Prepaid lease payments		3,795	5,833
Construction-in-progress		20,904	47,062
Intangible assets		1,872,154	1,852,861
Investments in associated companies		1,012	2,635
Deferred tax assets		187,120	190,844
Available-for-sale financial assets		121,756	101,916
Other non-current assets		8,848	5,653
		<u>2,491,798</u>	<u>2,520,946</u>
Current assets			
Inventories		671,767	450,370
Trade receivables	9(a)	1,608,402	903,103
Notes receivable		234,380	221,575
Derivative financial assets		3,594	13,163
Deposits, prepayments and other receivables		828,146	613,826
Income tax recoverable		56,204	35,301
Bank deposits		320,948	-
Cash and cash equivalents		2,061,911	1,863,379
		<u>5,785,352</u>	<u>4,100,717</u>
Total assets		<u>8,277,150</u>	<u>6,621,663</u>
Share capital	11	30,478	29,530
Reserves		1,388,881	1,281,208
Equity holders' funds		1,419,359	1,310,738
Minority interests		177	177
Total equity		<u>1,419,536</u>	<u>1,310,915</u>
Non-current liabilities	12	938,772	891,208
Current liabilities			
Trade payables	9(b)	3,478,331	1,991,286
Notes payable		60,836	34,180
Derivative financial liabilities		17,954	23,674
Provisions, accruals and other payables	10	1,996,813	1,823,289
Income tax payable		82,638	89,459
Short-term bank loans		33,946	20,293
Current portion of non-current liabilities		248,324	437,359
		<u>5,918,842</u>	<u>4,419,540</u>
Total liabilities		<u>6,857,614</u>	<u>5,310,748</u>
Total equity and liabilities		<u>8,277,150</u>	<u>6,621,663</u>
Net current liabilities		<u>(133,490)</u>	<u>(318,823)</u>
Total assets less current liabilities		<u>2,358,308</u>	<u>2,202,123</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	6 months ended September 30, 2008 (unaudited) US\$'000
Net cash generated from operating activities	<b>561,573</b>	63,958
Net cash used in investing activities	<b>(292,819)</b>	(173,937)
Net cash used in financing activities	<b>(85,594)</b>	(252,437)
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	<b>183,160</b>	(362,416)
Effect of foreign exchange rate changes	<b>15,372</b>	22,810
Cash and cash equivalents at the beginning of the period	<b>1,863,379</b>	1,651,420
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>2,061,911</b>	1,311,814
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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share capital (unaudited) US\$'000	Share premium (unaudited) US\$'000	Convertible rights in respect of convertible preferred shares and warrants (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Share redemption reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Hedging reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Minority interests (unaudited) US\$'000	Total (unaudited) US\$'000
At April 1, 2009	29,530	1,106,379	42,159	25,691	75,501	497	(157,461)	92,684	(16,576)	30,738	81,596	177	1,310,915
Profit for the period	-	-	-	-	-	-	-	-	-	-	37,073	-	37,073
Other comprehensive income/(loss)	-	-	-	(48,680)	20,387	-	-	-	4,952	-	-	-	(23,341)
Total comprehensive income/(loss) for the period	-	-	-	(48,680)	20,387	-	-	-	4,952	-	37,073	-	13,732
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	110	(110)	-	-
Conversion of Series A cumulative convertible preferred shares	735	77,979	(2,485)	-	-	-	-	-	-	-	-	-	76,229
Exercise and repurchase of warrants	205	31,578	(35,353)	-	-	-	-	-	-	3,570	-	-	-
Vesting of shares under long-term incentive program	-	-	-	-	-	-	20,063	(26,233)	-	-	-	-	(6,170)
Exercise of share options	8	745	-	-	-	-	-	-	-	-	-	-	753
Share-based compensation	-	-	-	-	-	-	-	24,077	-	-	-	-	24,077
At September 30, 2009	30,478	1,216,681	4,321	(22,989)	95,888	497	(137,398)	90,528	(11,624)	34,418	118,559	177	1,419,536
At April 1, 2008	29,699	1,150,684	42,159	(66,660)	41,136	497	(172,235)	78,737	(1,788)	24,537	486,323	174	1,613,263
Profit for the period	-	-	-	-	-	-	-	-	-	-	133,935	-	133,935
Other comprehensive income/(loss)	-	-	-	47,503	(7,657)	-	-	-	5,220	-	-	-	45,066
Total comprehensive income/(loss) for the period	-	-	-	47,503	(7,657)	-	-	-	5,220	-	133,935	-	179,001
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,201	(6,201)	-	-
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

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. The condensed interim financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. The condensed interim financial statements should be read in conjunction with the 2008/09 annual financial statements.

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

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

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

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

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

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

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

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

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

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

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

- Exchange (loss)/gain on cash flow hedges of (US\$418,000) and (US\$64,683,000) for the six months ended September 30, 2009 (2008/09: US\$84,000 and US\$29,913,000) previously recorded in other operating income/(expenses) has been reclassified to sales and cost of sales respectively
- Costs associated with factoring of US\$5,200,000 for the six months ended September 30, 2009 (2008/09: US\$11,399,000) previously recorded in other operating expenses have been reclassified to finance costs
- Future billing discounts of US\$340,947,699 at September 30, 2009 (March 31, 2009: US\$313,364,000) previously netted with trade receivables have been reclassified to other payables

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

## 2 Segment information

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

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

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	3,664,297	1,091,109	2,801,172	-	7,556,578
Cost of sales					(6,742,763)
Gross profit					813,815
Operating expenses					(762,210)
Segment operating results	198,310	(55,955)	(48,603)	(42,147)	51,605
Finance income				7,546	7,546
Finance costs				(36,342)	(36,342)
Impairment of investments				(522)	(522)
Net gain on disposal of investments and available-for-sale financial assets				38,688	38,688
Dividend income from available-for-sale financial assets				1,527	1,527
Share of profits of associated companies				70	70
Profit before taxation					62,572
Taxation					(25,499)
Profit for the period					37,073
Capital expenditure	20,409	1,577	18,467	4,687	45,140

Note: Segment operating profit/(loss) presented above include the impact of restructuring costs of US\$5,489,000. The segment operating profit/(loss) before restructuring costs are: China US\$200,476,000; Emerging Markets (excluding China) (US\$52,192,000); Mature Markets (US\$52,237,000); and corporate or unallocated (US\$38,953,000).



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

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Inventories	220,293	86,264	87,509	277,701	671,767
Trade receivables	868,537	364,973	369,698	5,194	1,608,402
Bank deposits	115,892	-	-	205,056	320,948
Cash and cash equivalents	89,761	81,088	79,259	1,811,803	2,061,911
Other current assets	421,222	393,250	111,493	196,359	1,122,324
Deferred tax assets	-	-	-	187,120	187,120
Other non-current assets	154,512	26,147	108,196	2,015,823	2,304,678
<b>Total assets</b>	<b>1,870,217</b>	<b>951,722</b>	<b>756,155</b>	<b>4,699,056</b>	<b>8,277,150</b>
Trade payables	1,801,225	490,347	182,227	1,004,532	3,478,331
Income tax payable	-	-	-	82,638	82,638
Short-term bank loans	-	33,946	-	-	33,946
Other current liabilities	894,143	398,286	695,787	100,711	2,088,927
Interest-bearing bank loans (current and non-current)	-	-	-	565,000	565,000
Deferred taxation	-	-	-	310	310
Other non-current liabilities	151,665	43,301	266,944	146,552	608,462
<b>Total liabilities</b>	<b>2,847,033</b>	<b>965,880</b>	<b>1,144,958</b>	<b>1,899,743</b>	<b>6,857,614</b>

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

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

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

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

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

	China (unaudited) US\$'000	Emerging Markets (excluding China) (unaudited) US\$'000	Mature Markets (unaudited) US\$'000	Corporate or unallocated (unaudited) US\$'000	Total (unaudited) US\$'000
Sales	3,483,735	1,402,528	3,652,596	-	8,538,859
Cost of sales					(7,369,030)
Gross profit					1,169,829
Operating expenses					(1,002,448)
Segment operating results	219,805	12,558	(14,581)	(50,401)	167,381
Finance income				38,434	38,434
Finance costs				(30,367)	(30,367)
Net loss on disposal of investments and available-for-sale financial assets				(124)	(124)
Dividend income from available-for-sale financial assets				1,012	1,012
Share of losses of associated companies				(319)	(319)
Profit before taxation					176,017
Taxation				(42,082)	(42,082)
Profit for the period					133,935
Capital expenditure	21,413	11,274	32,929	40,446	106,062

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: China US\$219,805,000; Emerging Markets (excluding China) US\$13,138,000; Mature Markets US\$9,326,000; and corporate or unallocated (US\$50,924,000).

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

	China (audited) US\$'000	Emerging Markets (excluding China) (audited) US\$'000	Mature Markets (audited) US\$'000	Corporate or unallocated (audited) US\$'000	Total (audited) US\$'000
Inventories	131,963	97,170	46,983	174,254	450,370
Trade receivables	233,338	327,105	336,180	6,480	903,103
Cash and cash equivalents	1,589,428	60,346	68,431	145,174	1,863,379
Other current assets	342,306	183,809	25,957	331,793	883,865
Deferred tax assets	-	-	-	190,844	190,844
Other non-current assets	177,928	28,088	116,962	2,007,124	2,330,102
<b>Total assets</b>	<b>2,474,963</b>	<b>696,518</b>	<b>594,513</b>	<b>2,855,669</b>	<b>6,621,663</b>
Trade payables	744,179	139,925	144,344	962,838	1,991,286
Income tax payable	-	-	-	89,459	89,459
Short-term bank loans	-	20,293	-	-	20,293
Other current liabilities	715,456	170,128	658,306	346,994	1,890,884
Interest-bearing bank loans (current and non-current)	-	-	-	665,000	665,000
Other non-current liabilities	119,666	52,359	259,407	222,394	653,826
<b>Total liabilities</b>	<b>1,579,301</b>	<b>382,705</b>	<b>1,062,057</b>	<b>2,286,685</b>	<b>5,310,748</b>

### 3 Other income/(expense) – net

	<b>3 months ended September 30, 2009 (unaudited) US\$'000</b>	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	<b>3 months ended September 30, 2008 (unaudited) US\$'000</b>	<b>6 months ended September 30, 2008 (unaudited) US\$'000</b>
Net gain/(loss) on disposal of investments and available-for-sale financial assets	<b>38,688</b>	<b>38,688</b>	(138)	(124)
Dividend income from available-for-sale financial assets	-	<b>1,527</b>	-	1,012
Impairment of investments	<b>(522)</b>	<b>(522)</b>	-	-
	<b>38,166</b>	<b>39,693</b>	(138)	888

#### 4 Finance costs

	<b>3 months ended September 30, 2009 (unaudited) US\$'000</b>	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000
Interest on bank loans and overdrafts	8,340	16,029	5,479	11,190
Dividend and relevant finance costs on convertible preferred shares	3,215	6,747	3,526	7,053
Factoring cost	2,200	5,200	5,680	11,399
Others	3,911	8,366	414	725
	<b>17,666</b>	<b>36,342</b>	<b>15,099</b>	<b>30,367</b>

#### 5 Profit before taxation

Profit before taxation is stated after charging the following:

	<b>3 months ended September 30, 2009 (unaudited) US\$'000</b>	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	24,261	50,684	24,644	50,269
Amortization of intangible assets	17,570	31,904	15,477	32,551
Employee benefit costs, including	294,110	560,163	306,305	610,004
- long-term incentive awards	13,417	24,077	13,416	25,304
- severance and related costs	1,133	3,759	14,610	15,531
Termination of onerous contracts	1,253	1,281	6,653	6,653
Rental expenses under operating leases	11,645	22,513	11,331	23,224

## 6 Taxation

The amount of taxation in the consolidated income statement represents:

	<b>3 months ended September 30, 2009 (unaudited) US\$'000</b>	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	3 months ended September 30, 2008 (unaudited) US\$'000	6 months ended September 30, 2008 (unaudited) US\$'000
Current taxation				
Hong Kong profits tax	57	90	79	137
Taxation outside Hong Kong	2,474	13,582	26,622	53,225
Deferred taxation	9,376	11,827	(11,028)	(11,280)
	<u>11,907</u>	<u>25,499</u>	<u>15,673</u>	<u>42,082</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (September 30, 2008: 16.5%) on the estimated assessable profits less estimated available tax losses. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

## 7 Dividend

	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	6 months ended September 30, 2008 (unaudited) US\$'000
Interim dividend, declared after period end – HK1.0 cent (2008/09: HK3.0 cents) per ordinary share	<u>12,264</u>	<u>35,575</u>

## 8 Earnings per share

### (a) Basic

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

	<b>6 months ended September 30, 2009 (unaudited) US\$'000</b>	6 months ended September 30, 2008 (unaudited) US\$'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>8,923,429,962</u>	<u>8,843,095,564</u>
Profit attributable to equity holders of the Company	<u>37,073</u>	<u>133,935</u>

(b) *Diluted*

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

For the six months ended September 30, 2009, adjustments for the dilutive potential ordinary shares are as follows:

- For the convertible preferred shares, they were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- All warrants were exercised or repurchased on September 9, 2009 and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.
- For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options.
- For the long-term incentive awards, a calculation is done to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

	<b>6 months ended September 30, 2009 (unaudited)</b>	6 months ended September 30, 2008 (unaudited)
Weighted average number of ordinary shares in issue	<b>8,923,429,962</b>	8,843,095,564
Adjustments for assumed conversion of convertible preferred shares	-	651,375,784
Adjustments for share options, long-term incentive awards and warrants	<b>690,351,787</b>	727,138,433
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	<b>9,613,781,749</b>	10,221,609,781
	<hr/>	<hr/>
	<b>US\$'000</b>	US\$'000
Profit attributable to equity holders of the Company	<b>37,073</b>	133,935
Interest expense on convertible preferred shares	-	7,053
	<hr/>	<hr/>
	<b>37,073</b>	140,988
	<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:

	<b>September 30, 2009</b> <b>(unaudited)</b> <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	<b>1,418,702</b>	695,774
31 – 60 days	<b>117,432</b>	100,157
61 – 90 days	<b>50,828</b>	27,716
Over 90 days	<b>36,117</b>	109,211
	<hr/>	<hr/>
	<b>1,623,079</b>	932,858
Less: provision for impairment	<b>(14,677)</b>	(29,755)
	<hr/>	<hr/>
Trade receivables – net	<b><u>1,608,402</u></b>	<b><u>903,103</u></b>

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

	<b>September 30, 2009</b> <b>(unaudited)</b> <i>US\$'000</i>	March 31, 2009 (audited) <i>US\$'000</i>
0 – 30 days	<b>2,272,650</b>	1,209,795
31 – 60 days	<b>801,834</b>	563,269
61 – 90 days	<b>314,459</b>	140,562
Over 90 days	<b>89,388</b>	77,660
	<hr/>	<hr/>
	<b><u>3,478,331</u></b>	<b><u>1,991,286</u></b>

## 10 Provisions, accruals and other payables

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

	<b>Warranty</b> <i>US\$'000</i>	<b>Restructuring</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
Year ended March 31, 2009 (audited)			
At the beginning of the year	697,915	7,588	705,503
Exchange adjustment	(2,191)	(520)	(2,711)
Provisions made	404,564	108,041	512,605
Amounts utilized	(483,898)	(16,755)	(500,653)
Unused amounts reversed	(82,991)	(751)	(83,742)
	<u>533,399</u>	<u>97,603</u>	<u>631,002</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(170,008)</u>	<u>-</u>	<u>(170,008)</u>
At the end of the year	<u><u>363,391</u></u>	<u><u>97,603</u></u>	<u><u>460,994</u></u>
Six months ended September 30, 2009 (unaudited)			
At the beginning of the period	<b>533,399</b>	<b>97,603</b>	<b>631,002</b>
Exchange adjustment	<b>1,913</b>	<b>2,454</b>	<b>4,367</b>
Provisions made	<b>194,615</b>	<b>4,855</b>	<b>199,470</b>
Amounts utilized	<b>(226,157)</b>	<b>(66,415)</b>	<b>(292,572)</b>
Unused amounts reversed	<b>-</b>	<b>(6,751)</b>	<b>(6,751)</b>
	<u>503,770</u>	<u>31,746</u>	<u>535,516</u>
Long-term portion classified as non-current liabilities (Note 12)	<u>(159,302)</u>	<u>-</u>	<u>(159,302)</u>
At the end of the period	<u><u>344,468</u></u>	<u><u>31,746</u></u>	<u><u>376,214</u></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, 2009 (unaudited)		March 31, 2009 (audited)	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorized:</i>				
At the beginning and the end of the period/year				
Ordinary shares	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares	3,000,000	27,525	3,000,000	27,525
		<u>527,525</u>		<u>527,525</u>
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the period/year	9,211,389,406	29,530	8,888,786,650	28,496
Conversion from non-voting ordinary shares	-	-	375,282,756	1,203
Conversion from Series A cumulative convertible preferred shares (Note 12(b))	227,981,647	735		
Exercise of share options	2,338,000	8	24,948,000	80
Exercise of warrants	63,502,788	205		
Repurchase of shares	-	-	(77,628,000)	(249)
At the end of the period/year	<u>9,505,211,841</u>	<u>30,478</u>	<u>9,211,389,406</u>	<u>29,530</u>
Non-voting ordinary shares:				
At the beginning of the period/year	-	-	375,282,756	1,203
Conversion to voting ordinary shares	-	-	(375,282,756)	(1,203)
At the end of the period/year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Issued and fully paid ordinary shares	<u>9,505,211,841</u>	<u>30,478</u>	<u>9,211,389,406</u>	<u>29,530</u>
Total issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning of the period/year	1,774,999	2,081	1,774,999	2,081
Conversion to voting ordinary shares (Note 12(b))	(621,250)	(735)	-	-
At the end of the period/year	<u>1,153,749</u>	<u>1,346</u>	<u>1,774,999</u>	<u>2,081</u>

## 12 Non-current liabilities

	September 30, 2009 (unaudited) US\$'000	March 31, 2009 (audited) US\$'000
Marketing rights	1,302	-
Interest-bearing bank loans repayable within five years (Note 12(a))	330,000	230,000
Convertible preferred shares (Note 12(b))	141,576	215,974
Warranty provision (Note 10)	159,302	170,008
Retirement benefit obligations	75,208	68,000
Deferred revenue	194,603	165,980
Derivative financial liabilities	4,978	7,382
Deferred tax liabilities	310	-
Other non-current liabilities	31,493	33,864
	<b>938,772</b>	<b>891,208</b>

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

On September 9, 2009, 621,250 convertible preferred shares were converted into 227,981,647 voting ordinary shares. At September 30, 2009, the outstanding number of convertible preferred shares was 1,153,749.

On September 9, 2009, 63,502,788 warrants were exercised pursuant to which the remaining 173,914,686 warrants were repurchased by the Company at a unit price of HK\$0.995 on the same day.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK1.0 cent (2008/09: HK3.0 cents) per ordinary share for the six months ended September 30, 2009, absorbing an aggregate amount of approximately HK\$95 million (approximately US\$12 million) (2008/09: approximately HK\$276 million (approximately US\$36 million), to shareholders whose names appear on the Register of Members of ordinary shares of the Company on Wednesday, November 25, 2009. The interim dividend will be paid on Wednesday, December 2, 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of ordinary shares of the Company will be closed from Monday, November 23, 2009 to Wednesday, November 25, 2009, both days inclusive, during which period no transfer of ordinary shares will be affected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar, Tricor Abacus Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, November 20, 2009.

## **FINANCIAL REVIEW**

### *Results*

For the six months ended September 30, 2009, the Group achieved total sales of approximately US\$7,557 million. Profit attributable to equity holders for the period was approximately US\$37 million, representing a decrease of US\$97 million as compared to the corresponding period of last year. Gross profit margin for the period was 2.9 percentage points down from 13.7 percent reported in the corresponding period of last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US\$519 million as compared to March 31, 2009. Basic earnings per share and diluted earnings per share were US0.42 cents and US0.39 cents, representing a decrease of US1.09 cents and US0.99 cents respectively as compared with the corresponding period of last year.

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

### *Other income – net*

Other income mainly represents gains on disposal of available-for-sale financial assets and dividend income.

### *Selling and distribution expenses*

Selling and distribution expenses for the six months ended September 30, 2009 decreased by 23 percent as compared to the corresponding period of last year. This is principally attributable to a US\$63 million decrease in promotion activities coupled with US\$10 million decrease in employee benefit costs.

### *Administrative expenses*

The Group experienced a decrease in administrative expenses for the six months ended September 30, 2009 of 17 percent as compared to the corresponding period of last year. The decrease is driven by employee benefit costs and contracted services.

### *Research and development expenses*

Research and development spending for the six months ended September 30, 2009 increased

by 2 percent as compared to the corresponding period of last year.

*Other operating income/(expense) - net*

Other operating income for the six months ended September 30, 2009 decreased by 139 percent as compared to the corresponding period of last year. This is mainly driven by decrease in cost associated with restructuring actions.

### **Capital Expenditure**

The Group incurred capital expenditures of US\$45 million (2008/09: US\$106 million) during the six months ended September 30, 2009, mainly for the acquisition of marketing rights, property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

### **Liquidity and Financial Resources**

At September 30, 2009, total assets of the Group amounted to US\$8,277 million (March 31, 2009: US\$6,622 million), which were financed by equity holders' funds of US\$1,419 million (March 31, 2009: US\$1,311 million), minority interests of US\$177,000 (March 31, 2009: US\$177,000), and non-current and current liabilities of US\$6,858 million (March 31, 2009: US\$5,311 million). At September 30, 2009, the current ratio of the Group was 0.98 (March 31, 2009: 0.93).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At September 30, 2009, bank deposits, cash and cash equivalents totaled US\$2,383 million (March 31, 2009: US\$1,863 million), of which 36.9 (March 31, 2009: 65.7) percent was denominated in US dollars, 54.4 (March 31, 2009: 24.5) percent in Renminbi, 1.7 (March 31, 2009: 2.8) percent in Euros, 0.7 (March 31, 2009: 1.9) percent in Japanese Yen, and 6.3 (March 31, 2009: 5.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At September 30, 2009, 83.4 (March 31, 2009: 81.0) percent of cash are bank deposits, and 16.6 (March 31, 2009: 19.0) percent of cash are investments in liquid money market fund of investment grade.

Due to the unprecedented global economic challenges, the Group incurred a significant operating loss in the last quarter of the previous year, which was largely caused by the global resource redeployment plan announced in January that realized a significant restructuring charge. The substantial loss incurred triggered a breach of certain financial covenants in connection with the US\$400 million 5-year revolving and term loan facility with syndicated banks. The Group has obtained consent from the syndicated banks the waiver from strict compliance with those financial covenants and has entered into a revised loan agreement on May 21, 2009. US\$100 million was repaid in September and the outstanding loan balance as at September 30, 2009 amounted to US\$300 million. The facility will expire in March 2011.

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

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

The Group has also arranged other short-term credit facilities. At September 30, 2009, the Group's total available credit facilities amounted to US\$4,138 million (March 31, 2009: US\$4,210 million), of which US\$185 million (March 31, 2009: US\$279 million) was in trade lines, US\$465 million (March 31, 2009: US\$498 million) in short-term and revolving money market facilities and US\$3,489 million (March 31, 2009: US\$3,433 million) in forward foreign exchange contracts. At September 30, 2009, the amounts drawn down were US\$152 million (March 31, 2009: US\$91 million) in trade lines, US\$2,915 million (March 31, 2009: US\$1,964 million) being used for the forward foreign exchange contracts; and US\$34 million (March 31, 2009: US\$20 million) in short-term bank loans.

At September 30, 2009, the Group's outstanding bank loans represented the term loans of US\$565 million (March 31, 2009: US\$665 million) and short-term bank loans of US\$34 million (March 31, 2009: US\$20 million). When compared with total equity of US\$1,419 million (March 31, 2009: US\$1,311 million), the Group's gearing ratio was 0.42 (March 31, 2009: 0.52). The net cash position of the Group at September 30, 2009 is US\$1,784 million (March 31, 2009: US\$1,178 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2009, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$2,915 million (March 31, 2009: US\$1,964 million).

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

### **Contingent Liabilities**

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

### **Human Resources**

At September 30, 2009, the Group had a total of 20,757 (2008/09 Q2: 23,906) employees.

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

## **BUSINESS REVIEW AND PROSPECTS**

During the six months ended September 30, 2009, worldwide PC shipments turned flat year-on-year after several quarters of decline driven by the economic crisis. Despite the declining economic environment, the consumer PC market continued to show strong growth while commercial demand remained weak. Lenovo reported market share gains for two consecutive quarters after the outbreak of economic crisis and demonstrated increasing growth momentum. During the quarter ended September 30, 2009, the Group grew approximately 17 percent year-on-year in PC unit shipments, as compared to the 2 percent year-on-year growth in the previous quarter. This is a result of our leadership position in China, which has registered a double-digit growth in unit shipments, together with our expansion in consumer and emerging markets. Lenovo recorded approximately 10 percent year-on-year growth in unit shipments, representing a historic high of 8.7 percent market share in the six months ended September, 2009. As a result of its strong unit shipment growth and significant expense reduction, Lenovo returned to profit in the fiscal second quarter.

In the six months ended September 30, 2009, the Group's sales reduced by approximately 12 percent year-on-year to US\$7,557 million as the continued decrease of the average selling price offset its growth in unit shipments. Gross profit decreased 30 percent year-on-year, amounting to US\$814 million. As a result of the product mix shift to lower price points and aggressive competition in the marketplace, the Group's gross margin for the interim period decreased to 10.8 percent from 13.7 percent in the same period last year. Nevertheless, Lenovo's resources restructuring plan generated the expected savings and the company delivered strong expense reductions, driving its expense-to-revenue ratio (excluding the restructuring costs) to a historic low of 10.0 percent despite lower sales. As a result, Lenovo reported an operating profit (excluding the restructuring costs) of US\$57 million for the interim period. Including a net gain of US\$38 million from the disposal of some of our investments, Lenovo's profit attributable to equity holders amounted to US\$37 million for the interim period, representing a year-on-year decrease of 72 percent.

### **Performance of Geographies**

During the six months ended September 30, 2009, Lenovo saw sequential improvement in its geographic performance as compared to the second half of the previous fiscal year, benefiting from its strategic priorities and focus on execution. Lenovo's China business delivered solid profits while the loss incurred in Mature Markets and Emerging Markets (excluding China) reduced significantly.

China accounted for approximately 49 percent of the Group's total sales. Driven by steady economic growth under the government's stimulus package and strong momentum in the consumer segment, the China PC market posted 21 percent year-on-year growth in unit shipments during the six months ended September 30, 2009. Lenovo further expanded its leadership with 22 percent year-on-year increase in unit shipments by focusing on capturing the high growth opportunities, enhancing storefront competitiveness, refining its business model and enhancing cross-selling. The Group's market share rose 0.1 percentage points year-on-year to 29.0 percent based on preliminary industry estimates.

Emerging Markets (excluding China) accounted for approximately 14 percent of the Group's total sales. Through expanding its channel network, introducing a new product line-up and improving the business process, Lenovo posted a 4 percent year-on-year increase in its unit shipments despite the overall market shipments declining. The Group delivered market share

gain in ASEAN, Russia, Turkey and Latin America.

Mature Markets accounted for 37 percent of the Group's total sales. Impacted by sluggish commercial demand in Mature Markets, Lenovo reported an approximately 9 percent year-on-year decrease in unit shipments despite its strong growth in transaction business. Nevertheless, with intense focus on gross margin control and expense reduction, the Group successfully reduced the loss incurred in this geography sequentially.

### **Performance of Product Groups**

Lenovo posted share gains in both desktop and notebook computer markets during the six months ended September 30, 2009. With an expanded consumer product line-up that includes netbook and CULV notebook, Lenovo captured strong growth from the robust consumer notebook market and reported a 30 percent year-on-year surge in its overall notebook unit shipments. The Group saw its overall desktop unit shipment decrease 8 percent year-on-year due to weak commercial demand and market shift to notebook computers. However, its expansion into transaction business with stylish all-in-one consumer desktop and SMB-focused desktop offerings helped mitigate the impact.

### **Prospects**

While the worldwide PC market outlook has showed improvement, Lenovo expects the market environment continues to pose challenges for the Group during the second half of the fiscal year as the commercial demand remains soft. The continuous shift of product mix toward lower priced computers will also exert pressure on Lenovo's operation. However, the Group is encouraged by its sequential improvement and will continue to drive growth and improve profitability with intense focus on execution of its strategic initiatives.

The strong momentum in China PC market bodes well for the Group. Lenovo is dedicated to strengthening its leadership and profitability in China through expanding its distribution network and product portfolio to better serve the high growth segments, such as the consumer and small and medium-sized business (SMB) segments and rural market.

Lenovo is on track to restore profitability in the Mature Markets which are still under pressure due to the sluggish conditions in commercial market. Besides upholding profit margin and expense control, Lenovo will also put more emphasis on channel to make itself the vendor of choice for channel partners. The Group believes this new initiative will enable it to improve its competitiveness and capture the opportunities in transaction business.

The Group saw solid growth of its transaction business during the interim period and expects the momentum to continue with its expanded footprint in the consumer market and an enriched set of product offerings. In the second half of the fiscal year, Lenovo will leverage the new Windows 7 operating system in product launches by rolling out a number of competitive computer models for both consumer and SMB segments. It will strive to continue the success in driving sales campaign across the globe with speedy and precise execution.

Lenovo aims at replicating its success in Emerging Markets by leveraging its efficient end-to-end operation in China. The Group is encouraged with its market share gains in a number of emerging countries during the interim period. Lenovo will build on the momentum by driving improvements in select countries such as India which can offer more growth opportunities for the Group.

The Group delivered most of the savings from its resource restructuring plan in the first half of the fiscal year. With the completion of the plan and its stringent expense control, Lenovo reduced expense by US\$222 million year-on-year. Going forward, the Group will continue to maintain a lean cost structure with an intense focus on further improving its expense-to-revenue ratio as Lenovo gains scale.

Lenovo expects its operating environment to remain challenging in the second half of the year. However, the Group is confident that it can meet the challenges with the strengths of its strategic priorities and enhancement in execution capability. Lenovo will continue to strive for better returns to its shareholders going forward.

#### **PURCHASE, SALE, REDEMPTION OR CONVERSION OF THE COMPANY'S SECURITIES AND WARRANTS**

During this period, group companies / funds of TPG Capital, Newbridge Capital and General Atlantic, the holders of the Company's convertible preferred shares and warrants:

- (i) exercised the conversion rights under the terms of issue of such shares and converted 621,250 convertible preferred shares into 227,981,647 fully paid ordinary shares of the Company;
- (ii) exercised the subscription rights of 63,502,788 warrants under the terms of issue of such warrants and subscribed for 63,502,788 fully paid ordinary shares of the Company; and
- (iii) surrendered 173,914,686 warrants to the Company for cancellation in satisfaction of the subscription price of the 63,502,788 shares mentioned in (ii) above under the terms of issue of such warrants.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities and warrants and no further conversion notice was received during the six months ended September 30, 2009.

#### **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, 2009. 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, 2009, 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 Codes A.4.1, A.5.4 and C.3.3(g) as disclosed in the 2008/09 annual report of the Company.

By order of the Board  
**Liu Chuanzhi**  
*Chairman*

Beijing, November 5, 2009

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