Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2007/08 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

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

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED BALANCE SHEET

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) *US$'000*	Share premium (unaudited) *US$'000*	Convertible rights in respect of convertible preferred shares (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Share redemption reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Retained earnings/ (accumulated losses) (unaudited) *US$'000*	Minority interests (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2007	**28,504**	**1,042,579**	**45,979**	**–**	**(22,756)**	**15,078**	**497**	**(127,301)**	**51,420**	**99,532**	**744**	**1,134,276**
Fair value change on available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**45,251**	**–**	**–**	**–**	**–**	**–**	**45,251**
Transfer to statutory reserve	**–**	**–**	**–**	**12,850**	**–**	**–**	**–**	**–**	**–**	**(12,850)**	**–**	**–**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**172,094**	**–**	**172,094**
Exchange differences	**–**	**–**	**–**	**–**	**(26,271)**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,271)**
Reserve realized on disposal of available-for-sale	**–**	**–**	**–**	**–**	**–**	**(1,886)**	**–**	**–**	**–**	**–**	**–**	**(1,886)**
Vesting of shares under long-term incentive program	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,397**	**(17,207)**	**–**	**–**	**(3,810)**
Exercise of share options	**205**	**23,721**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,926**
Share-based compensation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,632**	**–**	**–**	**22,632**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(31,088)**	**–**	**(31,088)**
At September 30, 2007	**28,709**	**1,066,300**	**45,979**	**12,850**	**(49,027)**	**58,443**	**497**	**(113,904)**	**56,845**	**227,688**	**744**	**1,335,124**
At April 1, 2006	28,504	1,043,260	10,769	–	(3,313)	(3,579)	396	(51,043)	22,791	(3,882)	744	1,044,647
Fair value change on available-for-sale financial assets	–	–	–	–	–	(2,836)	–	–	–	–	–	(2,836)
Profit for the period	–	–	–	–	–	–	–	–	–	43,091	–	43,091
Exchange differences	–	–	–	–	(30,517)	–	–	–	–	–	–	(30,517)
Reserve realized on disposal of available-for-sale financial assets	–	–	–	–	–	310	–	–	–	–	–	310
Issue of ordinary shares	31	2,919	–	–	–	–	–	–	–	–	–	2,950
Vesting of shares under long-term incentive program	–	–	–	–	–	–	–	7,733	(7,733)	–	–	–
Share-based compensation	–	–	–	–	–	–	–	–	16,562	–	–	16,562
Repurchase of shares	(50)	(4,602)	–	–	–	–	50	–	–	–	–	(4,602)
Contributions to employee share trusts	–	–	–	–	–	–	–	(73,654)	–	–	–	(73,654)
Dividend paid	–	–	–	–	–	–	–	–	–	(31,258)	–	(31,258)
At September 30, 2006	28,485	1,041,577	10,769	–	(33,830)	(6,105)	446	(116,964)	31,620	7,951	744	964,693

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's unaudited condensed interim financial statements. These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that available-for-sale financial assets are stated at fair value. These unaudited condensed interim financial statements should be read in conjunction with the 2006/07 annual financial statements.

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

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

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

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

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

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

2 Segment information

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

(a) Primary reporting format – geographical segments

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

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

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

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

(b) Secondary reporting format – business segments

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

3 Other income – net

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

4 Finance costs

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

5 Profit before taxation

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

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

6 Taxation

The amount of taxation in the consolidated income statement represents:

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

7 Dividend

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

8 Earnings per share

(a) Basic

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

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

(b) Diluted

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

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

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

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

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

9 Ageing analysis

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

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

Customers are generally granted credit terms of 30 days.

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

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

10 Provisions, accruals and other payables

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

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

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

11 Share capital

	September 30, 2007 (unaudited)		March 31, 2007 (audited)	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Authorized:				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

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

12 Non-current liabilities

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

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Monday, November 19, 2007 to Friday, November 23, 2007, both days inclusive, during which period no transfer of ordinary shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, November 16, 2007.

FINANCIAL REVIEW

Results

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

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

Analysis of Operating Expenses

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

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

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

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

Capital Expenditure

The Group incurred capital expenditures of US$142 million (2006/07: US$83 million) during the six months ended September 30, 2007, mainly for the acquisition of fixed assets, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

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

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

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At September 30, 2007, 72.2 (March 31, 2007: 65.8) percent of cash are deposit in banks and 27.8 (March 31, 2007: 34.2) percent of cash are investment in liquid money market fund of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At September 30, 2007, the Group had a US$400 million (March 31, 2007: US$400 million) 5-Year Revolving and Term Loan Facility with syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum; and a US$100 million (March 31, 2007: US$100 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. These facilities were utilized to the extent of US$100 million (March 31, 2007: US$100 million) at September 30, 2007.

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

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

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

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

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

Contingent Liabilities

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

Human Resources

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

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

BUSINESS REVIEW AND PROSPECTS

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

Personal Computer Business

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

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

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

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

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

Mobile Handset Business

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

Prospects

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

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

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

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

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

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

REVIEW BY AUDIT COMMITTEE

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2007, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the deviation under Code A.4.1 as disclosed in the 2006/07 annual report of the Company.

By order of the Board
Yang Yuanqing
Chairman

Hong Kong, November 1, 2007

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

"Please also refer to the published version of this announcement in the South China Morning Post"