



Innovation **that** Matters





ThinkPad Z60m notebook



Lenovo Jiayue consumer desktop



ThinkPad X41 Tablet

Our latest Innovations



Lenovo Smartphone ET980



ThinkCentre E50 desktop



Lenovo Xuri 125 notebook



Lenovo Yangtian commercial desktop

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, 2005 together with comparative figures for the corresponding period of last year.

Condensed Consolidated Income Statement

	Note	3 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2005 (unaudited) HK\$'000	3 months ended September 30, 2004 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Turnover	3	28,494,326	48,107,168	5,654,798	11,532,708
Earnings before interest, taxation, depreciation and amortization expenses		948,418	1,777,430	255,662	608,114
Depreciation expenses and amortization of prepaid lease payments		(133,629)	(236,923)	(50,463)	(101,888)
Amortization of intangible assets		(205,994)	(367,449)	(7,461)	(15,891)
Amortization of share-based compensation		(57,020)	(70,165)	–	–
Impairment of assets		–	–	(20,363)	(51,364)
Gain/(loss) on disposal of investments and available-for-sale financial assets		1,670	(1,027)	110,294	164,382
Finance income		44,245	67,261	20,895	41,646
Profit from operations	4	597,690	1,169,127	308,564	644,999
Finance costs	5	(94,219)	(146,662)	(2,776)	(3,500)
		503,471	1,022,465	305,788	641,499
Share of profits/(losses) of jointly controlled entities		–	1,073	(6,090)	(10,110)
Share of profits/(losses) of associated companies		3,402	(1,827)	(2,051)	(246)
Profit before taxation		506,873	1,021,711	297,647	631,143
Taxation	6	(132,600)	(284,261)	(13,593)	(24,905)
Profit for the period		374,273	737,450	284,054	606,238
Profit attributable to:					
Shareholders of the Company		354,167	711,162	290,046	626,871
Minority interests		20,106	26,288	(5,992)	(20,633)
		374,273	737,450	284,054	606,238
Dividend	7	NA	212,431	NA	179,357
Earnings per share					
– basic	8	3.95 HK cents	8.07 HK cents	3.89 HK cents	8.39 HK cents
– diluted	8	3.92 HK cents	8.04 HK cents	3.88 HK cents	8.38 HK cents



Condensed Consolidated Balance Sheet

	Note	As at September 30, 2005 (unaudited) HK\$'000	As at March 31, 2005 (restated) HK\$'000
Non-current assets			
Intangible assets		14,823,025	513,078
Property, plant and equipment		1,431,532	827,876
Prepaid lease payments		50,627	50,268
Construction-in-progress		248,588	257,159
Investments in jointly controlled entities		182,379	191,523
Investments in associated companies		50,244	52,067
Investment securities		–	62,970
Available-for-sale financial assets		230,389	–
Deferred tax assets		255,679	53,498
Other non-current assets		8,848	569,673
		17,281,311	2,578,112
Current assets			
Inventories		2,461,798	878,900
Trade receivables	9	5,446,475	851,337
Notes receivable		826,169	1,137,174
Deposits, prepayments and other receivables		5,642,352	567,046
Cash and cash equivalents		11,671,576	3,019,385
		26,048,370	6,453,842
Current liabilities			
Trade payables	9	15,806,565	2,276,070
Notes payable		430,418	195,032
Accruals and other payables	10	9,443,119	716,906
Amounts due to jointly controlled entities		108,244	108,446
Tax payable		315,760	493
Current portion of long-term liabilities	12	141,538	175,866
		26,245,644	3,472,813
Net current (liabilities)/assets		(197,274)	2,981,029
Total assets less current liabilities		17,084,037	5,559,141
Financed by:			
Share capital	11	221,126	186,870
Reserves		9,008,018	5,017,528
Shareholders' funds		9,229,144	5,204,398
Minority interests		50,497	23,609
Total equity		9,279,641	5,228,007
Long-term liabilities	12	7,804,396	331,134
		17,084,037	5,559,141



Condensed Consolidated Cash Flow Statement

	6 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Net cash inflow from operating activities	8,682,629	598,326
Net cash outflow from investing activities	(5,295,040)	(18,532)
Net cash inflow/(outflow) from financing activities	5,281,240	(103,601)
Increase in cash and cash equivalents	8,668,829	476,193
Effect of foreign exchange rate changes	(16,638)	125
Cash and cash equivalents at the beginning of the period	3,019,385	2,650,071
Cash and cash equivalents at the end of the period	11,671,576	3,126,389



Condensed Consolidated Statement of Changes in Equity

	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Convertible rights in respect of convertible preferred shares and warrant rights (unaudited) HK\$'000	Surplus arising on consolidation (unaudited) HK\$'000	Exchange reserve (unaudited) HK\$'000	Investment revaluation reserve (unaudited) HK\$'000	Share redemption reserve (unaudited) HK\$'000	Share-based compensation reserve (unaudited) HK\$'000	Retained earnings/ (Accumulated losses) (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance as at April 1, 2005	186,870	4,761,498	-	27,871	2,093	(3,530)	3,086	-	226,510	5,204,398
Adoption of HKFRS 3	-	-	-	(27,871)	-	-	-	-	27,871	-
As restated	186,870	4,761,498	-	-	2,093	(3,530)	3,086	-	254,381	5,204,398
Fair value loss on available-for-sale financial assets	-	-	-	-	-	(30,247)	-	-	-	(30,247)
Exchange differences	-	-	-	-	12,810	-	-	-	-	12,810
Profit for the period	-	-	-	-	-	-	-	-	711,162	711,162
Issue of ordinary shares	43,572	4,291,820	-	-	-	-	-	-	-	4,335,392
Issue of convertible preferred shares and warrants	-	-	310,824	-	-	-	-	-	-	310,824
Exercise of share options	1,577	150,820	-	-	-	-	-	-	-	152,397
Share-based compensation	-	-	-	-	-	-	-	70,165	-	70,165
Repurchase of shares	(10,893)	(1,176,438)	-	-	-	-	-	-	-	(1,187,331)
Contributions to employee share trust	-	-	-	-	-	-	-	(104,168)	-	(104,168)
Dividend paid/payable	-	-	-	-	-	-	-	-	(246,258)	(246,258)
As at September 30, 2005	221,126	8,027,700	310,824	-	14,903	(33,777)	3,086	(34,003)	719,285	9,229,144
Balance as at April 1, 2004	186,890	4,762,526	-	27,871	4,581	(5,976)	2,898	-	(490,066)	4,488,724
Fair value loss on investment securities	-	-	-	-	-	(1,322)	-	-	-	(1,322)
Exchange differences	-	-	-	-	13	-	-	-	-	13
Profit for the period	-	-	-	-	-	-	-	-	626,871	626,871
Reserves written off on disposal of subsidiaries	-	-	-	-	(2,377)	-	-	-	-	(2,377)
Reserves realized on disposal of investment securities	-	-	-	-	-	(12,908)	-	-	-	(12,908)
Impairment of investments	-	-	-	-	-	19,601	-	-	-	19,601
Exercise of share options	128	11,556	-	-	-	-	-	-	-	11,684
Repurchase of shares	(188)	(16,093)	-	-	-	-	188	-	-	(16,093)
Dividend paid	-	-	-	-	-	-	-	-	(224,192)	(224,192)
As at September 30, 2004	186,830	4,757,989	-	27,871	2,217	(605)	3,086	-	(87,387)	4,890,001



Notes to the Condensed Interim Financial Statements

1. Basis of preparation

The Board is responsible for the preparation of the Group's unaudited condensed interim financial statements. These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that available-for-sale financial assets and financial assets and liabilities are stated at fair value. These unaudited condensed interim financial statements should be read in conjunction with the 2004/05 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, 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") commencing on April 1, 2005.

The substantial changes to the Group's accounting policies and the material effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

The effects of adopting new/revised HKAS and HKFRS are set out below:

HKAS 17 "Leases"

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepaid lease payments from property, plant and equipment to operating leases. The up-front prepayments made for the prepaid lease payments are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the prepaid lease payments were accounted for at cost less accumulated amortization or depreciation and accumulated impairment losses.

The adoption of revised HKAS 17 resulted in:

	As at September 30, 2005 (unaudited) HK\$'000	As at March 31, 2005 (unaudited) HK\$'000
Decrease in property, plant and equipment	(50,627)	(50,268)
Increase in prepaid lease payments	50,627	50,268
	6 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Decrease in depreciation expenses	(601)	(596)
Increase in amortization of prepaid lease payments	601	596



2. Changes in accounting policies (continued)

HKAS 32 “Financial Instruments: Disclosure and Presentation”

HKAS 39 “Financial Instruments: Recognition and Measurement”

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. Until March 31, 2005, the investment securities of the Group were classified into non-trading securities and were stated in the balance sheet at fair value. In accordance with the provision of HKAS 39, the investment securities have been classified as available-for-sale financial assets and stated in the balance sheet at fair value through investment revaluation reserve, until the investment securities are disposed of or are determined to be impaired, at which time the accumulated gain or loss previously recognized in the investment revaluation reserve is included in the income statement for the period.

The adoption of HKAS 39 had no effect on opening reserves and the details of the adjustments to the balance sheet as at September 30, 2005 are as follows:

	As at September 30, 2005 (unaudited) HK\$'000
Increase in available-for-sale financial assets	230,389
Decrease in investment securities	(230,389)

HKFRS 2 “Share-based Payment”

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until March 31, 2005, the provision of share options to employees did not result in an expense in the income statement. Effective from April 1, 2005, the Group recognizes equity-settled share-based payments at fair value at the date of grant and recognizes the liabilities for cash-settled share-based payment at current fair value at each balance sheet date.

In accordance with the transitional provision of HKFRS 2, share options granted after November 7, 2002 and were unvested on April 1, 2005 was expensed retrospectively in the income statement of the respective periods. As at April 1, 2005, the Group had no option granted after November 7, 2002 that had not yet vested on that day.

The Group operates a long-term incentive program to recognize employees’ individual and collective contributions, and includes three types of awards, namely share appreciation rights, restricted share units and performance share units (“Long-term Incentive Awards”). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested. At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable and the number of shares that are vested. It recognized the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.



Notes to the Condensed Interim Financial Statements (continued)

2. Changes in accounting policies (continued)

HKFRS 3 “Business Combination”

The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill. Until March 31, 2005, goodwill was:

- Amortized on a straight-line basis over a period ranging from 3 to 10 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortization of goodwill from April 1, 2005;
- Accumulated amortization of HK\$50,650,000 as at March 31, 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending March 31, 2006 and onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment is resulted from this assessment.

The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at September 30, 2005 (unaudited) HK\$'000
Increase in intangible assets	5,764
Increase in retained earnings	5,764



Notes to the Condensed Interim Financial Statements (continued)

3. Turnover, revenue and 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

For the six months ended September 30, 2005

	Americas (unaudited) HK\$'000	Europe, Middle East and Africa (unaudited) HK\$'000	Asia Pacific (excluding Greater China) (unaudited) HK\$'000	Greater China (unaudited) HK\$'000	Total (unaudited) HK\$'000
Turnover	14,590,980	9,476,226	5,906,541	18,133,421	48,107,168
Segment operating results	463,897	(28,229)	70,091	1,029,975	1,535,734
Amortization of marketing rights and identifiable intangible assets					(362,676)
Amortization of share-based compensation					(70,165)
Loss on disposal of investments and available-for-sale financial assets					(1,027)
Finance income					67,261
Finance costs					(146,662)
Contribution to operating profit					1,022,465
Share of profits of jointly controlled entities					1,073
Share of losses of associated companies					(1,827)
Profit before taxation					1,021,711
Taxation					(284,261)
Profit for the period					737,450



Notes to the Condensed Interim Financial Statements (continued)

3. Turnover, revenue and segment information (continued)

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

For the six months ended September 30, 2004

	Americas (unaudited) HK\$'000	Europe, Middle East and Africa (unaudited) HK\$'000	Asia Pacific (excluding Greater China) (unaudited) HK\$'000	Greater China (unaudited) HK\$'000	Total (unaudited) HK\$'000
Turnover	–	–	–	11,532,708	11,532,708
Segment operating results	–	–	–	501,489	501,489
Amortization of goodwill					(11,154)
Impairment of assets					(51,364)
Gain on disposal of investments					164,382
Finance income					41,646
Finance costs					(3,500)
Contribution to operating profit					641,499
Share of losses of jointly controlled entities					(10,110)
Share of losses of associated companies					(246)
Profit before taxation					631,143
Taxation					(24,905)
Profit for the period					606,238

(b) Secondary reporting format – business segments

For the six months ended September 30, 2005

	Personal Computer			Mobile		Total (unaudited) HK\$'000
	Desktop (unaudited) HK\$'000	Notebook (unaudited) HK\$'000	Total (unaudited) HK\$'000	Handset (unaudited) HK\$'000	Others (unaudited) HK\$'000	
	Turnover	22,060,641	23,137,938	45,198,579	1,955,825	
Capital expenditure			277,778	12,020	5,855	295,653
Total segment assets as at September 30, 2005			7,623,404	723,062	387,976	8,734,442

For the six months ended September 30, 2004

	Personal Computer			Mobile		Total (unaudited) HK\$'000
	Desktop (unaudited) HK\$'000	Notebook (unaudited) HK\$'000	Total (unaudited) HK\$'000	Handset (unaudited) HK\$'000	Others (unaudited) HK\$'000	
	Turnover	7,665,096	1,602,987	9,268,083	1,191,327	
Capital expenditure			88,488	11,374	10,247	110,109
Total segment assets as at March 31, 2005			1,905,933	451,658	509,820	2,867,411



Notes to the Condensed Interim Financial Statements (continued)

4. Profit from operations

	3 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2005 (unaudited) HK\$'000	3 months ended September 30, 2004 (unaudited and restated) HK\$'000	6 months ended September 30, 2004 (unaudited and restated) HK\$'000
Turnover	28,494,326	48,107,168	5,654,798	11,532,708
Total costs (Note)	(24,505,106)	(41,111,721)	(4,973,866)	(10,043,621)
Gross profit	3,989,220	6,995,447	680,932	1,489,087
Finance income	44,245	67,261	20,895	41,646
Impairment of assets	-	-	(20,363)	(51,364)
Gain/(loss) on disposal of investments and available-for-sale financial assets	1,670	(1,027)	110,294	164,382
	4,035,135	7,061,681	791,758	1,643,751
Distribution expenses	(2,048,892)	(3,373,745)	(323,147)	(624,800)
Administrative expenses	(709,918)	(1,284,353)	(58,830)	(151,046)
Other operating expenses	(415,621)	(796,842)	(93,756)	(207,015)
Amortization of intangible assets and share-based compensation	(263,014)	(437,614)	(7,461)	(15,891)
Total operating expenses (Note)	(3,437,445)	(5,892,554)	(483,194)	(998,752)
Profit from operations	597,690	1,169,127	308,564	644,999
Note: Staff costs included in total costs and total operating expenses	1,758,341	2,964,074	222,728	478,932

5. Finance costs

	3 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2005 (unaudited) HK\$'000	3 months ended September 30, 2004 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Interest on bank loans and overdrafts	47,857	84,285	2,776	3,036
Dividend and relevant finance costs on convertible preferred shares not wholly repayable within five years	46,362	62,377	-	-
Others	-	-	-	464
	94,219	146,662	2,776	3,500



Notes to the Condensed Interim Financial Statements (continued)

6. Taxation

The amount of taxation charged to the consolidated income statement represents:

	3 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2005 (unaudited) HK\$'000	3 months ended September 30, 2004 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Taxation outside Hong Kong	330,918	485,297	13,154	24,834
Deferred taxation	(198,318)	(201,099)	454	(62)
	132,600	284,198	13,608	24,772
Share of taxation attributable to:				
jointly controlled entities	-	63	(15)	11
associated companies	-	-	-	122
	132,600	284,261	13,593	24,905

7. Dividend

	6 months ended September 30, 2005 (unaudited) HK\$'000	6 months ended September 30, 2004 (unaudited) HK\$'000
Interim dividend, declared after period end, of 2.4 HK cents (2004/05: 2.4 HK cents) per ordinary share	212,431	179,357

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, 2005 (unaudited)	6 months ended September 30, 2004 (unaudited)
Profit attributable to shareholders of the Company (HK\$'000)	711,162	626,871
Weighted average number of ordinary shares in issue	8,812,613,228	7,476,022,359



Notes to the Condensed Interim Financial Statements (continued)

8. Earnings per share (continued)

(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 warrants. The convertible preferred shares are antidilutive as the amount of the dividend and related finance costs in the current period per ordinary share attainable on conversion exceeds basic earnings per share and they are excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share. 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.

	6 months ended September 30, 2005 (unaudited)	6 months ended September 30, 2004 (unaudited)
Profit attributable to shareholders of the Company (HK\$'000)	711,162	626,871
Weighted average number of ordinary shares in issue	8,812,613,228	7,476,022,359
Adjustments for share options and warrants	27,556,610	6,162,854
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	8,840,169,838	7,482,185,213

9. Ageing analysis

Ageing analysis of trade receivables as at September 30, 2005 is as follows:

	As at September 30, 2005 (unaudited) HK\$'000	As at June 30, 2005 (unaudited) HK\$'000	As at March 31, 2005 (audited) HK\$'000
0-30 days	4,059,429	4,802,601	588,389
31-60 days	919,431	700,464	56,966
61-90 days	368,436	46,591	40,702
Over 90 days	99,179	74,037	165,280
Total	5,446,475	5,623,693	851,337

Customers are generally granted credit terms of 30 days. Credit terms for customers of systems integration business normally ranging from 30 days to 180 days.



Notes to the Condensed Interim Financial Statements (continued)

9. Ageing analysis (continued)

Ageing analysis of trade payables as at September 30, 2005 is as follows:

	As at September 30, 2005 (unaudited) HK\$'000	As at June 30, 2005 (unaudited) HK\$'000	As at March 31, 2005 (audited) HK\$'000
0-30 days	11,962,682	16,378,370	1,954,188
31-60 days	3,596,379	2,231,945	149,691
61-90 days	92,641	93,314	59,383
Over 90 days	154,863	122,684	112,808
Total	15,806,565	18,826,313	2,276,070

10. Accruals and other payables

Included in accruals and other payables was warranty provision as follows:

	6 months ended September 30, 2005 (unaudited) HK\$'000	Year ended March 31, 2005 (audited) HK\$'000
At the beginning of the period/year	188,997	168,977
Provision made during the period/year	1,602,511	214,634
Amount utilized	(273,719)	(194,614)
	1,517,789	188,997
Long-term portion classified as long-term liabilities (note 12)	(711,750)	-
At the end of the period/year	806,039	188,997



Notes to the Condensed Interim Financial Statements (continued)

11. Share capital

	6 months ended September 30, 2005 (unaudited)		Year ended March 31, 2005 (audited)	
	Number of ordinary shares	HK\$'000	Number of ordinary shares	HK\$'000
Authorized:				
Ordinary share of HK\$0.025 each	20,000,000,000	500,000	20,000,000,000	500,000
Issued and fully paid:				
Voting shares:				
At the beginning of period/year	7,474,796,108	186,870	7,475,594,108	186,890
Issue during the period	821,234,569	20,531	–	–
Conversion from non-voting shares	110,635,946	2,766	–	–
Exercise of share options	63,081,000	1,577	6,702,000	168
Repurchase of shares	–	–	(7,500,000)	(188)
At the end of period/year	8,469,747,623	211,744	7,474,796,108	186,870
Non-voting shares:				
Issue during the period	921,636,459	23,041	–	–
Conversion into voting shares	(110,635,946)	(2,766)	–	–
Repurchase of shares	(435,717,757)	(10,893)	–	–
At the end of the period	375,282,756	9,382	–	–
Total issued and fully paid ordinary shares	8,845,030,379	221,126	7,474,796,108	186,870

12. Long-term liabilities

	As at September 30, 2005 (unaudited) HK\$'000	As at March 31, 2005 (audited) HK\$'000
Amount payable for marketing rights repayable within five years	438,872	507,000
Interest-bearing bank loans repayable within five years	3,900,000	–
Share-based compensation	129,068	–
Convertible preferred shares not wholly repayable within five years	2,435,484	–
Warranty provision (note 10)	711,750	–
Other long-term liabilities repayable within five years	330,760	–
	7,945,934	507,000
Current portion repayable within one year	(141,538)	(175,866)
	7,804,396	331,134

The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly on the last date of each quarter, at the rate of 4.5 percent per annum on the stated value of HK\$1,000 per convertible preferred share.



Notes to the Condensed Interim Financial Statements (continued)

13. Business combinations

On April 30, 2005, the Group completed the acquisition of IBM PC Business under an assets purchase agreement dated December 7, 2004.

The estimated total consideration for acquiring the IBM PC Business is approximately HK\$9,925 million, including cash, the Company's shares and related transaction costs.

Set forth below is a preliminary calculation of goodwill:

	(unaudited) HK\$'000
Purchase consideration:	
– Cash paid	5,068,031
– Direct costs related to the acquisition	521,283
– Fair value of shares issued	4,335,392
Total purchase consideration	9,924,706
Less: Fair value of net assets acquired (Note)	29,428
Goodwill	9,895,278

Note:

	(unaudited) HK\$'000
Liabilities assumed	(4,991,852)
Step-up in tangible assets	16,233
Identifiable intangible assets	4,867,746
Deferred share-based compensation	137,301
Net assets acquired	29,428

The goodwill is attributable to the significant synergies expected to arise after the integration of the Group's existing business and the IBM PC Business acquired.

Intangible assets acquired that have indefinite useful life are not subject to amortization. Certain acquired intangible assets and deferred share-based compensation are expected to be amortized over their useful lives. Preliminary estimates indicate that the useful lives of these acquired intangible assets are expected to range from three to five years.

The acquired tangible assets primarily comprised trade receivables, inventories and plant and equipment. The liabilities assumed primarily comprised trade payables and other current liabilities.

The asset purchase agreement contains provisions that require miscellaneous "true up" adjustments which are expected to result in cash settlements between the Company and IBM. Such adjustments have not been finalized, but an estimate has been recorded in the preliminary purchase price allocation indicated above. This process is expected to be finalized in the third quarter of financial year 2005/06.



Notes to the Condensed Interim Financial Statements (continued)

14. Condensed balance sheet of the Company

	As at September 30, 2005 (unaudited) HK\$'000	As at 31 March, 2005 (audited) HK\$'000
Property, plant and equipment	15,760	25,130
Investments in subsidiaries	14,247,289	2,327,875
Investment securities	-	4,413
Available-for-sale financial assets	3,401	-
Other non-current assets	-	565,340
	14,266,450	2,922,758
Current assets	3,256,658	4,387,158
Current liabilities	401,280	279,137
Net current assets	2,855,378	4,108,021
Total assets less current liabilities	17,121,828	7,030,779
Financed by:		
Share capital	221,126	186,870
Reserves	10,436,150	6,843,909
Shareholders' funds	10,657,276	7,030,779
Long-term liabilities	6,464,552	-
	17,121,828	7,030,779

15. Comparative figures

Effective from April 1, 2005, the Group has included non-based manufacturing cost into cost of sales. Non-based manufacturing cost composed of warranty, inventory loss, technical support as well as outbound freight and shipment. The board considers that it is appropriate for the Group to present its gross profit after such charge.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepaid lease payments from property, plant and equipment to operating leases. The up-front prepayments made for the prepaid lease payments are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the prepaid lease payments were accounted for at cost less accumulated depreciation.

As a result, certain comparative figures have been reclassified to conform to the current period's presentation.



Interim Dividend

The Board has declared an interim dividend of 2.4 HK cents (2004/05: 2.4 HK cents) per ordinary share for the six months ended September 30, 2005, absorbing an aggregate amount of approximately HK\$212 million (2004/05: HK\$179 million), to shareholders of ordinary shares whose names appear on the Register of Members of the Company on November 23, 2005. The interim dividend will be paid on December 2, 2005.

Closure of Register of Members

The Register of Members of ordinary shares of the Company will be closed from November 17, 2005 to November 23, 2005, both days inclusive, during which period no transfer of 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, Abacus Share Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on November 16, 2005.

Financial Review

Results

For the six months ended September 30, 2005, the Group achieved an interim turnover of approximately HK\$48,107 million. Profit attributable to shareholders increased to approximately HK\$711 million during the period, representing an increase of 13.4 percent against HK\$627 million recorded in the same period last year. Basic earnings per share and diluted earnings per share were 8.07 HK cents and 8.04 HK cents, representing decreases of 3.8 percent and 4.1 percent respectively as compared with the same period last year.

Segment Results

During the period, geographical turnover covered the Americas, EMEA (Europe, Middle East and Africa) and Asia Pacific (excluding Greater China), due to the newly acquired IBM PC Business.

In Greater China, the results comprised both the results contributed by Legacy Lenovo and Greater China segment of the acquired IBM PC Business.

Capital Expenditure

Apart from the acquisition of the IBM PC Business, the Group incurred capital expenditures of HK\$296 million during the six months ended September 30, 2005, mainly for acquisition of fixed assets, injection into construction-in-progress and optimization of the Group's information technology systems.

Liquidity and Financial Resources

As at September 30, 2005, total assets of the Group amounted to HK\$43,330 million, which was financed by shareholders funds of HK\$9,229 million, minority interests of HK\$51 million, long-term and current liabilities of HK\$34,050 million. The current ratio of the Group was 0.99.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operating activities. As at September 30, 2005, cash and cash equivalents of the Group totaled at HK\$11.67 billion, of which 4.3 percent were denominated in Euros, 4.0 percent in Japanese Yen, 25.0 percent in Renminbi, 51.3 percent in US dollars and 15.4 percent in other currencies.

The Group is consistently in a very liquid position and has also arranged credit facilities for contingency purposes. As at September 30, 2005, the Group's total available credit facilities amounted to HK\$11,781 million, of which HK\$2,174 million was in trade line, HK\$1,117 million in short term and revolving money market facilities and HK\$8,490 million in currency forward contracts and derivatives. As at September 30, 2005, the facility drawn down was HK\$433 million in trade line and HK\$3,929 million for the currency forward contracts and derivatives were utilized.

The Group has entered into a facility agreement on April 26, 2005 with certain banks to arrange a term loan and a revolving loan facilities with a total amount of US\$600 million (approximately HK\$4,680 million), of which US\$500 million (approximately HK\$3,900 million) was drawn down as term loan for the settlement of cash consideration at the initial closing of the acquisition of the IBM PC Business.



Liquidity and Financial Resources (continued)

The term loan is guaranteed unconditionally jointly and severally by the Company and certain subsidiaries of the Group, bearing interest at the London Interbank Offered Rate plus 0.825 percent per annum and repayable by installment in 5 years.

As at September 30, 2005, the Group's outstanding bank loan, represented by the term loan, was HK\$3,900 million. When compared with total equity of HK\$9,280 million, the Group's gearing ratio was 0.42. There were no assets held under finance lease during the period and as at the period end.

The Group consistently adopted a hedging policy for business transactions to minimize the risk of currency fluctuation arising from daily operations. As at September 30, 2005, the Group had commitment in respect of outstanding currency forward contracts amounted to HK\$3,929 million.

The Group issued 2,730,000 convertible preferred shares at an issue price of HK\$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregate cash consideration of approximately HK\$2,730 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 Group or the convertible preferred shareholders at any time after the maturity date. The fair value of the liability component and equity component of the convertible preferred shares as at September 30, 2005 amounted to approximately HK\$2,435 million and HK\$311 million respectively.

Contingent Liabilities

The Group had no material contingent liabilities as at September 30, 2005.

Employees

As at September 30, 2005, the Group had a total of 20,630 employees, of whom 14,655 were employed in mainland China and 5,975 in Hong Kong and overseas.

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



Business Review and Prospects

Lenovo reported financial results during the six months ended September 30, 2005, which included five months of contribution from the former IBM personal computer business. Lenovo's consolidated turnover grew 317 percent year-on-year to HK\$48,107 million as a result of the acquisition and strong sales performance in the China market. Gross margin reached 14.5 percent due to the new breadth of its product line. Lenovo achieved 62 percent increase in consolidated profit before taxation of HK\$1,022 million with profit contribution from the acquired PC business. Profit attributable to shareholders increased 13 percent to HK\$711 million.

The integration of IBM's personal computer business progressed ahead of schedule. In October 2005, Lenovo took a major step by combining the separate product groups, supply and sales structures into unified global organizations. The integration will lead Lenovo's progress on three strategic priorities: innovation, operational efficiency and customer satisfaction.

Personal Computer Business

Worldwide, Lenovo PC shipments grew 11 percent year-on-year during the six months under review. Lenovo achieved record worldwide PC shipments during the September 2005 quarter, which accounted for 7.7 percent of the worldwide market according to industry estimates.

Lenovo recorded significant growth in China with PC shipments increased 30 percent year-on-year during the period, exceeding the market growth of 12 percent excluding Lenovo. Lenovo gained about 3 percentage points of market share during the September 2005 quarter, increasing its overall share to approximately 35 percent. Lenovo's positive performance in PC sales and profitability in China was attributable to the successful introduction of innovative, competitive new products, its continued expansion into China's township consumer market, and the use of both transactional and relationship customer models to drive growth of notebook and commercial desktop shipments.

The Americas showed steady performance with record shipment. Profit at EMEA was under pressure from the need to expand product mix. In Asia Pacific (excluding Greater China), Lenovo saw strong volume growth in India but share loss in Japan.

Lenovo gained additional competitive strengths in the notebook market with the acquisition of the ThinkPad line. Notebook computers represented about 35 percent of the Company's worldwide PC shipments. During the six months under review, Lenovo expanded its product mix by launching ThinkPad X41 Tablet, ThinkPad Z60, Xuri 125 and Tianyi 100 that are targeted at various customer segments.

Lenovo continued to gain market share in both consumer and commercial desktop markets in China, driven by the township desktop models and Yangtian A/M/E Series which are targeted at SMB. Lenovo also announced recently its first line of desktop PCs designed to meet the technology needs of small business, the ThinkCentre E Series, in markets outside of China.

Mobile Handset Business

The China mobile handset market continued to deliver strong performance, growing shipments more than 30 percent year-on-year during the six months ended September 30, 2005. According to industry estimates, Lenovo improved its market share position to fifth place and increased its share to 5.5 percent during the September quarter through competitive product offerings and strong channel partnerships. The Company's strong shipment growth of 92 percent during the six-month period significantly improved the mobile handset business' economies of scale and profitability.

Prospects

Looking ahead, a fully integrated Lenovo can bring more innovative products and services to our customers worldwide. The new global organization aligns Lenovo's strengths and expertise to expand into the segments of greatest growth. We believe the fully integrated organization positions the Company to deliver upon its strategy of innovation, operational efficiency and customer satisfaction, and bring better returns to its shareholders in the long run.



Long Term Incentive Schemes

(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.

Details of the movement of share options of the Company for the six months ended September 30, 2005 were as follows:

	Options held at April 1, 2005	Options granted during the period	Options exercised during the period	Options cancelled/lapsed during the period	Options held at September 30, 2005	Exercise price per ordinary share HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme								
<i>Directors</i>								
Mr. Yuanqing Yang	6,000,000	-	-	-	6,000,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	2,250,000	-	-	-	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Ms. Xuezheng Ma	2,920,000	-	-	-	2,920,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,600,000	-	-	-	1,600,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Mr. Chuanzhi Liu	2,250,000	-	-	-	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
<i>Continuous contract employees</i>								
	7,712,000	-	-	-	7,712,000	4.038	01.28.2000	01.28.2000 to 01.27.2010
	74,480,000	-	-	-	74,480,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
	26,630,000	-	-	-	26,630,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	832,000	-	-	-	832,000	2.904	08.29.2001	08.29.2001 to 08.28.2011
	70,160,000	-	4,942,000	-	65,218,000	2.876	08.31.2001	08.31.2001 to 08.30.2011



Long Term Incentive Schemes (continued)

(A) Share Option Schemes (continued)

	Options held at April 1, 2005	Options granted during the period	Options exercised during the period	Options cancelled/lapsed during the period	Options held at September 30, 2005	Exercise price per ordinary share HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
New Option Scheme								
<i>Directors</i>								
Mr. Yuanqing Yang	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Xuezheng Ma	1,600,000	-	-	-	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Chuanzhi Liu	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
<i>Continuous contract employees</i>								
	24,830,000	-	5,122,000	-	19,708,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	105,416,000	-	30,547,000	-	74,869,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	156,278,000	-	21,992,000	-	134,286,000	2.545	04.27.2004	04.27.2004 to 04.26.2014
	9,400,000	-	-	-	9,400,000	2.170	07.08.2004	07.08.2004 to 07.07.2014
<i>Other participants</i>								
	16,142,000	-	478,000	-	15,664,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	-	-	-	-	1,600,000	2.245	04.26.2003	04.26.2003 to 04.26.2013

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK\$3.36.
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\$3.14.
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\$3.03.
4. The 1,600,000 options held by Mr. Maochao Zeng under the New Option Scheme were reclassified to the category of other participants upon his resignation as a non-executive director of the Company on April 30, 2005.



(B) Share Award Scheme

A performance-related incentive award program (the “Long-Term Incentive Program”) was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the “Participants”). The Long-Term Incentive Program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

Under the Long-Term Incentive Program, the Company may grant awards, at its discretion, using one of three types of equity-based compensation: (i) share appreciation rights, (ii) restricted share units and (iii) performance share units, which are described below:

(i) Share Appreciation Rights (SARs)

An SAR entitles the holder to receive the appreciation in value of the Company’s share price above a predetermined level.

(ii) Restricted Share Units (RSUs)

An RSU is equal to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share, or its cash equivalent.

(iii) Performance Share Units (PSUs)

Each PSU is assigned a value equal to a number of the Company’s shares based on the Company’s performance against specified targets over a three-year period. The equivalent number of shares for each PSU can range from 0 to 2, depending on the Company’s performance.

Under all three types of compensation, the Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

The Company also issued awards to replace outstanding IBM stock options held by employees transferred from IBM. These awards comprised a combination of SARs and RSUs. During the period, the Company also approved a compensation package for non-executive directors for this financial year.



Directors' Interests in Securities

As at September 30, 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/underlying shares held					Aggregate interests in ordinary voting shares
		Personal interests	Family interests	Corporate interests	Trusts	Other interests	
Mr. Yuanqing Yang	Ordinary voting shares	10,200,000	-	-	-	-	10,200,000
	Share options	11,250,000	-	-	-	-	11,250,000
							21,450,000
Mr. Stephen M. Ward, Jr.	Ordinary voting shares	1,000,000	-	-	-	-	1,000,000
							1,000,000
Ms. Xuezheng Ma	Ordinary voting shares	15,834,000	-	-	7,240,000	-	23,074,000
	Share options	6,120,000	-	-	-	-	6,120,000
							29,194,000
Mr. Chuanzhi Liu	Ordinary voting shares	16,010,000	976,000	-	-	-	16,986,000
	Share options	5,250,000	-	-	-	-	5,250,000
							22,236,000
Mr. Linan Zhu	Ordinary voting shares	3,720,000	-	-	-	-	3,720,000
							3,720,000
Mr. John W. Barter III	Series A cumulative convertible preferred shares ("Preferred Shares")	-	-	-	-	390	-
	Warrants	-	-	-	-	33,917	33,917
							33,917

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

Warrants were issued to various investors including GAP Coinvestments III, LLC in which Mr. Barter has interests pursuant to an investment agreement dated March 30, 2005 between the Company and such investors. Particulars of the issue and the principal terms of the warrants were disclosed in the circular of the Company dated April 20, 2005.

Save as disclosed above, as at September 30, 2005, none of the directors, 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) which were recorded in the register maintained 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, 2005, the following persons (not being a director or chief executive of the Company) had an interests in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

Name	Nature of interests in long position	Capacity and number of shares/ underlying shares held		Aggregate long position	Percentage (Note 14)
		Beneficial owner	Corporate interests		
Legend Holdings Limited (Note 1)	Ordinary voting shares	2,718,460,724	1,469,311,247 (Note 2)	4,187,771,971	49.78%
Employees' Shareholding Society of Legend Holdings Limited (Note 3)	Ordinary voting shares	–	4,187,771,971	4,187,771,971	49.78%
International Business Machines Corporation (Note 4)	Ordinary voting and non-voting shares	1,307,153,271	–	1,307,153,271	15.53%
TPG Advisors IV, Inc.	Underlying shares	–	439,217,834	439,217,834	5.22%
	Preferred Shares	–	967,571	967,571	35.44%
TPG GenPar IV, L.P.	Underlying shares	–	439,217,834	439,217,834	5.22%
	Preferred Shares	–	967,571	967,571	35.44%
TPG Partners IV, L.P.	Underlying shares	–	439,217,834	439,217,834	5.22%
	Preferred Shares	–	967,571	967,571	35.44%
TPG IV Acquisition Company LLC (Note 5)	Underlying shares	439,217,834	–	439,217,834	5.22%
	Preferred Shares	967,571	–	967,571	35.44%
Mr. David Bonderman (Note 6)	Underlying shares	–	885,180,238	885,180,238	10.52%
	Preferred Shares	–	1,950,000	1,950,000	71.43%
T ³ II Acquisition Company, LLC (Note 7)	Preferred Shares	280,429	–	280,429	10.27%
T ³ Partners II, L.P.	Preferred Shares	–	280,429	280,429	10.27%
T ³ GenPar II, L.P.	Preferred Shares	–	280,429	280,429	10.27%
T ³ Advisors II, Inc.	Preferred Shares	–	280,429	280,429	10.27%
TPG III Acquisition Company, LLC (Note 8)	Preferred Shares	312,000	–	312,000	11.43%
TPG Partners III, L.P.	Preferred Shares	–	312,000	312,000	11.43%
TPG GenPar III, L.P.	Preferred Shares	–	312,000	312,000	11.43%
TPG Advisors III, Inc.	Preferred Shares	–	312,000	312,000	11.43%
Newbridge Asia Acquisition Company LLC (Note 9)	Preferred Shares	390,000	–	390,000	14.29%



Substantial Shareholders' Interests in Securities of the Company (continued)

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

Notes:

1. The English company name “Legend Holdings Limited” is a direct transliteration of its Chinese company name.
2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary 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. International Business Machines Corporation (“IBM”) had an interest in an aggregate of 1,307,153,271 ordinary shares, comprising 931,870,515 ordinary voting shares and 375,282,756 ordinary non-voting shares. 821,234,569 voting ordinary shares and 921,636,459 ordinary non-voting shares were allotted to IBM upon initial closing of the Company's acquisition of IBM's global desktop computer and notebook computer business on April 30, 2005. On May 17, 2005, IBM converted 110,635,946 ordinary non-voting shares to an equal number of ordinary voting shares. The Company repurchased 435,717,757 ordinary non-voting shares from IBM on August 2, 2005. The ordinary non-voting shares have the same rights as the ordinary voting shares save that the ordinary non-voting shares shall not carry any voting rights until they are converted into listed ordinary voting shares.
5. TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.



Substantial Shareholders' Interests in Securities of the Company (continued)

6. Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisers III, Inc., T³ Advisors II, Inc. and Tarrant Advisors, Inc. (Tarrant Advisors, Inc. owns 50% of the Shares of Newbridge Asia Advisors III, Inc.).
7. T³ II Acquisition Company, LLC is indirectly wholly owned by T³ Advisors II, Inc.
8. TPG III Acquisition Company, LLC is indirectly wholly owned by TPG Advisors III, Inc.
9. Newbridge Asia Acquisition Company LLC is indirectly wholly owned by Newbridge Asia Advisors III, Inc.
10. GAP (Bermuda) Ltd. is the general partner of General Atlantic Partners (Bermuda), L.P.
11. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.
12. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.
13. GapStar, LLC is directly wholly owned by General Atlantic LLC.
14. The percentage of shareholding is based on the aggregate nominal value of the shares comprised in the relevant share capital 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, 2005, no other interests 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

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, 2005.

Off-market repurchase of the Company's unlisted non-voting shares

On August 2, 2005, the Company repurchased 435,717,757 unlisted non-voting ordinary shares, which were issued to International Business Machines Corporation as partial consideration for the acquisition of its global personal computer business, at a total cash consideration of HK\$1,187,330,887.82, representing HK\$2.725 per share.

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was debited to the share premium of the Company.

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 accounts 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. Wai Ming Wong, and currently comprises five members including Mr. Wong, the other three independent non-executive directors, Professor Chia-Wei Woo, Mr. Lee Sen Ting and Mr. John W. Barter III, and the non-executive director, Mr. Weijian Shan.

The Audit Committee of the Company has reviewed the interim report for the six months ended September 30, 2005. 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

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the accounting period for the six months ended September 30, 2005 except as noted below:

Code A.1.7

This code stipulates that there should be procedure agreed by the Board to enable directors to seek independent professional advice at the Company's expense.

The Board has on November 1, 2005 approved a procedure to enable the directors to seek independent advice at the Company's expense to the extent that it is reasonably incurred. In addition, the terms of reference for the Company's board committees explicitly allow directors to seek independent professional advice at the Company's expense.

Code A.4.1

This code stipulates that non-executive directors should be appointed for a specific term.

Non-executive directors of the Company do not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same purpose as a specific term of appointment.

Code A.5.1

This code stipulates that new director be provided with a comprehensive formal induction upon appointment.

During the accounting period the Group commenced a practice of providing newly-appointed directors with induction materials consisting of a description of director's duties and an opportunity to consult with independent counsel.

Code A.5.4

This code stipulates that, inter alia, the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company.

Appropriate guidelines have been approved to be established by the Board on October 19, 2005 for relevant employees in respect of their dealings in the securities of the Company. The Company has had a policy concerning the dealings by relevant employees in the securities of the Company and the Board has also ratified such policy on October 19, 2005.

Code B.1.3

This code stipulates that the Terms of Reference of the Compensation Committee should include such details set out therein.

A set of new Terms of Reference complying with this code has been adopted by the Board on October 19, 2005.

Code C.3.3

This code stipulates that the Terms of Reference of the Audit Committee should include such details set out therein.

A set of new Terms of Reference complying with this code has been adopted by the Board on October 19, 2005.

Model Code

The Company has adopted the Model Code 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.

By order of the Board
Yuanqing Yang
Chairman

Hong Kong, November 1, 2005



Corporate Information

Board of Directors Executive Directors

Mr. Yuanqing Yang
Mr. Stephen M. Ward, Jr.
Ms. Xuezheng Ma

Non-executive Directors

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

Independent Non-executive Directors

Mr. Wai Ming Wong
Professor Chia-Wei Woo
Mr. Lee Sen Ting
Mr. John W. Barter III

Qualified Accountant

Mr. Wai Kwong Wong

Company Secretary

Mr. Chung Fu Mok

Registered Office

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

Principal Bankers

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

Auditors

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

Share Registrar

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

American Depositary Receipts

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

Stock Codes

Hong Kong Stock Exchange: 0992
American Depositary Receipts: LNVGY

Website

<http://www.lenovo.com>

