2010/11 Interim Report Lenovo Group Limited

Stock Code 992

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CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended September 30, 2010 (unaudited) US$'000**	**6 months ended September 30, 2010 (unaudited) US$'000**	3 months ended September 30, 2009 (unaudited) US$'000	6 months ended September 30, 2009 (unaudited) US$'000
Sales	2	**5,759,983**	**10,906,655**	4,087,231	7,528,009
Cost of sales		**(5,166,997)**	**(9,790,673)**	(3,654,563)	(6,718,129)
Gross profit		**592,986**	**1,115,982**	432,668	809,880
Other income – net	3	**84**	**173**	38,166	39,693
Selling and distribution expenses		**(243,854)**	**(465,870)**	(212,014)	(401,436)
Administrative expenses		**(181,137)**	**(334,314)**	(136,940)	(276,131)
Research and development expenses		**(76,404)**	**(153,257)**	(54,184)	(103,404)
Other operating income – net		**15,221**	**25,489**	10,712	22,696
Operating profit		**106,896**	**188,203**	78,408	91,298
Finance income	4(a)	**6,406**	**11,288**	4,126	7,546
Finance costs	4(b)	**(11,622)**	**(22,459)**	(17,666)	(36,342)
Share of (loss)/profit of associated companies		**(120)**	**(73)**	121	70
Profit before taxation	5	**101,560**	**176,959**	64,989	62,572
Taxation	6	**(24,973)**	**(45,512)**	(11,907)	(25,499)
Profit for the period		**76,587**	**131,447**	53,082	37,073
Profit attributable to:					
Equity holders of the Company		**76,586**	**131,446**	53,082	37,073
Minority interests		**1**	**1**	–	–
		76,587	**131,447**	**53,082**	**37,073**
Dividend	7		**32,581**		12,264
Basic earnings per share attributable to equity holders of the Company	8(a)	**US0.81 cent**	**US1.38 cents**	US0.59 cent	US0.42 cent
Diluted earnings per share attributable to equity holders of the Company	8(b)	**US0.76 cent**	**US1.30 cents**	US0.55 cent	US0.39 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

	Note	**September 30, 2010 (unaudited) US$'000**	March 31, 2010 (audited) US$'000
Non-current assets			
Property, plant and equipment		**228,280**	248,261
Prepaid lease payments		**3,778**	3,748
Construction-in-progress		**21,186**	24,711
Intangible assets		**2,062,912**	2,066,337
Interests in associated companies		**1,026**	1,061
Deferred tax assets		**270,295**	254,978
Available-for-sale financial assets		**71,182**	112,520
Other non-current assets		**14,192**	8,699
		2,672,851	2,720,315
Current assets			
Inventories		**983,249**	878,887
Trade receivables	9(a)	**1,661,696**	1,021,062
Notes receivable		**392,776**	386,746
Derivative financial assets		**6,984**	13,283
Deposits, prepayments and other receivables		**2,564,247**	1,463,422
Income tax recoverable		**36,993**	33,562
Bank deposits		**173,945**	200,456
Cash and cash equivalents		**2,522,126**	2,238,195
		8,342,016	6,235,613
Total assets		**11,014,867**	8,955,928
Share capital	11	**31,140**	31,388
Reserves		**1,535,524**	1,574,453
Equity attributable to owners of the Company		**1,566,664**	1,605,841
Minority interests		**178**	177
Total equity		**1,566,842**	1,606,018
Non-current liabilities			
Interest-bearing bank loans		**200,000**	200,000
Convertible preferred shares		**95,907**	94,980
Warranty provision	10	**348,567**	301,234
Deferred revenue		**236,401**	218,034
Retirement benefit obligations		**94,375**	80,867
Derivative financial liabilities		**1,691**	248
Deferred tax liabilities		**14,893**	10,331
Other non-current liabilities		**30,852**	24,863
		1,022,686	930,557
Current liabilities			
Trade payables	9(b)	**3,066,001**	3,141,426
Notes payable		**109,632**	94,427
Derivative financial liabilities		**84,384**	11,259
Provisions, accruals and other payables	10	**4,673,899**	2,585,850
Income tax payable		**75,108**	84,329
Short-term bank loans		**47,795**	64,706
Current portion of non-current liabilities		**368,520**	437,356
		8,425,339	6,419,353
Total liabilities		**9,448,025**	7,349,910
Total equity and liabilities		**11,014,867**	8,955,928
Net current liabilities		**(83,323)**	(183,740)
Total assets less current liabilities		**2,589,528**	2,536,575

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended September 30, 2010 (unaudited) US$'000	6 months ended September 30, 2009 (unaudited) US$'000
Net cash generated from operating activities	**463,563**	561,573
Net cash used in investing activities	**(6,370)**	(292,819)
Net cash used in financing activities	**(216,647)**	(85,594)
Increase in cash and cash equivalents	**240,546**	183,160
Effect of foreign exchange rate changes	**43,385**	15,372
Cash and cash equivalents at the beginning of the period	**2,238,195**	1,863,379
Cash and cash equivalents at the end of the period	**2,522,126**	2,061,911

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital (unaudited) US$'000	Share premium (unaudited) US$'000	Convertible rights in respect of convertible preferred shares and warrants (unaudited) US$'000	Investment revaluation reserve (unaudited) US$'000	Share redemption reserve (unaudited) US$'000	Employee share trusts (unaudited) US$'000	Share-based compensation reserve (unaudited) US$'000	Hedging reserve (unaudited) US$'000	Exchange reserve (unaudited) US$'000	Other reserve (unaudited) US$'000	Retained earnings (unaudited) US$'000	Minority interests (unaudited) US$'000	Total (unaudited) US$'000
At April 1, 2010	**31,388**	**1,341,118**	**2,836**	**72,366**	**497**	**(111,054)**	**76,054**	**6,069**	**(35,969)**	**34,430**	**188,106**	**177**	**1,606,018**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**131,446**	**1**	**131,447**
Other comprehensive loss	**–**	**–**	**–**	**(23,295)**	**–**	**–**	**–**	**(49,458)**	**(6,401)**	**–**	**–**	**–**	**(79,154)**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(23,295)**	**–**	**–**	**–**	**(49,458)**	**(6,401)**	**–**	**131,446**	**1**	**52,293**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,181**	**(22,181)**	**–**	**–**
Repurchase of shares	**(287)**	**(50,022)**	**–**	**–**	**287**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(50,022)**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(55,181)**	**–**	**(55,181)**
Vesting of shares under long-term incentive program	**–**	**–**	**–**	**–**	**–**	**16,001**	**(26,135)**	**–**	**–**	**–**	**–**	**–**	**(10,134)**
Exercise of share options	**39**	**5,428**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,467**
Share-based compensation	**–**	**–**	**–**	**–**	**–**	**–**	**18,401**	**–**	**–**	**–**	**–**	**–**	**18,401**
At September 30, 2010	**31,140**	**1,296,524**	**2,836**	**49,071**	**784**	**(95,053)**	**68,320**	**(43,389)**	**(42,370)**	**56,611**	**242,190**	**178**	**1,566,842**
At April 1, 2009	29,530	1,106,379	42,159	75,501	497	(157,461)	92,684	(16,576)	25,691	30,738	81,596	177	1,310,915
Profit for the period	–	–	–	–	–	–	–	–	–	–	37,073	–	37,073
Other comprehensive income/(loss)	–	–	–	20,387	–	–	–	4,952	(48,680)	–	–	–	(23,341)
Total comprehensive income/(loss) for the period	–	–	–	20,387	–	–	–	4,952	(48,680)	–	37,073	–	13,732
Transfer to statutory reserve	–	–	–	–	–	–	–	–	–	110	(110)	–	–
Conversion of Series A cumulative convertible preferred shares	735	77,979	(2,485)	–	–	–	–	–	–	–	–	–	76,229
Exercise and repurchase of warrants	205	31,578	(35,353)	–	–	–	–	–	–	3,570	–	–	–
Vesting of shares under long-term incentive program	–	–	–	–	–	20,063	(26,233)	–	–	–	–	–	(6,170)
Exercise of share options	8	745	–	–	–	–	–	–	–	–	–	–	753
Share-based compensation	–	–	–	–	–	–	24,077	–	–	–	–	–	24,077
At September 30, 2009	30,478	1,216,681	4,321	95,888	497	(137,398)	90,528	(11,624)	(22,989)	34,418	118,559	177	1,419,536

NOTES

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed interim financial statements. The condensed interim financial statements have been prepared in accordance with Hong Kong S.A.R. of China Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong S.A.R. of China Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong S.A.R. of China Limited. The condensed interim financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. The condensed interim financial statements should be read in conjunction with the 2009/10 annual financial statements.

Except as described below, the principal accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended March 31, 2010.

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

(a) Major relevant revised standards adopted by the Group

HKFRS 3 (revised), "Business combinations" (effective for annual periods beginning on or after July 1, 2009) continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognizing a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group applies HKFRS 3 (revised) prospectively. The adoption of HKFRS 3 (revised) does not result in a material impact on the Group's financial statements because there was no business combination during the six months ended September 30, 2010.

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

1 Basis of preparation *(Continued)*

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

New interpretations

- HK(IFRIC)-Int 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, "Transfers of assets from customers", effective for annual periods beginning on or after July 1, 2009

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

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

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

1 Basis of preparation *(Continued)*

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

New and revised standards and new interpretation

- HKFRS 9, "Financial instruments", effective for annual periods beginning on or after January 1, 2013
- HKAS 24 (Revised), "Related party disclosures", effective for annual periods beginning on or after January 1, 2011
- HK(IFRIC)-Int 19, "Extinguishing financial liabilities with equity instruments", effective for annual periods beginning on or after July 1, 2010

Improvements to HKFRSs 2010 published in May 2010

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

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

A reclassification among sales, cost of sales and other operating expenses – net has been made to the comparative income statement for the six months ended September 30, 2009. The reclassification does not result in net impact on the comparative financial result of the Group.

2 Segment information

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

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

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss) for reportable segments. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, etc. The measure also excludes the effects of unrealized gains/losses on financial instruments. Interest income and expenditure are not allocated to segments as this type of activity is driven by the central treasury function which manages the cash position of the Group.

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the period ended September 30, 2010 and its comparatives are as follows:

	China US$'000	Emerging Markets (excluding China) US$'000	Mature Markets US$'000	Total US$'000
For the six months ended September 30, 2010				
Sales to external customers	**5,137,774**	**1,892,233**	**3,876,648**	**10,906,655**
Adjusted pre-tax income/(loss)	**288,287**	**(41,527)**	**20,049**	**266,809**
Depreciation and amortization	**34,198**	**11,580**	**45,321**	**91,099**
Restructuring costs	**–**	**(46)**	**1,393**	**1,347**
Additions to non-current assets*	**21,263**	**3,021**	**7,645**	**31,929**
At September 30, 2010				
Total assets	**4,268,679**	**2,597,370**	**1,490,473**	**8,356,522**
Total liabilities	**2,975,076**	**3,093,422**	**1,415,503**	**7,484,001**

2 Segment information (Continued)

(a) Segment results, assets and liabilities (Continued)

	China US$'000	Emerging Markets (excluding China) US$'000	Mature Markets US$'000	Total US$'000
For the six months ended September 30, 2009				
Sales to external customers	3,664,297	1,062,540	2,801,172	7,528,009
Adjusted pre-tax income/(loss)	200,476	(52,192)	(52,237)	96,047
Depreciation and amortization	42,350	7,050	33,188	82,588
Restructuring costs	2,166	3,763	(3,634)	2,295
Additions to non-current assets*	20,409	1,577	18,467	40,453
At March 31, 2010				
Total assets	3,094,515	1,586,158	1,199,948	5,880,621
Total liabilities	2,190,074	1,929,730	1,258,603	5,378,407

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

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

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

2 Segment information (Continued)

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

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

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

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

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$1,854 million (March 31, 2010: US$1,854 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives at September 30, 2010 and March 31, 2010 are presented below:

	China US$ million	REM ** US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Amounts pending allocation US$ million	Total US$ million
Goodwill	850	143	24	151	92	37	177	1,474
Trademarks and trade names	209	55	9	58	35	14	-	380

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

Goodwill pending allocation represents the amount attributable to the acquisition of Lenovo Mobile Communication Limited. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives in the development of customer-focused products to capitalize on the mobile internet device business growth. Management is in the process of determining the allocation of goodwill to the appropriate cash generating unit of the Group.

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

3 Other income – net

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

4 Finance income and costs

(a) Finance income

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

(b) Finance costs

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

NOTES *(Continued)*

5 Profit before taxation

Profit before taxation is stated after charging the following:

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

6 Taxation

The amount of taxation in the consolidated income statement represents:

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

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

7 Dividend

	6 months ended September 30, 2010 US$'000	6 months ended September 30, 2009 US$'000
Interim dividend, declared after period end – HK2.6 cents (2009/10: HK1.0 cent) per ordinary share	**32,581**	12,264

8 Earnings per share

(a) Basic

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

	3 months ended September 30, 2010	**6 months ended September 30, 2010**	3 months ended September 30, 2009	6 months ended September 30, 2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,504,308,541**	**9,526,936,298**	8,974,410,775	8,923,429,962

	US$'000	**US$'000**	US$'000	US$'000
Profit attributable to equity holders of the Company	**76,586**	**131,446**	53,082	37,073

(b) Diluted

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

	3 months ended September 30, 2010	**6 months ended September 30, 2010**	3 months ended September 30, 2009	6 months ended September 30, 2009
Weighted average number of ordinary shares in issue	**9,504,308,541**	**9,526,936,298**	8,974,410,775	8,923,429,962
Adjustments for convertible preferred shares	**282,263,132**	**282,263,132**	596,858,434	–
Adjustments for share options and long-term incentive awards	**543,868,709**	**537,249,423**	686,209,147	690,351,787
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,330,440,382**	**10,346,448,853**	10,257,478,356	9,613,781,749

	US$'000	**US$'000**	US$'000	US$'000
Profit attributable to equity holders of the Company	**76,586**	**131,446**	53,082	37,073
Interest expense on convertible preferred shares	**1,554**	**3,107**	3,215	–
	78,140	**134,553**	56,297	37,073

8 Earnings per share (Continued)

Adjustments for the dilutive potential ordinary shares are as follows:

– The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs. For the six months ended September 30, 2009, convertible preferred shares were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

– All warrants were exercised or repurchased on September 9, 2009 and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

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

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

9 Ageing analysis

(a) Customers are generally granted credit term of 30 days. Ageing analysis of trade receivables of the Group at the balance sheet date is as follows:

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

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

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

NOTES *(Continued)*

10 Provisions, accruals and other payables

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

	Warranty US$'000	Restructuring US$'000	Total US$'000
Year ended March 31, 2010			
At the beginning of the year	533,399	97,603	631,002
Exchange adjustment	(2,739)	2,673	(66)
Provisions made	480,402	6,631	487,033
Acquisition of subsidiaries	4,701	–	4,701
Amounts utilized	(451,065)	(81,943)	(533,008)
Unused amounts reversed	(14,009)	(13,623)	(27,632)
	550,689	11,341	562,030
Long-term portion classified as non-current liabilities	(301,234)	–	(301,234)
At the end of the year	249,455	11,341	260,796
Six months ended September 30, 2010			
At the beginning of the period	**550,689**	**11,341**	**562,030**
Exchange adjustment	**4,015**	**14**	**4,029**
Provisions made	**322,333**	**2,736**	**325,069**
Amounts utilized	**(237,673)**	**(1,998)**	**(239,671)**
Unused amounts reversed	**–**	**(1,332)**	**(1,332)**
	639,364	**10,761**	**650,125**
Long-term portion classified as non-current liabilities	**(348,567)**	**–**	**(348,567)**
At the end of the period	**290,797**	**10,761**	**301,558**

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 them.

NOTES *(Continued)*

11 Share capital

	September 30, 2010 Number of shares	HK$'000	March 31, 2010 Number of shares	HK$'000
Authorized:				
At the beginning and the end of the period/year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	Number of shares	US$'000	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**9,788,044,282**	**31,388**	9,211,389,406	29,530
Issue of ordinary shares	**–**	**–**	111,668,936	359
Conversion from series A cumulative convertible preferred shares	**–**	**–**	369,112,652	1,190
Exercise of share options	**12,110,710**	**39**	32,370,500	104
Exercise of warrants	**–**	**–**	63,502,788	205
Repurchase of shares	**(89,334,000)**	**(287)**	–	–
At the end of the period/year	**9,710,820,992**	**31,140**	9,788,044,282	31,388
Series A cumulative convertible preferred shares:				
At the beginning of the period/year	**769,167**	**891**	1,774,999	2,081
Conversion to voting ordinary shares	**–**	**–**	(1,005,832)	(1,190)
At the end of the period/year	**769,167**	**891**	769,167	891

12 Commitments

There have been no significant changes in the total amount of commitments since March 31, 2010 except for the amounts taken up during the period in the normal course of business.

13 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.

FINANCIAL REVIEW

Results

For the six months ended September 30	**2010 US$'000**	2009 US$'000
Sales	**10,906,655**	7,528,009
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs (EBITDAR)	**300,032**	163,759
Profit attributable to equity holders of the Company	**131,446**	37,073
Earnings per share (US cents)		
– Basic	**1.38**	0.42
– Diluted	**1.30**	0.39
Dividend per ordinary share (HK cents)		
– Interim dividend	**2.6**	1.0

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

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

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

	2010		2009	
For the six months ended September 30	**Sales to external customers US$'000**	**Adjusted pre-tax income/(loss) US$'000**	Sales to external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**5,137,774**	**288,287**	3,664,297	200,476
Emerging Markets (excluding China)	**1,892,233**	**(41,527)**	1,062,540	(52,192)
Mature Markets	**3,876,648**	**20,049**	2,801,172	(52,237)
	10,906,655	**266,809**	7,528,009	96,047

The adjusted pre-tax income/(loss) for market segments exclude the effects of non-recurring expenditure from the market segments such as restructuring costs, and the effects of unrealized gains/losses on financial instruments. Interest income and expenditure are not allocated to segments as this type of activity is driven by the central treasury function which manages the cash position of the Group. A reconciliation of the adjusted pre-tax income/(loss) is set out in note 2(b) to the condensed interim financial statements.

Further analyses of income and expense by function for the six months ended September 30, 2010 are set out below:

Other income – net

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

Selling and distribution expenses

Selling and distribution expenses for the period increased by 16.1 percent as compared to corresponding period of last year. This is principally attributable to US$54 million increase in promotional activities and US$17 million increase in employee benefit costs. The increase is partially offset by savings in information technology expense of $4 million.

Administrative expenses

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

Research and development expenses

Research and development spending for the period increased by 48.2 percent as compared to corresponding period of last year. Major increase is attributable to increase in employee benefit costs of US$29 million, R&D related office expenses of $7 million and costs in relation to the relocation of R&D laboratory of US$9 million.

Other operating income – net

Net other operating income for the period increased by 12.3 percent as compared to corresponding period of last year. Other operating income or expense mainly comprises restructuring costs, gain or loss on foreign exchange and IP license fee income.

Capital expenditure

The Group incurred capital expenditures of US$64 million (2009/10: US$45 million) during the six months ended September 30, 2010, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and financial resources

At September 30, 2010, total assets of the Group amounted to US$11,015 million (March 31, 2010: US$8,956 million), which were financed by equity attributable to owners of the Company of US$1,567 million (March 31, 2010: US$1,606 million), minority interests of US$178,000 (March 31, 2010: US$177,000), and non-current and current liabilities of US$9,448 million (March 31, 2010: US$7,350 million). At September 30, 2010, the current ratio of the Group was 0.99 (March 31, 2010: 0.97).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At September 30, 2010, bank deposits, cash and cash equivalents totaled US$2,696 million (2009/10: US$2,439 million), of which 37.0 (March 31, 2010: 42.9) percent was denominated in US dollars, 53.3 (March 31, 2010: 46.6) percent in Renminbi, 1.5 (March 31, 2010: 1.6) percent in Euros, 0.3 (March 31, 2010: 0.2) percent in Japanese Yen, and 7.9 (March 31, 2010: 8.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At September 30, 2010, 74.4 (March 31, 2010: 78.2) percent of cash are bank deposits, and 25.6 (March 31, 2010: 21.8) percent of cash are investments in liquid money market fund of investment grade.

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

Liquidity and financial resources *(Continued)*

To secure more long-term funding, the Group obtained a new US$300 million 3-year term loan facility with a bank in China in March 2009. This facility was utilized to the extent of US$200 million at September 30, 2010 (March 31, 2010: US$200 million). In addition, the Group has entered into another 5-Year loan facility agreement with a bank of US$300 million on July 17, 2009. The Group is confident that all the loan facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group has also arranged other short-term credit facilities. At September 30, 2010, the Group's total available credit facilities amounted to US$6,203 million (March 31, 2010: US$4,936 million), of which US$282 million (March 31, 2010: US$276 million) was in trade lines, US$471 million (March 31, 2010: US$485 million) in short-term and revolving money market facilities and US$5,450 million (March 31, 2010: US$4,175 million) in forward foreign exchange contracts. At September 30, 2010, the amounts drawn down were US$159 million (March 31, 2010: US$191 million) in trade lines, US$3,834 million (March 31, 2010: US$2,641 million) being used for the forward foreign exchange contracts; and US$48 million (March 31, 2010: US$65 million) in short-term bank loans.

At September 30, 2010, the Group's outstanding bank loans represented the term loans of US$330 million (March 31, 2010: US$430 million) and short-term bank loans of US$48 million (March 31, 2010: US$65 million). Short-term bank loans of US$22 million (March 31, 2010: US$28 million) are secured by the same amount of bank deposits. When compared with total equity of US$1,567 million (March 31, 2010: US$1,606 million), the Group's gearing ratio was 0.24 (March 31, 2010: 0.31). The net cash position of the Group at September 30, 2010 is US$2,318 million (March 31, 2010: US$1,944 million).

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

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

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 ordinary shares of the Company for an aggregate cash consideration of approximately US$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date at May 17, 2012. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share.

All warrants were either exercised or repurchased by the Company.

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

Under the general mandate authorized by the shareholders in the annual general meeting, the Company purchases ordinary shares in order to increase shareholder value. For the six months ended September 30, 2010, the Company purchased 89,334,000 ordinary shares at par value of HK$0.025 each in the capital of the Company at an aggregate consideration of approximately US$50 million (2009/10: nil).

Human resources

At September 30, 2010, the Group had a total of 25,842 (2009/10 Q2: 20,757) employees.

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

BUSINESS REVIEW AND OUTLOOK

During the six months ended September 30, 2010, worldwide PC market unit shipments continued to show steady growth at 14.8 percent year-on-year, according to preliminary industry estimates. This came in spite of continued uncertainty in the global economic recovery and the renewed debt crisis in Europe. Recovering commercial demand helped to drive the global PC market growth and offset the contraction of consumer demand growth. Lenovo continued to demonstrate balanced, strong growth momentum in all geographies covering China, Mature Markets and Emerging Markets, as well as in all products and customer segments. Lenovo benefited from its leading market position in China, unique commercial segment exposure in Mature Markets as well as expanded footprint in consumer and Emerging Markets. The Group believes that this balanced strong performance can be attributed to the successful execution of Lenovo's "Protect and Attack" strategy. The Group has successfully surpassed the threshold of double-digit worldwide market share in the past two consecutive quarters. In the fiscal second quarter, Lenovo achieved a record high market share of 10.4 percent, according to preliminary industry estimates. Likewise, for the interim period, the Group's unit shipments grew at 39.8 percent year-on-year compared to the worldwide PC unit shipments growth of 14.8 percent during the same period, demonstrating Lenovo's continued share increase in worldwide market by 1.8 percentage points from last year to 10.3 percent. Lenovo has outperformed the worldwide PC market in the past six consecutive quarters, and in fact it has also been the fastest growing PC company among the top global PC companies for the past four consecutive quarters. Moreover, the Group's newly initiated mobile business also demonstrated on-track performance during the period under review. Lenovo Mobile not only launched its first 3G smartphone in May this year, it also strived to further strengthen its distribution coverage in China by teaming up with China Telecom in late September this year, in addition to China Unicom.

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

Performance of geographies

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

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

BUSINESS REVIEW AND OUTLOOK *(Continued)*

Performance of geographies *(Continued)*

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

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

Performance of product groups

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

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

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

Outlook

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

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

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(A) Share option schemes

At the Extraordinary General Meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of its old share option scheme (the "Old Option Scheme"). Despite the fact that no further options may be granted under the Old Option Scheme, all other provisions shall remain in force to govern all the outstanding options previously granted. No options were granted, cancelled nor lapsed under these schemes during the six months ended September 30, 2010.

Details of the movement of share options of the Company for the six months ended September 30, 2010 were as follows:

	Options held at April 1, 2010	Options exercised during the period	Options held at September 30, 2010	Exercise price HK$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme						
Directors						
Mr. Yang Yuanqing	2,188,000	2,188,000	–	4.072	04.16.2001	04.16.2001 to 04.15.2011
Ms. Ma Xuezheng	1,920,000	1,920,000	–	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,444,000	1,252,000	192,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Continuous contract employees	47,887,000	2,843,710	45,043,290	4.312	01.15.2001	01.15.2001 to 01.14.2011
	14,416,000	10,000	14,406,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	30,528,000	776,000	29,752,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme						
Directors						
Mr. Yang Yuanqing	3,000,000	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Ma Xuezheng	1,282,000	–	1,282,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Continuous contract employees	7,672,500	108,000	7,564,500	2.435	10.10.2002	10.10.2002 to 10.09.2012
	27,430,000	845,000	26,585,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	69,917,051	1,340,000	68,577,051	2.545	04.27.2004	04.27.2004 to 04.26.2014
Other participants	10,702,000	828,000	9,874,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,540,000	–	1,540,000	2.245	04.26.2003	04.26.2003 to 04.25.2013

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(A) Share option schemes *(Continued)*

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK$5.576.

2. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK$4.947.

3. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK$5.834.

(B) Long-term incentive program

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

Under the LTI Program, the Company maintains three types of equity-based compensation vehicles: (i) share appreciation rights, (ii) restricted share units, and (iii) performance-based share units. These vehicles are described in more detail below.

(i) Share Appreciation Rights ("SARs")

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

(ii) Restricted Share Units ("RSUs")

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

(iii) Performance Based Share Units

The Company has three performance based share unit plans, the 2005 Performance Share Unit (PSU) plan, the 2007 Performance RSU plan and the 2008 Performance RSU Plan. The 2005 PSU plan was discontinued in 2006 however, the Company continues to honor grants previously awarded. All outstanding awards vested completely by May 1, 2008.

The Performance RSU plans have been discontinued; however, the Company continues to honor grants previously awarded. All outstanding awards will vest completely by June 1, 2012.

The Company reserves the right, at its discretion, to pay any awards under the LTI Program in cash or ordinary shares. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, awards are due after exercise by the recipient. In the case of RSUs, awards are due after the employee satisfies any vesting conditions.

The number of units that are awarded under the plan is set and reviewed annually, reflecting competitive market positioning, market practices, especially those among Lenovo's competitors, as well as the Company's performance and an individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires. Award levels and mix may vary.

During the period, eligible executive directors and senior management received an annual award comprised of SARs and RSUs.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(B) Long-term incentive program *(Continued)*

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

				Number of units							
Name	Award type	Fiscal year of award	Effective price (HK$)	As at April 1, 2010 (unvested)	Awarded during the period	Vested during the period	Exercised during the period	As at September 30, 2010 (unvested)	Total outstanding as at September 30, 2010	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
Mr. Liu Chuanzhi	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.17	18,500,000	–	4,625,000	–	13,875,000	18,500,000	18,500,000	05.25.2010 – 05.25.2013
	SAR	10/11	5.23	–	5,930,042	–	–	5,930,042	5,930,042	5,930,042	02.08.2011 – 02.08.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	10/11	3.95	–	1,545,892	1,545,892	–	–	–	–	06.18.2010
Mr. Yang Yuanqing	SAR	05/06	2.42	–	–	–	–	–	6,362,756	6,362,756	05.01.2006 – 05.01.2009
	SAR	06/07	2.35	3,346,417	–	3,346,417	–	–	13,385,665	13,385,665	06.01.2007 – 06.01.2010
	SAR	07/08	3.94	3,001,005	–	1,500,503	–	1,500,502	6,002,009	6,002,009	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	2,954,891	–	984,964	–	1,969,927	3,939,855	3,939,855	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	22,800,000	–	5,700,000	–	17,100,000	22,800,000	22,800,000	05.25.2010 – 05.25.2013
	SAR	10/11	5.23	–	6,596,156	–	–	6,596,156	6,596,156	6,596,156	02.08.2011 – 02.08.2014
	RSU	06/07	2.35	743,648	–	743,648	–	–	–	–	06.01.2007 – 06.01.2010
	RSU	07/08	3.94	3,362,202	–	1,681,102	–	1,681,100	1,681,100	1,681,100	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	787,971	–	262,657	–	525,314	525,314	525,314	06.01.2009 – 06.01.2012
	RSU	09/10	3.17	10,200,000	–	2,550,000	–	7,650,000	7,650,000	7,650,000	05.25.2010 – 05.25.2013
	RSU	10/11	5.23	–	4,947,117	–	–	4,947,117	4,947,117	4,947,117	02.08.2011 – 02.08.2014
Mr. Zhu Linan	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(B) Long-term incentive program *(Continued)*

				Number of units							
Name	Award type	Fiscal year of award	Effective price (HK$)	As at April 1, 2010 (unvested)	Awarded during the period	Vested during the period	Exercised during the period	As at September 30, 2010 (unvested)	Total outstanding as at September 30, 2010	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
Ms. Ma Xuezheng	SAR	06/07	2.35	1,027,473	–	1,027,473	1,027,473	–	–	–	06.01.2007 – 06.01.2010
	SAR	07/08	3.94	99,000	–	99,000	99,000	–	–	–	06.01.2008 – 06.01.2010
	SAR	07/08	5.62	346,565	–	173,283	–	173,282	693,130	693,130	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	130,653	–	65,327	–	65,326	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	87,932	175,864	175,864	175,864	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	06/07	2.35	342,491	–	342,491	–	–	–	–	06.01.2007 – 06.01.2010
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	07/08	5.62	115,521	–	57,761	–	57,760	57,760	57,760	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
Mr. James G. Coulter	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013

(B) Long-term incentive program *(Continued)*

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units: As at April 1, 2010 (unvested)	Awarded during the period	Vested during the period	Exercised during the period	As at September 30, 2010 (unvested)	Total outstanding as at September 30, 2010	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
Mr. William O. Grabe	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,653	–	65,326	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
	RSU	10/11	5.69	–	27,997	27,997	–	–	–	–	Note 1
	RSU	10/11	4.74	–	36,788	36,788	–	–	–	–	Note 1
	RSU	10/11	4.59	–	38,090	38,090	–	–	–	–	Note 1
Dr. Wu Yibing	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
Professor Woo Chia-Wei	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
	RSU	10/11	5.69	–	24,592	24,592	–	–	–	–	Note 1
	RSU	10/11	4.74	–	32,700	32,700	–	–	–	–	Note 1
	RSU	10/11	4.59	–	33,857	33,857	–	–	–	–	Note 1

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(B) Long-term incentive program *(Continued)*

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units: As at April 1, 2010 (unvested)	Awarded during the period	Vested during the period	Exercised during the period	As at September 30, 2010 (unvested)	Total outstanding as at September 30, 2010	Max no. of shares subject to conditions	Vesting period (mm.dd.yyyy)
Mr. Ting Lee Sen	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	99,000	–	99,000	–	–	297,000	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	3.94	33,000	–	33,000	–	–	–	–	06.01.2008 – 06.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
Dr. Tian Suning	SAR	07/08	5.14	50,650	–	50,650	–	–	151,950	151,950	09.01.2008 – 09.01.2010
	SAR	08/09	5.88	130,654	–	65,327	–	65,327	195,980	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	263,796	–	87,932	–	175,864	263,796	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	38,163	–	–	–	38,163	38,163	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	07/08	5.14	16,884	–	16,884	–	–	–	–	09.01.2008 – 09.01.2010
	RSU	08/09	5.88	52,260	–	26,130	–	26,130	26,130	26,130	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	119,907	–	39,969	–	79,938	79,938	79,938	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	17,347	–	–	–	17,347	17,347	17,347	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013
Mr. Nicholas C. Allen	SAR	09/10	4.47	107,343	–	–	–	107,343	107,343	107,343	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	237,001	–	–	237,001	237,001	237,001	08.20.2011 – 08.20.2013
	RSU	09/10	4.47	48,792	–	–	–	48,792	48,792	48,792	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	–	118,501	–	–	118,501	118,501	118,501	08.20.2011 – 08.20.2013

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

DIRECTORS' INTERESTS

As at September 30, 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong S.A.R. of China Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the shares and underlying shares of the Company

		Capacity and number of shares/ underlying shares held			
Name of Director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate long position**
Mr. Liu Chuanzhi	Ordinary shares	17,860,650	976,000	–	18,836,650
	Share awards	25,903,152	–	–	25,903,152
					44,739,802
Mr. Yang Yuanqing	Ordinary shares	21,273,347	–	–	21,273,347
	Share options	3,000,000	–	–	3,000,000
	Share awards	73,889,972	–	–	73,889,972
					98,163,319
Mr. Zhu Linan	Ordinary shares	4,049,757	–	–	4,049,757
	Share awards	2,227,856	–	–	2,227,856
					6,277,613
Ms. Ma Xuezheng	Ordinary shares	21,480,106	–	7,240,000	28,720,106
	Share options	1,474,000	–	–	1,474,000
	Share awards	1,639,814	–	–	1,639,814
					31,833,920
Mr. James G. Coulter	Ordinary shares	329,777	–	201,560,366 (Note 3)	201,890,143
	Share awards	1,663,856	–	–	1,663,856
					203,553,999
	Preferred shares	–	–	549,252	549,252
Mr. William O. Grabe	Ordinary shares	819,524	–	–	819,524
	Share awards	2,227,856	–	–	2,227,856
					3,047,380
Dr. Wu Yibing	Ordinary shares	39,969	–	–	39,969
	Share awards	754,746	–	–	754,746
					794,715
Professor Woo Chia-Wei	Ordinary shares	752,419	–	–	752,419
	Share awards	2,227,856	–	–	2,227,856
					2,980,275

DIRECTORS' INTERESTS *(Continued)*

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

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/ underlying shares held: Personal interests	Family interests	Corporate interests	Aggregate long position
Mr. Ting Lee Sen	Ordinary shares	402,219	–	–	402,219
	Share awards	2,227,856	–	–	2,227,856
					2,630,075
Dr. Tian Suning	Ordinary shares	144,055	–	–	144,055
	Share awards	1,128,806	–	–	1,128,806
					1,272,861
Mr. Nicholas C. Allen	Share awards	511,637	–	–	511,637

Notes:

(1) Share options represent underlying shares convertible into ordinary shares. Particulars of directors' interests in the share options of the Company are set out under the section "Share Option Schemes".

(2) Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section "Long-Term Incentive Program".

(3) Mr. James G. Coulter has a deemed corporate interest in these underlying shares derived from the preferred shares convertible into ordinary shares by virtue of his shareholding in TPG Advisors IV, Inc., Tarrant Capital Advisors, Inc., TPG Advisors III, Inc. and T^3 Advisors II, Inc..

Save as disclosed above, as at September 30, 2010, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES OF THE COMPANY

As at September 30, 2010, the following substantial shareholders had an interests in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

		Capacity and number of shares/ underlying shares held			
Name	**Interests in shares/ underlying shares**	**Beneficial owner**	**Corporate interests**	**Aggregate long position**	**Percentage** (Note 10)
Legend Holdings Limited (Note 1)	Ordinary shares	2,667,636,724	1,545,243,469 (Note 2)	4,212,880,193	43.02%
Employees' Shareholding Society of Legend Holdings Limited (Note 3)	Ordinary shares	–	4,212,880,193	4,212,880,193	43.02%
TPG Group Holdings (SBS), L.P. (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG Holdings I-A, LLC. (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG Holdings I, L.P. (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG GenPar IV Advisors, LLC (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG GenPar IV, L.P. (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG Partners IV, L.P. (Note 4)	Preferred Shares	–	272,533	272,533	35.43%
TPG IV Acquisition Company LLC (Note 4)	Preferred Shares	272,533	–	272,533	35.43%
TPG Group Holdings (SBS) Advisors, Inc.	Preferred Shares	–	272,533	272,533	35.43%
Mr. David Bonderman (Note 5)	Preferred Shares	–	549,252	549,252	71.41%
T^3 II Acquisition Company, LLC (Note 6)	Preferred Shares	78,988	–	78,988	10.27%
T^3 Partners II, L.P. (Note 6)	Preferred Shares	–	78,988	78,988	10.27%
T^3 GenPar II, L.P. (Note 6)	Preferred Shares	–	78,988	78,988	10.27%
T^3 Advisors II, Inc.	Preferred Shares	–	78,988	78,988	10.27%
TPG III Acquisition Company, LLC (Note 7)	Preferred Shares	87,881	–	87,881	11.43%
TPG Partners III, L.P. (Note 7)	Preferred Shares	–	87,881	87,881	11.43%
TPG GenPar III, L.P. (Note 7)	Preferred Shares	–	87,881	87,881	11.43%
TPG Advisors III, Inc.	Preferred Shares	–	87,881	87,881	11.43%
Newbridge Asia Acquisition Company LLC (Note 8)	Preferred Shares	109,850	–	109,850	14.28%
Newbridge Asia III, L.P. (Note 8)	Preferred Shares	–	109,850	109,850	14.28%
Newbridge Asia GenPar III, L.P. (Note 8)	Preferred Shares	–	109,850	109,850	14.28%
Newbridge Asia Advisors III, Inc. (Note 8)	Preferred Shares	–	109,850	109,850	14.28%
Tarrant Advisors, Inc. (Note 8)	Preferred Shares	–	109,850	109,850	14.28%
Tarrant Capital Advisors, Inc.	Preferred Shares	–	109,850	109,850	14.28%
General Atlantic Partners (Bermuda) L.P. (Note 9)	Preferred Shares	184,706	–	184,706	24.01%
General Atlantic Genpar (Bermuda) L.P. (Note 9)	Preferred Shares	–	184,706	184,706	24.01%
GAP (Bermuda) Ltd.	Preferred Shares	–	184,706	184,706	24.01%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES OF THE COMPANY *(Continued)*

Notes:

1. The English Company name "Legend Holdings Limited" is a direct transliteration of its Chinese Company name.

2. The shares were held by Right Lane Limited and Jade Ahead Limited, both are subsidiaries of Legend Holdings Limited.

3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested in any shares in which they are interested.

4. These companies are directly/indirectly owned by TPG Group Holdings (SBS) Advisors, Inc.

5. Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG IV Acquisition Company LLC, Newbridge Asia Acquisition Company LLC, TPG III Acquisition Company, LLC, T^3 II Acquisition Company, LLC.

6. These companies are directly/indirectly owned by T^3 Advisors II, Inc.

7. These companies are directly/indirectly owned by TPG Advisors III, Inc.

8. These companies are directly/indirectly owned by Tarrant Capital Advisors, Inc.

9. GAP (Bermuda) Ltd. is the general partner of General Atlantic Genpar (Bermuda) and General Atlantic Partners (Bermuda), L.P.

10. The percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.

Save as disclosed above, as at September 30, 2010, no other interest or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended September 30, 2010.

FACILITY AGREEMENT WITH COVENANT ON CONTROLLING SHAREHOLDER

The Company entered into a facility agreement with a syndicate of banks on March 13, 2006 and an amendment agreement on May 21, 2009 (collectively the "Facility Agreement") for a term loan facility of up to US$400 million (the "Facility"). The Facility is repayable on the 42nd, 48th, 54th and 60th months after March 13, 2006. The Facility Agreement includes, inter alia, terms to the effect that it will be an event of default if Legend Holdings Limited, the controlling shareholder of the Company: (i) is not or ceases to be the direct or indirect beneficial owner of 35% or more of the issued share capital of the Company; (ii) does not or ceases to control the Company; or (iii) is not or ceases to be the single largest shareholder of the Company. As at September 30, 2010, the outstanding balance of the Facility is US$100 million.

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B)1 of the Listing Rules, the changes in information of directors of the Company subsequent to the date of the 2009/10 Annual Report or the latest pertaining publication of the Company (whichever later) are set out below:

Name of director	Details of changes
Ms. Ma Xuezheng	– Resignation as a director of Shenzhen Development Bank (a company listed on Shenzhen Stock Exchange) on May 26, 2010
	– Appointment as a non-executive director of Wumart Stores, Inc. (a company listed on the Stock Exchange) on June 3, 2010
Mr. William O. Grabe	– Resignation as a director of Infotech Enterprises Limited (a company listed on Mumbai Stock Exchange) on July 14, 2010
Professor Woo Chia-Wei	– Appointment as an independent non-executive director of Trony Solar Holdings Company Limited (a company listed on the Stock Exchange) on September 13, 2010
Dr. Tian Suning	– Resignation as chairman of Media China Corporation Limited (a company listed on the Stock Exchange) on August 30, 2010

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the interim results for the six months ended September 30, 2010. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2010, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules save for the deviation under Code A.4.1 as disclosed in the 2009/10 annual report of the Company and that the Chairman of the Board was unable to attend the Company's annual general meeting which was held on July 30, 2010 (as required under Code E.1.2) as he had an engagement that was important to the Company's business.

MODEL CODE

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

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

By order of the Board
Liu Chuanzhi
Chairman

Beijing, November 10, 2010

CORPORATE INFORMATION

Board of Directors
Chairman and non-executive director
Mr. Liu Chuanzhi

Executive director
Mr. Yang Yuanqing

Non-executive directors
Mr. Zhu Linan
Ms. Ma Xuezheng
Mr. James G. Coulter
Mr. William O. Grabe
Dr. Wu Yibing

Independent non-executive directors
Professor Woo Chia-Wei
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen

Chief Financial Officer
Mr. Wong Wai Ming

Company Secretary
Mr. Mok Chung Fu

Registered Office
23rd Floor, Lincoln House, Taikoo Place
979 King's Road, Quarry Bay, Hong Kong S.A.R. of China

Principal Bankers
Bank of China
BNP Paribas
China Merchants Bank
Citibank, N.A.
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong S.A.R. of China) Limited

Independent Auditor
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong S.A.R. of China

Share Registrar
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong S.A.R. of China

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

Stock Codes
Hong Kong S.A.R. of China Stock Exchange: 992
American Depositary Receipts: LNVGY

Website
www.lenovo.com