2011/12 Interim Report Lenovo Group Limited

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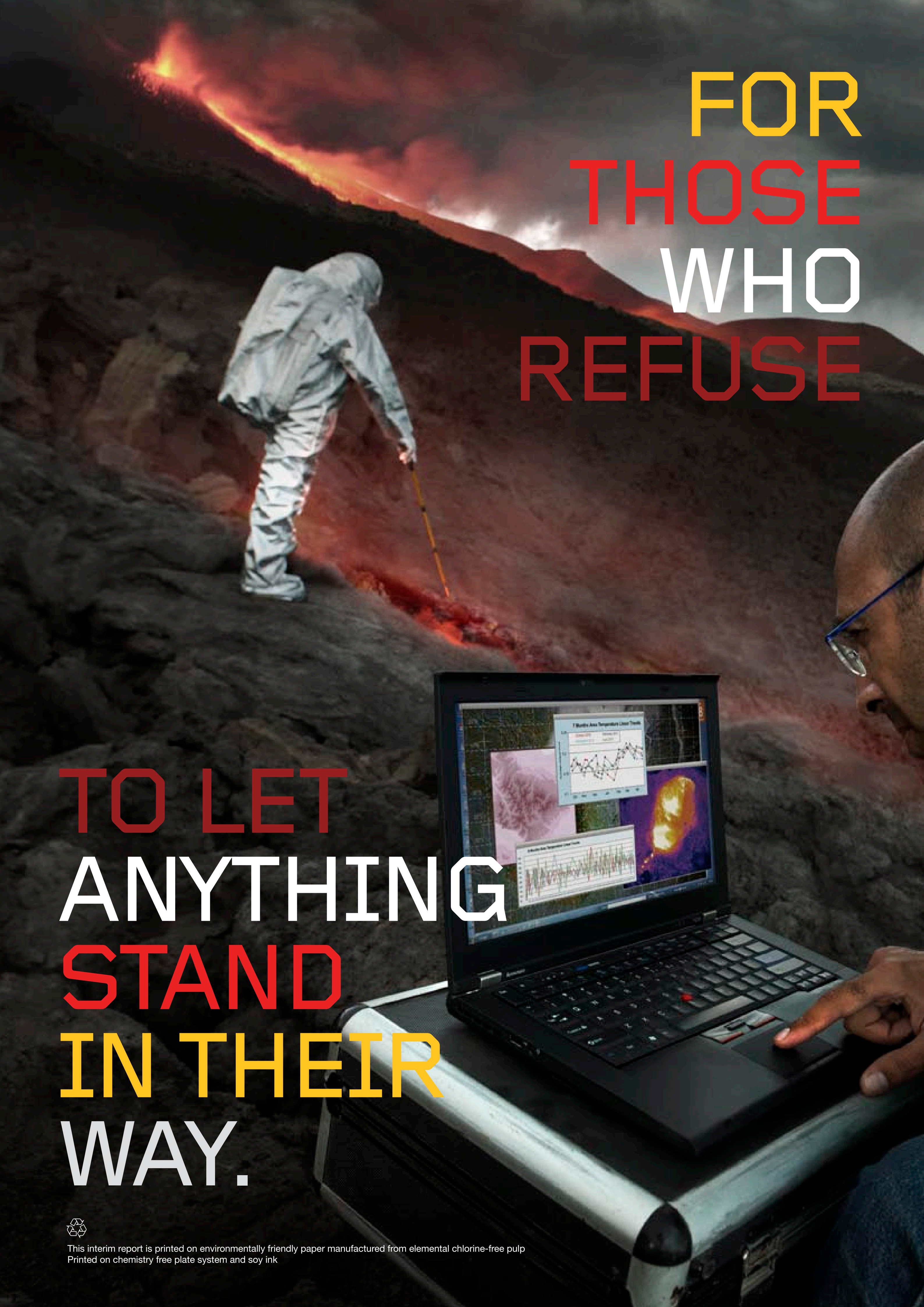

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THE TOOLS
YOU MAKE
THEM DO.

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended September 30, 2011 (unaudited) US$'000	6 months ended September 30, 2011 (unaudited) US$'000	3 months ended September 30, 2010 (unaudited) US$'000	6 months ended September 30, 2010 (unaudited) US$'000
Sales	2	**7,786,386**	**13,706,302**	5,759,983	10,906,655
Cost of sales		**(6,838,554)**	**(12,019,973)**	(5,166,997)	(9,790,673)
Gross profit		**947,832**	**1,686,329**	592,986	1,115,982
Other income – net	3	**–**	**–**	84	173
Selling and distribution expenses		**(458,489)**	**(808,035)**	(243,854)	(465,870)
Administrative expenses		**(197,351)**	**(371,067)**	(191,083)	(351,555)
Research and development expenses		**(118,795)**	**(196,316)**	(66,458)	(136,016)
Other operating (expense)/income – net		**(7,108)**	**(21,758)**	15,221	25,489
Operating profit	4	**166,089**	**289,153**	106,896	188,203
Finance income	5(a)	**10,206**	**19,138**	6,406	11,288
Finance costs	5(b)	**(11,343)**	**(19,539)**	(11,622)	(22,459)
Share of losses of associates		**(90)**	**(397)**	(120)	(73)
Profit before taxation		**164,862**	**288,355**	101,560	176,959
Taxation	6	**(20,191)**	**(34,889)**	(24,973)	(45,512)
Profit for the period		**144,671**	**253,466**	76,587	131,447
Profit attributable to:					
Equity holders of the Company		**143,919**	**252,715**	76,586	131,446
Non-controlling interests		**752**	**751**	1	1
		144,671	**253,466**	76,587	131,447
Dividend	7		**50,473**		32,581
Basic earnings per share attributable to equity holders of the Company	8(a)	**US1.41 cents**	**US2.53 cents**	US0.81 cent	US1.38 cents
Diluted earnings per share attributable to equity holders of the Company	8(b)	**US1.38 cents**	**US2.46 cents**	US0.76 cent	US1.30 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2011 (unaudited) US$'000	**6 months ended September 30, 2011 (unaudited) US$'000**	3 months ended September 30, 2010 (unaudited) US$'000	6 months ended September 30, 2010 (unaudited) US$'000
Profit for the period	**144,671**	**253,466**	76,587	131,447
Other comprehensive (loss)/income				
Fair value change on available-for-sale financial assets, net of tax	**(35,000)**	**(52,146)**	(7,253)	(23,295)
Fair value change on cash flow hedge				
– interest rate swap contracts	**354**	**285**	(99)	521
– forward foreign exchange contracts	**38,528**	**46,971**	(39,378)	(49,726)
– foreign currency options	**–**	**–**	(253)	(253)
Actuarial loss from defined benefit pension plans	**(318)**	**(318)**	–	–
Currency translation differences	**(31,224)**	**(22,069)**	(16,322)	(6,401)
	117,011	**226,189**	13,282	52,293
Total comprehensive income attributable to:				
Equity holders of the Company	**119,852**	**229,031**	13,281	52,292
Non-controlling interests	**(2,841)**	**(2,842)**	1	1
	117,011	**226,189**	13,282	52,293

CONSOLIDATED BALANCE SHEET

	Note	September 30, 2011 (unaudited) US$'000	March 31, 2011 (audited) US$'000
Non-current assets			
Property, plant and equipment	9	**398,024**	209,417
Prepaid lease payments		**9,810**	9,682
Construction-in-progress		**72,706**	32,092
Intangible assets	9	**2,751,042**	2,134,452
Interests in associates		**2,872**	914
Deferred income tax assets	9	**474,758**	251,098
Available-for-sale financial assets		**46,872**	78,689
Other non-current assets		**51,564**	53,132
		3,807,648	2,769,476
Current assets			
Inventories		**1,305,587**	803,702
Trade receivables	10(a)	**2,357,202**	1,368,924
Notes receivable	10(b)	**698,334**	391,649
Derivative financial assets		**88,667**	13,295
Deposits, prepayments and other receivables	11	**3,069,280**	2,305,325
Income tax recoverable		**28,754**	56,912
Bank deposits		**53,766**	42,158
Cash and cash equivalents		**4,169,199**	2,954,498
		11,770,789	7,936,463
Total assets		**15,578,437**	10,705,939
Share capital	12	**33,083**	31,941
Reserves		**2,235,980**	1,802,780
Equity attributable to owners of the Company		**2,269,063**	1,834,721
Non-controlling interests		**71,218**	179
Total equity		**2,340,281**	1,834,900
Non-current liabilities			
Warranty provision	13(a)	**467,321**	395,242
Deferred revenue		**354,242**	277,205
Retirement benefit obligations		**156,587**	74,870
Deferred income tax liabilities		**27,964**	17,093
Other non-current liabilities	14(a)(ii)	**596,169**	73,976
		1,602,283	838,386
Current liabilities			
Trade payables	10(c)	**4,275,591**	2,179,839
Notes payable	10(d)	**112,784**	98,964
Derivative financial liabilities		**50,348**	39,223
Provisions, accruals and other payables	13	**6,570,701**	5,096,649
Income tax payable		**86,675**	96,711
Bank borrowings		**59,228**	71,561
Current portion of non-current liabilities		**480,546**	449,706
		11,635,873	8,032,653
Total liabilities		**13,238,156**	8,871,039
Total equity and liabilities		**15,578,437**	10,705,939
Net current assets/(liabilities)		**134,916**	(96,190)
Total assets less current liabilities		**3,942,564**	2,673,286

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended September 30, 2011 (unaudited) US$'000	6 months ended September 30, 2010 (unaudited) US$'000
Net cash generated from operating activities	**1,546,374**	473,316
Net cash used in investing activities	**(270,721)**	(6,370)
Net cash used in financing activities	**(74,319)**	(216,647)
Increase in cash and cash equivalents	**1,201,334**	250,299
Effect of foreign exchange rate changes	**13,367**	33,632
Cash and cash equivalents at the beginning of the period	**2,954,498**	2,238,195
Cash and cash equivalents at the end of the period	**4,169,199**	2,522,126

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital (unaudited) US$'000	Share premium (unaudited) US$'000	Convertible rights in respect of convertible preferred shares (unaudited) US$'000	Investment revaluation reserve (unaudited) US$'000	Share redemption reserve (unaudited) US$'000	Employee share trusts (unaudited) US$'000	Share-based compensation reserve (unaudited) US$'000	Hedging reserve (unaudited) US$'000	Exchange reserve (unaudited) US$'000	Other reserve (unaudited) US$'000	Retained earnings (unaudited) US$'000	Non-controlling interests (unaudited) US$'000	Total (unaudited) US$'000
At April 1, 2011	**31,941**	**1,377,529**	**-**	**56,474**	**1,003**	**(76,110)**	**63,280**	**(18,583)**	**(1,523)**	**58,236**	**342,474**	**179**	**1,834,900**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**252,715**	**751**	**253,466**
Other comprehensive (loss)/income	**-**	**-**	**-**	**(52,146)**	**-**	**-**	**-**	**47,053**	**(18,273)**	**-**	**(318)**	**(3,593)**	**(27,277)**
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**(52,146)**	**-**	**-**	**-**	**47,053**	**(18,273)**	**-**	**252,397**	**(2,842)**	**226,189**
Consideration for acquisition	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,555**	**-**	**-**	**36,555**
Acquisition of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,881**	**73,881**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,274**	**(5,274)**	**-**	**-**
Issue of ordinary shares	**1,088**	**196,206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**197,294**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(65,021)**	**-**	**(65,021)**
Exercise of share options	**54**	**6,098**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,152**
Vesting of shares under long-term incentive program	**-**	**-**	**-**	**-**	**-**	**11,364**	**(15,545)**	**-**	**-**	**-**	**-**	**-**	**(4,181)**
Share-based compensation	**-**	**-**	**-**	**-**	**-**	**-**	**34,512**	**-**	**-**	**-**	**-**	**-**	**34,512**
At September 30, 2011	**33,083**	**1,579,833**	**-**	**4,328**	**1,003**	**(64,746)**	**82,247**	**28,470**	**(19,796)**	**100,065**	**524,576**	**71,218**	**2,340,281**
At April 1, 2010	31,388	1,341,118	2,836	72,366	497	(111,054)	76,054	6,069	(35,969)	34,430	188,106	177	1,606,018
Profit for the period	–	–	–	–	–	–	–	–	–	–	131,446	1	131,447
Other comprehensive (loss)/income	–	–	–	(23,295)	–	–	–	(49,458)	(6,401)	–	–	–	(79,154)
Total comprehensive (loss)/income for the period	–	–	–	(23,295)	–	–	–	(49,458)	(6,401)	–	131,446	1	52,293
Transfer to statutory reserve	–	–	–	–	–	–	–	–	–	22,181	(22,181)	–	–
Exercise of share options	39	5,428	–	–	–	–	–	–	–	–	–	–	5,467
Repurchase of shares	(287)	(50,022)	–	–	287	–	–	–	–	–	–	–	(50,022)
Dividend paid	–	–	–	–	–	–	–	–	–	–	(55,181)	–	(55,181)
Vesting of shares under long-term incentive program	–	–	–	–	–	16,001	(26,135)	–	–	–	–	–	(10,134)
Share-based compensation	–	–	–	–	–	–	18,401	–	–	–	–	–	18,401
At September 30, 2010	31,140	1,296,524	2,836	49,071	784	(95,053)	68,320	(43,389)	(42,370)	56,611	242,190	178	1,566,842

1 Basis of preparation

The Board is responsible for the preparation of the Group's condensed interim financial statements. The condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed interim financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. The condensed interim financial statements should be read in conjunction with the 2010/11 annual financial statements.

The Group has adopted the revised standard, new interpretation, and amendments to existing standards and interpretations (including improvements to HKFRSs 2010) that are mandatory for the year ending March 31, 2012 and where considered appropriate and relevant to its operations.

Revised standard, new interpretation and amendments to existing standards and interpretations
HKAS 24 (Revised), Related party disclosures
HK(IFRIC)-Int 19, Extinguishing financial liabilities with equity instruments
Amendments to HK(IFRIC)-Int 14, Prepayments of a minimum funding requirement

Improvements to HKFRSs 2010 – Amendments to
HKFRS 3 (Revised), Business combinations
HKFRS 7, Financial instruments: Disclosures
HKAS 1 (Revised), Presentation of financial statements
HKAS 21, The effect of changes in foreign exchange rates
HKAS 28, Investments in associates
HKAS 31, Interests in joint ventures
HKAS 32, Financial instruments: Presentation
HKAS 34, Interim financial reporting
HKAS 39, Financial instruments: Recognition and measurement
HK(IFRIC)-Int 13, Customer loyalty programmes

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

The following new and revised standards and amendments to existing standards have been issued but are not effective for the year ending March 31, 2012 and have not been early adopted:

	Effective for annual periods beginning on or after
New and revised standards, and amendments to existing standards	
HKAS 19 (2011), Employee benefits	January 1, 2013
HKAS 27 (2011), Separate financial statements	January 1, 2013
HKAS 28 (2011), Investments in associates and joint ventures	January 1, 2013
HKFRS 9, Financial instruments	January 1, 2013
HKFRS 10, Consolidated financial statements	January 1, 2013
HKFRS 11, Joint arrangements	January 1, 2013
HKFRS 12, Disclosure of interests in other entities	January 1, 2013
HKFRS 13, Fair value measurement	January 1, 2013
Amendments to HKAS 1 (Revised), Presentation of items of other comprehensive income	July 1, 2012
Amendments to HKAS 12, Deferred tax: Recovery of underlying assets	January 1, 2012
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers to financial assets	July 1, 2011

1 Basis of preparation *(continued)*

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

The Group has changed certain presentations in the condensed consolidated cash flow statement and information on operating segments.

For condensed consolidated cash flow statement presentation, the effect of foreign exchange rate changes on cash flow from operations has been presented as part of net cash generated from operations.

For presentation of segment results, certain expenses have been reclassified, in particular, expenditures on aligning the information technology systems ("IT systems"). In the previous years, expenditures on aligning the IT systems of mature and emerging markets were included in the respective markets. The Group has substantially completed the alignment of the IT systems with key business systems converged in the same platform. With effect from the current fiscal year, expenditures on IT systems are allocated to market segments on a flat rate basis with reference to revenue contributions of the respective markets. Management considers this basis is more appropriate in the measurement of market segment results.

For presentation of segment assets and liabilities, assets and liabilities of certain entities performing centralized functions for the group, previously included in market segments based on their respective geographical locations, have been reclassified to unallocated assets and liabilities. Management considers this is more appropriate in light of their increased roles as centralized functions. The amounts of assets and liabilities of US$2,481 million and US$4,712 million (March 31, 2011: US$2,023 million and US$3,627 million) previously included in respective market segments have been reclassified as unallocated.

The comparative information has been reclassified to conform to the current period's presentation.

2 Segment information

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

The LEC considers business from a market perspective. The Group has three market segments, China, Emerging Markets (excluding China) and Mature Markets, which are also the Group's reportable operating segments.

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

Supplementary information on market segment assets and liabilities presented below is primarily based on the geographical location of the entities which carry the assets and liabilities, except for entities performing centralized functions for the group the assets and liabilities of which are not allocated to any market.

2 Segment information *(continued)*

(a) Segment results, assets and liabilities

The segment information for the reportable segments for the period ended September 30, 2011 and its comparatives are as follows:

	China US$'000	Emerging Markets (excluding China) US$'000	Mature Markets US$'000	Total US$'000
For the six months ended September 30, 2011				
Sales to external customers	**6,011,091**	**2,330,951**	**5,364,260**	**13,706,302**
Adjusted pre-tax income/(loss)	**296,282**	**(44,736)**	**171,205**	**422,751**
Depreciation and amortization	**36,047**	**12,540**	**31,833**	**80,420**
Additions to non-current assets*	**25,383**	**3,350**	**9,414**	**38,147**
At September 30, 2011				
Total assets	**4,585,137**	**1,505,253**	**4,113,173**	**10,203,563**
Total liabilities	**2,971,415**	**488,232**	**3,531,434**	**6,991,081**

	China US$'000	Emerging Markets (excluding China) US$'000	Mature Markets US$'000	Total US$'000
For the six months ended September 30, 2010				
Sales to external customers	5,137,774	1,892,233	3,876,648	10,906,655
Adjusted pre-tax income/(loss)	238,781	(34,218)	56,348	260,911
Depreciation and amortization	38,411	11,272	41,416	91,099
Additions to non-current assets*	21,263	3,021	7,645	31,929
At March 31, 2011				
Total assets	3,368,166	1,407,639	1,386,766	6,162,571
Total liabilities	1,833,711	366,575	1,563,680	3,763,966

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

2 Segment information *(continued)*

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

	6 months ended September 30, 2011 US$'000	6 months ended September 30, 2010 US$'000
Adjusted pre-tax income	**422,751**	260,911
Unallocated:		
Headquarters and corporate expenses	**(139,828)**	(76,277)
Restructuring costs	**800**	(2,502)
Finance income	**13,378**	8,116
Finance costs	**(8,349)**	(13,389)
Net gain on disposal of available-for-sale financial assets and investments	**–**	97
Dividend income from available-for-sale financial assets	**–**	76
Share of losses of associates	**(397)**	(73)
Consolidated profit before taxation	**288,355**	176,959

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

	September 30, 2011 US$'000	March 31, 2011 US$'000
Segment assets for reportable segments	**10,203,563**	6,162,571
Unallocated:		
Deferred income tax assets	**474,758**	251,098
Derivative financial assets	**88,667**	13,295
Available-for-sale financial assets	**46,872**	78,689
Interests in associates	**2,872**	914
Bank deposits and cash and cash equivalents	**2,274,505**	1,653,870
Inventories	**402,322**	394,998
Deposits, prepayments and other receivables	**2,015,950**	2,062,952
Income tax recoverable	**28,754**	56,912
Other unallocated assets	**40,174**	30,640
Total assets per consolidated balance sheet	**15,578,437**	10,705,939

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

	September 30, 2011 US$'000	March 31, 2011 US$'000
Segment liabilities for reportable segments	**6,991,081**	3,763,966
Unallocated:		
Income tax payable	**86,675**	96,711
Deferred income tax liabilities	**27,964**	17,093
Derivative financial liabilities	**50,348**	39,223
Bank borrowings	**200,000**	200,000
Trade payables	**2,554,501**	1,771,633
Provisions, accruals and other payables	**3,279,606**	2,942,621
Other unallocated liabilities	**47,981**	39,792
Total liabilities per consolidated balance sheet	**13,238,156**	8,871,039

2 Segment information *(continued)*

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$2,537 million (March 31, 2011: US$1,926 million). During the period, the Group underwent an organizational structure change under which Latin America previously as a reportable segment merged with REM, forming a cash-generating unit ("CGU"). The intangible assets have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2011	**China US$ million**	**REM* US$ million**	**North America US$ million**	**West Europe US$ million**	**Japan, Australia, New Zealand US$ million**	**Total US$ million**
Goodwill	**1,087**	**167**	**157**	**310**	**436**	**2,157**
Trademarks and trade names	**209**	**64**	**58**	**35**	**14**	**380**

* Includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan, Turkey and Latin America (previously a stand-alone CGU).

At March 31, 2011	China US$ million	REM** US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,065	143	24	161	84	69	1,546
Trademarks and trade names	209	55	9	58	35	14	380

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

On July 1, 2011, the Group completed the establishment of a joint venture with NEC Corporation ("NEC") under a business combination agreement dated January 27, 2011 (Note 14). The corresponding goodwill is preliminarily estimated at US$347 million. The goodwill is attributable to the significant synergies expected to arise in connection with the Group's commitment to its core personal computer business and NEC's market leadership in Japan. The entire amount of goodwill has been allocated to the Japan, Australia and New Zealand market segment.

On July 29, 2011, the Group completed the acquisition of Medion AG ("Medion") under a business combination agreement dated June 1, 2011 (Note 14). The goodwill arising from this acquisition is preliminarily estimated at US$246 million. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives and the development of customer-focused products to capitalize on the entertainment electronics and service business growth in Europe. The entire amount of goodwill has been allocated to the West Europe market segment.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at September 30, 2011 (March 31, 2011: Nil).

3 Other income – net

	3 months ended September 30, 2011 US$'000	6 months ended September 30, 2011 US$'000	3 months ended September 30, 2010 US$'000	6 months ended September 30, 2010 US$'000
Net gain on disposal of available-for-sale financial assets and investments	–	–	8	97
Dividend income from available-for-sale financial assets	–	–	76	76
	–	–	84	173

4 Operating profit

Operating profit is stated after charging the following:

	3 months ended September 30, 2011 US$'000	6 months ended September 30, 2011 US$'000	3 months ended September 30, 2010 US$'000	6 months ended September 30, 2010 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	19,987	37,319	20,186	40,673
Amortization of intangible assets	22,871	43,101	24,770	50,426
Employee benefit costs, including	482,329	893,707	353,516	685,893
– long-term incentive awards	*17,336*	*34,512*	*8,216*	*18,401*
Rental expenses under operating leases	16,713	29,363	13,397	26,538

5 Finance income and costs

(a) Finance income

	3 months ended September 30, 2011 US$'000	6 months ended September 30, 2011 US$'000	3 months ended September 30, 2010 US$'000	6 months ended September 30, 2010 US$'000
Interest on bank deposits	8,317	16,476	6,058	10,787
Interest on money market funds	514	1,149	243	378
Others	1,375	1,513	105	123
	10,206	19,138	6,406	11,288

(b) Finance costs

	3 months ended September 30, 2011 US$'000	6 months ended September 30, 2011 US$'000	3 months ended September 30, 2010 US$'000	6 months ended September 30, 2010 US$'000
Interest on bank loans and overdrafts	1,958	3,873	4,952	9,916
Dividend and relevant finance costs on convertible preferred shares	–	–	1,554	3,107
Factoring cost	6,083	10,773	4,259	7,777
Others	3,302	4,893	857	1,659
	11,343	19,539	11,622	22,459

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2011 US$'000	**6 months ended September 30, 2011 US$'000**	3 months ended September 30, 2010 US$'000	6 months ended September 30, 2010 US$'000
Current taxation				
Hong Kong profits tax	**73**	**130**	1,396	1,467
Taxation outside Hong Kong	**59,863**	**88,528**	17,645	41,381
Deferred taxation	**(39,745)**	**(53,769)**	5,932	2,664
	20,191	**34,889**	24,973	45,512

Hong Kong profits tax has been provided for at the rate of 16.5% (2010/11: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Dividend

	6 months ended September 30, 2011 US$'000	6 months ended September 30, 2010 US$'000
Interim dividend, declared after period end – HK3.8 cents (2010/11: HK2.6 cents) per ordinary share	**50,473**	32,581

8 Earnings per share

(a) Basic

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

	3 months ended September 30, 2011	**6 months ended September 30, 2011**	3 months ended September 30, 2010	6 months ended September 30, 2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**10,190,316,361**	**9,996,864,198**	9,504,308,541	9,526,936,298
	US$'000	**US$'000**	US$'000	US$'000
Profit attributable to equity holders of the Company	**143,919**	**252,715**	76,586	131,446

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 two categories of dilutive potential ordinary shares, namely share options and long-term incentive awards.

	3 months ended September 30, 2011	**6 months ended September 30, 2011**	3 months ended September 30, 2010	6 months ended September 30, 2010
Weighted average number of ordinary shares in issue	**10,190,316,361**	**9,996,864,198**	9,504,308,541	9,526,936,298
Adjustments for convertible preferred shares	**–**	**–**	282,263,132	282,263,132
Adjustments for share options and long-term incentive awards	**270,300,589**	**255,605,076**	543,868,709	537,249,423
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,460,616,950**	**10,252,469,274**	10,330,440,382	10,346,448,853
	US$'000	**US$'000**	US$'000	US$'000
Profit attributable to equity holders of the Company	**143,919**	**252,715**	76,586	131,446
Interest expense on convertible preferred shares	**–**	**–**	1,554	3,107
	143,919	**252,715**	78,140	134,553

Adjustments for the dilutive potential ordinary shares are as follows:

– All remaining convertible preferred shares were converted into voting ordinary shares during the year ended March 31, 2011. For the six months ended September 30, 2010, the convertible preferred shares were assumed to have been converted into ordinary shares and the net profit was adjusted to add back the relevant finance costs.

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

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

9 Non-current assets

Analysis of the movements in major non-current assets is as follows:

	Property, plant and equipment US$'000	Intangible assets US$'000	Deferred income tax assets US$'000
Year ended March 31, 2011			
At the beginning of the year	248,261	2,066,337	254,978
Exchange adjustment and reclassification	6,122	74,224	6,441
Additions	48,834	20,297	–
Transfer from construction-in-progress	2,823	67,141	–
Transfer from property, plant and equipment	–	748	–
Transfer to intangible assets	(748)	–	–
Transfer to prepaid lease payments	(5,866)	–	–
Disposals	(8,249)	(11)	–
Depreciation/amortization	(81,760)	(94,284)	–
Charged to consolidated income statement	–	–	(10,321)
At the end of the year	209,417	2,134,452	251,098
Six months ended September 30, 2011			
At the beginning of the period	**209,417**	**2,134,452**	**251,098**
Exchange adjustment	**7,741**	**20,770**	**7,185**
Additions	**32,100**	**5,765**	**–**
Transfer from construction-in-progress	**12,208**	**6,549**	**–**
Disposals	**(1,551)**	**(1,098)**	**–**
Depreciation/amortization	**(37,199)**	**(43,101)**	**–**
Acquisition of subsidiaries	**175,308**	**627,705**	**153,890**
Credited to consolidated income statement	**–**	**–**	**59,994**
Credited to other comprehensive income	**–**	**–**	**2,591**
At the end of the period	**398,024**	**2,751,042**	**474,758**

10 Ageing analysis

(a) Trade receivables

Customers are generally granted credit term ranging from 15 to 60 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	September 30, 2011 US$'000	March 31, 2011 US$'000
0 – 30 days	**1,521,096**	941,811
31 – 60 days	**592,432**	251,698
61 – 90 days	**132,596**	92,817
Over 90 days	**142,404**	103,679
	2,388,528	1,390,005
Less: provision for impairment	**(31,326)**	(21,081)
Trade receivables – net	**2,357,202**	1,368,924

(b) Notes receivable

Notes receivable of the Group are bank accepted notes mainly with maturity date of within six months.

10 Ageing analysis *(continued)*

(c) Trade payables

Ageing analysis of trade payables of the Group at the balance sheet date, based on invoice date, is as follows:

	September 30, 2011 US$'000	March 31, 2011 US$'000
0 – 30 days	**2,743,315**	1,381,832
31 – 60 days	**1,016,071**	503,648
61 – 90 days	**396,230**	230,791
Over 90 days	**119,975**	63,568
	4,275,591	2,179,839

(d) Notes payable

Notes payable of the Group are mainly repayable within three months.

11 Deposits, prepayments and other receivables

Details of deposits, prepayments and other receivables are as follows:

	September 30, 2011 US$'000	March 31, 2011 US$'000
Deposits	**704**	504
Other receivables	**2,322,326**	1,765,680
Prepayments	**746,250**	539,141
	3,069,280	2,305,325

(a) Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business.

(b) The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers of US$332 million as at September 30, 2011 (March 31, 2011: US$236 million) are included in prepayments.

12 Share capital

	September 30, 2011 Number of shares	HK$'000	March 31, 2011 Number of shares	HK$'000
Authorized:				
At the beginning and the end of the period/year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**–**	**–**	3,000,000	27,525
		500,000		527,525

	Number of shares	US$'000	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**9,965,161,897**	**31,941**	9,788,044,282	31,388
Conversion from series A cumulative convertible preferred shares	**–**	**–**	282,263,115	891
Issue of ordinary shares	**338,689,699**	**1,088**	–	–
Exercise of share options	**16,672,000**	**54**	52,614,500	168
Repurchase of shares	**–**	**–**	(157,760,000)	(506)
At the end of the period/year	**10,320,523,596**	**33,083**	9,965,161,897	31,941
Series A cumulative convertible preferred shares:				
At the beginning of the period/year	**–**	**–**	769,167	891
Conversion to voting ordinary shares	**–**	**–**	(769,167)	(891)
At the end of the period/year	**–**	**–**	–	–

Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on July 22, 2011, the series A cumulative convertible preferred shares were cancelled from the existing authorized share capital of the Company.

13 Provisions, accruals and other payables

Details of provisions, accruals and other payables are as follows:

	September 30, 2011 US$'000	March 31, 2011 US$'000
Provisions	**402,216**	311,813
Accruals	**1,067,908**	900,306
Allowance for billing adjustments	**1,662,415**	1,139,828
Other payables	**3,438,162**	2,744,702
	6,570,701	5,096,649

13 Provisions, accruals and other payables *(continued)*

(a) The components of provisions are as follows:

	Warranty US$'000	Restructuring US$'000	Environmental restoration US$'000	Total US$'000
Year ended March 31, 2011				
At the beginning of the year	550,689	11,341	22,502	584,532
Exchange adjustment	11,310	84	151	11,545
Provisions made	644,778	3,126	4,191	652,095
Amounts utilized	(510,054)	(3,585)	(2,759)	(516,398)
Unused amounts reversed	(2,000)	(2,547)	(9,091)	(13,638)
	694,723	8,419	14,994	718,136
Long-term portion classified as non-current liabilities	(395,242)	–	(11,081)	(406,323)
At the end of the year	299,481	8,419	3,913	311,813
Six months ended September 30, 2011				
At the beginning of the period	**694,723**	**8,419**	**14,994**	**718,136**
Exchange adjustment	**5,482**	**(384)**	**3,588**	**8,686**
Provisions made	**339,616**	**–**	**3,286**	**342,902**
Amounts utilized	**(269,463)**	**(1,863)**	**(2,604)**	**(273,930)**
Unused amounts reversed	**(1,286)**	**(844)**	**–**	**(2,130)**
Acquisition of subsidiaries	**92,306**	**–**	**79,501**	**171,807**
	861,378	**5,328**	**98,765**	**965,471**
Long-term portion classified as non-current liabilities	**(467,321)**	**–**	**(95,934)**	**(563,255)**
At the end of the period	**394,057**	**5,328**	**2,831**	**402,216**

The Group records its warranty liability at the time of sales based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty accrual is reviewed quarterly to verify it properly reflects the outstanding obligation over the warranty period. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with them.

(b) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price rebates, and customer sales returns.

(c) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

14 Business combinations

During the period, the Group completed two business combination activities aiming at expanding the Group's existing scale of operations and to enlarge the Group's market share.

On July 1, 2011, the Group completed the formation of a joint venture company to own and operate the Group's and NEC's respective personal computer businesses in Japan (the "NEC JV") pursuant to the business combination agreement dated January 27, 2011. Immediately following completion, the Group and NEC respectively owns 51% and 49% of the issued share capital of NEC JV.

On July 29, 2011, the Group acquired 51.89% of the issued share capital of Medion AG ("Medion"), a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. Medion is the parent company of the Medion group which is an enterprise in the retail and service business for consumer electronic products, such as notebooks, PCs, TVs, audio and mobile telecommunication. Thereafter, the Group acquired another 9.43% of the issued share capital in Medion through the takeover offer pursuant to the German Securities Acquisition and Takeover Act. Immediately following the takeover offer period, the Group owns 61.32% of the issued share capital in Medion.

The Group's business combination activities involve post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) "Business Combinations" requires the recognition of the fair value of those contingent considerations as of their respective dates of business combination as part of the consideration transferred in exchange for the acquired subsidiaries/businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/businesses and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the date of business combination, with any resulting gain or loss recognized in the consolidated income statement in accordance with HKFRS 3 (Revised).

HKAS 27 "Consolidated and Separate Financial Statements" (as amended in 2008) requires that the proportions allocated to the parent and non-controlling interests are determined on the basis of present ownership interests. The two business combination activities completed during the period involve arrangements on the transfer of ownership interest with the respective shareholders of the NEC JV and Medion and have been accounted for in accordance with HKAS 27.

The estimated total consideration for the two business combination activities is approximately US$1,182 million, including cash and the Company's shares as consideration shares.

(a) Set forth below is the preliminary calculation of goodwill:

	NEC JV US$'000	**Medion US$'000**	**Total US$'000**
Purchase consideration:			
– Cash paid and payable	**58,274**	**479,338**	**537,612**
– Fair value of consideration shares	**160,730**	**73,119**	**233,849**
– Present value of contingent consideration	**251,557**	**158,631**	**410,188**
Total purchase consideration	**470,561**	**711,088**	**1,181,649**
Less: Fair value of net assets acquired	**123,857**	**465,584**	**589,441**
Goodwill (Note 2(e))	**346,704**	**245,504**	**592,208**

(i) 57,560,317 consideration shares in respect of the acquisition of Medion with an aggregated fair value of approximately US$36,555,000 which serve as security for any potential damages are to be issued to the seller as deferred consideration within an 18-month period after completion.

(ii) The present value of contingent consideration is included in other non-current liabilities in the balance sheet.

14 Business combinations *(continued)*

(b) The major components of assets and liabilities arising from the business combination activities are as follows:

	NEC JV US$'000	Medion US$'000	Total US$'000
Cash and cash equivalents	110,832	254,464	365,296
Property, plant and equipment	121,961	53,347	175,308
Other non-current assets	175,357	14,943	190,300
Intangible assets	31,976	3,522	35,498
Net working capital except cash and cash equivalents	(114,415)	249,826	135,411
Non-current liabilities	(201,854)	(36,637)	(238,491)
Fair value of net assets	123,857	539,465	663,322
Non-controlling interests	–	(73,881)	(73,881)
Fair value of net assets acquired	123,857	465,584	589,441

Intangible assets arising from the business combination activities mainly represent customer relationships, trademarks and brand licenses. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 (Revised) "Business Combination".

At September 30, 2011, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from these acquisitions. The relevant fair values of net assets acquired stated above are on a provisional basis. Acquisition related costs have been recognized as administrative expenses in the consolidated income statement.

15 Commitments

On September 26, 2011, the Company entered into a joint venture agreement ("JV Agreement") with Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JVCo") to manufacture notebook computer products and related parts. Pursuant to the JV Agreement, the Company and Compal will make capital contributions in cash totalling US$300 million in two phases in accordance with their ownerships of 51% and 49% respectively.

Pursuant to the JV Agreement, both the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal or Compal to sell to the Company the 49% Compal's interests in the JVCo.

16 Contingent liabilities

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

FINANCIAL REVIEW

Results

For the six months ended September 30	2011 US$'000	2010 US$'000
Sales	**13,706,302**	10,906,655
Earnings before interest, taxation, depreciation, amortization, gain/loss on disposal of available-for-sale financial assets and restructuring costs	**403,286**	300,032
Profit attributable to equity holders of the Company	**252,715**	131,446
Earnings per share (US cents)		
– Basic	**2.53**	1.38
– Diluted	**2.46**	1.30
Dividend per ordinary share (HK cents)		
– Interim dividend	**3.8**	2.6

For the six months ended September 30, 2011, the Group achieved total sales of approximately US$13,706 million. Profit attributable to equity holders for the period was approximately US$252 million, representing an increase of US$121 million as compared with the corresponding period of last year. Gross profit margin for the six months was 12.3 percent up from 10.2 percent reported in the corresponding period of last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US$1,226 million as compared to March 31, 2011. Basic earnings per share and diluted earnings per share were US2.53 cents and US2.46 cents, representing an increase of US1.15 cents and US1.16 cents respectively as compared with the corresponding period of last year.

For the six months ended September 30, 2011, overall operating expenses across the board increased when compared to the corresponding period of last year as current period includes NEC JV and Medion. Employee benefit costs increased by 30.3 percent as compared to the corresponding period of last year due to increased headcount and performance-driven incentive payments. Legal and professional fees increased by 29.1 percent as compared to corresponding period of last year as a result of the increase in merger and acquisition activities. Branding and promotional expenses increased by 94 percent as compared to corresponding period of last year as a result of the branding campaign.

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

	2011		2010	
For the six months ended September 30	**Sales to external customers US$'000**	**Adjusted pre-tax income/(loss) US$'000**	Sales to external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**6,011,091**	**296,282**	5,137,774	238,781
Emerging Markets (excluding China)	**2,330,951**	**(44,736)**	1,892,233	(34,218)
Mature Markets	**5,364,260**	**171,205**	3,876,648	56,348
	13,706,302	**422,751**	10,906,655	260,911

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

FINANCIAL REVIEW *(continued)*

Further analyses of income and expense by function for the six months ended September 30, 2011 are set out below:

Other income – net

Last year other income represented net gain on disposal of available-for-sale financial assets.

Selling and distribution expenses

Selling and distribution expenses for the period increased by 73.3 percent as compared to the corresponding period of last year. This is principally attributable to a US$168 million increase in promotional, branding and marketing activities and a US$127 million increase in employee benefit costs.

Administrative expenses

The Group experienced an increase of 5.8 percent in administrative expenses for the period as compared to the corresponding period of last year. This is mainly attributable to a US$14 million increase in employee benefit costs and a US$20 million increase in legal and professional fees relating to merger and acquisition activities. The increase is partly offset by a decrease in contracted service expense of US$19 million.

Research and development expenses

Research and development spending for the period increased by 44.3 percent as compared to the corresponding period of last year. The major part of the increase is attributable to an increase in employee benefit costs of US$32 million, and increased in R&D professional fees of US$26 million. The increase is partly offset by a decrease of US$9 million relating to the reallocation cost of R&D laboratory.

Other operating expense/income – net

The net other operating expense for the period represents a US$27 million IP license fee expense netted with US$7 million net exchange gain. The net other operating income in the corresponding period of last year mainly comprised a US$13 million net exchange gain and subsidy income of US$9 million netted with a US$2 million restructuring expense.

Capital expenditure

The Group incurred capital expenditures of US$94 million (2010/11: US$64 million) during the period ended September 30, 2011, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and financial resources

At September 30, 2011, total assets of the Group amounted to US$15,578 million (March 31, 2011: US$10,706 million), which were financed by equity attributable to owners of the Company of US$2,269 million (March 31, 2011: US$1,835 million), non-controlling interests of US$71 million (March 31, 2011: US$179,000), and total liabilities of US$13,238 million (March 31, 2011: US$8,871 million). At September 30, 2011, the current ratio of the Group was 1.01 (March 31, 2011: 0.99).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At September 30, 2011, bank deposits, cash and cash equivalents totaled US$4,223 million (March 31, 2011: US$2,997 million), of which 53.4 (March 31, 2011: 53.9) percent was denominated in US dollars, 33.7 (March 31, 2011: 37.1) percent in Renminbi, 5.7 (March 31, 2011: 0.7) percent in Euros, 2.9 (March 31, 2011: 0.4) percent in Japanese Yen, and 4.3 (March 31, 2011: 7.9) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2011, 80.6 (March 31, 2011: 75.6) percent of cash are bank deposits, and 19.4 (March 31, 2011: 24.4) percent of cash are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes.

FINANCIAL REVIEW *(continued)*

Liquidity and financial resources *(continued)*

The Group had a US$300 million 3-year loan facility with a bank in China. At September 30, 2011, it was utilized to the extent of US$200 million (March 31, 2011: US$200 million) and will expire in March 2012.

In addition, the Group has entered into another 5-year loan facility agreement of US$300 million with a bank on July 17, 2009. The facility has not been utilized as at September 30, 2011 (March 31, 2011: Nil).

On February 2, 2011, the Group entered into a 5-year loan facility agreement for US$500 million. The facility has not been utilized as at September 30, 2011.

The Group has also arranged other short-term credit facilities. At September 30, 2011, the Group's total available credit facilities amounted to US$5,870 million (March 31, 2011: US$5,570 million), of which US$351 million (March 31, 2011: US$331 million) was in trade lines, US$520 million (March 31, 2011: US$475 million) in short-term and revolving money market facilities and US$4,999 million (March 31, 2011: US$4,764 million) in forward foreign exchange contracts. At September 30, 2011, the amounts drawn down were US$203 million (March 31, 2011: US$201 million) in trade lines, US$4,214 million (March 31, 2011: US$3,190 million) being used for the forward foreign exchange contracts, and US$59 million (March 31, 2011: US$72 million) in short-term bank loans.

At September 30, 2011, the Group's outstanding bank loans represented term loans of US$200 million (March 31, 2011: US$200 million) and short-term bank loans of US$59 million (March 31, 2011: US$72 million). When compared with total equity of US$2,340 million (March 31, 2011: US$1,835 million), the Group's gearing ratio was 0.11 (March 31, 2011: 0.15). The net cash position of the Group at September 30, 2011 is US$3,964 million (March 31, 2011: US$2,725 million).

The Group is confident that all the loan facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2011, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$4,214 million (March 31, 2011: US$3,190 million).

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

Human Resources

At September 30, 2011, the Group had a total of 26,341 employees.

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

BUSINESS REVIEW AND OUTLOOK

During the six months ended September 30, 2011, the worldwide PC market growth continued to recover on improving commercial demand that offset the contraction of consumer demand growth. However, uncertainties in the global economic recovery, the renewed debt crisis in Europe, and tablet PC cannibalization at entry-level consumer PC remained. During the period under review, Lenovo continued to benefit from its leading market position in China, its unique commercial segment exposure in Mature Markets, and its expanded footprint in consumer and Emerging Markets. The solid execution of the successful "Protect and Attack" strategy fueled the Group's balanced, strong growth in all geographic segments, and products and customer segment, and drove continuously strong performance in unit shipments, revenue and profit growth for the Group's PC business. The Group recorded 29.7 percent year-on-year unit shipments growth during the interim period against the global PC market growth at 3.9 percent, according to preliminary industry estimates. Lenovo's worldwide PC market share continued to increase in the past two consecutive quarters, reaching its historic high of 13.5 percent in fiscal quarter two, advancing its global PC ranking over the span of two consecutive quarters, to number three in the fiscal quarter one and achieved historic high number two position in fiscal quarter two. The Group's strong business momentum helped Lenovo return to the Fortune Global 500 rankings for the first time since 2008. Lenovo also became the largest PC company in emerging markets including China, largest worldwide commercial notebook company, number two worldwide desktop company and number three worldwide consumer PC company in quarter two.

During the period under review, the Group also completed the business combination of NEC PC business and Medion in the end of June and July respectively. Both companies performed better than their respective markets and their original forecast, and their contributions have been included for a full quarter from NEC joint venture as well as for two months from Medion during the fiscal quarter two. With a strong presence in the PC business, Lenovo has also expanded its footprint into mobile internet area. The Group's new organization, Mobile Internet and Digital Home (MIDH) Group, has been on track in rolling out products according to its plan during the interim period. Lenovo's feature phones unit shipments recorded 29.3 percent year-on-year growth for the fiscal first half and the Group's 3G smartphone sales recaptured growth momentum, especially the new A60 model launched in the fiscal quarter two, which received good market response and provided strong drive in unit shipments with 273.2 percent year-on-year growth for the interim period. In addition, Lenovo also launched in fiscal quarter two a new family of tablets, which also received encouraging initial market responses.

For the six months ended September 30, 2011, the Group's sales increased by 25.7 percent year-on-year to US$13,706 million. Sales of the Group's PC business were US$12,997 million, representing a year-on-year increase of 23.7 percent, while the sales of MIDH business, which was largely from mobile phone sales in China, increased by 24.6 percent year-on-year to US$497 million. Gross profit increased by 51.1 percent year-on-year to US$1,686 million. Gross margin for the interim period improved by 2.1 percentage points from the same period last year to 12.3 percent, benefited from the Group's effective margin management, strong unit shipments growth, increased mix of the Think branded products and key component price benefits. This improvement allowed the Group to re-invest for long-term growth. The Group made investments in product innovation, branding, MIDH business and emerging markets, with an objective to drive long-term sustainable growth and better profitability in the future. As a result, operating expenses increased by 50.6 percent year-on-year to US$1,397 million and expenses-to-revenue ratio was 10.2 percent. Even with these investments, it is expected that the ratio will continue to trend down benefiting from the scaling effect of fast growing revenue. The Group recorded profit before taxation of US$288 million and profit attributed to shareholders amounted to US$252 million, representing an increase of 63.0 percent and 92.3 percent, respectively, from the same corresponding period in the previous fiscal year.

Performance of Geographies

During the six months ended September 30, 2011, Lenovo achieved solid and balanced performance in all geographies where it has operations, mainly driven by the Group's leading market position in China, unique commercial PC segment exposure in Mature Markets and rapid expanding market share in Emerging Markets (excluding China). The Group continued to extend its leadership position in China's PC market and enhanced its profitability in the country. Emerging Markets (excluding China) maintained its faster-than-market growth momentum under the Group's growth strategy, while growth and profitability of Mature Markets further improved helped by the continued demand in the commercial PC segment. Lenovo ranked number one in two of the top three PC markets in the world, namely China and Japan, in fiscal quarter two.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Performance of Geographies *(continued)*

China accounted for 43.9 percent of the Group's total sales, of which sales from the PC and MIDH businesses accounted for 40.5 percent and 3.4 percent of the Group's total sales respectively. Although uncertainties in the macro environment remained as the government continued to implement measures to tighten market liquidity to curb inflation during the quarter, the PC market growth momentum continued in the past two fiscal quarters, and continued to grow faster than the worldwide PC market. This growth was driven by the relatively stronger demand in emerging cities. According to preliminary industry estimates, the China PC market grew by 14.6 percent year-on-year during the interim period and the total PC unit shipments in China surpassed the United States of America for the first time to become the largest PC market in the world. Lenovo's PC unit shipments in China continued to outperform the market by growing at 24.6 percent year-on-year. The Group's PC market share in China added 2.5 percentage points year-on-year to 31.6 percent. The market share gap between Lenovo and its major competitors further widened during the interim period. Lenovo's mobile handset business in China also posted strong unit shipments growth, of which feature phone unit shipments growth was 29.3 percent year-on-year. The Group's 3G smartphone unit shipments recaptured growth momentum, more than doubling from the same period last year. The Group also recorded encouraging performance in its newly launched tablet products, and the initial sales performance was encouraging.

Operating profit in China grew to US$296 million during the interim period and operating margin was 4.9 percent, increased by 0.3 percentage points year-on-year despite the increased investments in MIDH business. Operating margin for the China PC business was 6.0 percent, which was similar to that recorded same period last year.

Emerging Markets (excluding China) accounted for 17.0 percent of the Group's total sales. During the interim period, Lenovo's unit shipments in Emerging Markets (excluding China) grew by 41.5 percent year-on-year, which was about 3.3 times of the market growth rate. Thus the Group's market share increased by 1.5 percentage points from a year ago to 7.4 percent, according to preliminary industry estimates. Strong unit shipments growth and share gains were recorded across all key regions such as India (+51.5 percent), Russia (+40.3 percent), ASEAN (+36.7 percent), Latin America (+61.0 percent) and Brazil (+14.0 percent).

Operating loss in Emerging Markets (excluding China) was at US$45 million during the interim period as the Group continued to invest to drive share growth. However, certain key markets such as India, ASEAN and Hong Kong, Taiwan, and South Korea region have already been profitable. The Group will continue to invest to drive growth in this region to close to double-digit market share so that the scaling benefits will help improve profitability of the region.

Mature Markets accounted for 39.1 percent of the Group's total sales. The Group's performance in Mature Markets continued to benefit from strong corporate PC refreshment demand, enabling the Group to grow despite the negative growth of the overall market. Lenovo's unit shipments in Mature Markets continued to significantly outperform the overall market during the quarter. The Group's unit shipments in Mature Markets grew 32.3 percent year-on-year against a 6.1 percent decline for the overall market, according to preliminary industry estimates. In particular, unit shipments in North America and Japan increased by 26.5 and 171.2 percent from a year ago respectively. The Group consolidated a full quarter of sales performance of NEC PC joint venture and two months' performance of Medion in the fiscal quarter two, after the successful business combination of NEC PC business and Medion. These two entities helped improve the Group's already good performance in Japan and Western Europe during the interim period. As a result, Lenovo achieved a record high market share in Mature Markets of 7.9 percent, which was up by 2.3 percentage points year-on-year with recorded historic high market shares in North America (6.9 percent), Japan (17.2 percent), and Western Europe (6.9 percent) during the period under review. Lenovo has also become the top 5 vendor in U.S. market in fiscal quarter two.

Operating profit in Mature Markets further improved to US$171 million during the interim period and operating margin was 3.2 percent, an increase of 1.7 percentage points year-on-year. The Group was able to record operating profit for all regions in Mature Markets.

Performance of Product Groups

During the six months ended September 30, 2011, Lenovo recorded strong and balanced unit shipments growth in both commercial and consumer PCs. Lenovo's commercial PC unit shipments grew 28.5 percent year-on-year and its market share in the worldwide commercial PC market share increased by 2.8 percentage points from a year ago to 16.7 percent, according to preliminary industry estimates. Lenovo achieved the number 2 position – an historic high – in the global commercial PC segment in the fiscal quarter two. During the interim period under review, the Think Product Group, which mainly targets commercial customers, announced the ThinkPad Edge 14-inch E425 and 15.6-inch E525, which are designed for small-to-medium (SMB) business customers and features a slimmer, more polished design, complemented by powerful, reliable technology with voice and video capability. It also added to its popular all-in-one desktop PC lineup with the introduction of the ThinkCentre M71, designed for business, schools and government. Meanwhile, the Group's consumer PC business also recorded strong shipment growth of of 31.8 percent year-on-year and its market share in the worldwide consumer PC market was up by 2.2 percentage points from the same corresponding period in last fiscal year to 9.4 percent. Thus Lenovo became the third largest company in the global consumer PC segment in fiscal quarter two. The Idea Product Group, which primarily focuses on consumer and entry SMB products, announced three new luxury notebooks – the IdeaPad U300s ultrabook, and the U300 and U400 notebooks, designed for fashion-minded customer, who want a product that is stylish, yet powerful and productive. The Group also launched IdeaCentre B520 AIO desktop PC, which enthusiasts will crave due to the speed and performance of this large-screen, optimized AIO.

Lenovo also achieved strong, balanced growth and market share gains for both notebook and desktop PCs during the interim period. Unit shipments for the Group's notebook and desktop PCs grew by 29.7 percent and 29.9 percent year-on-year, respectively. Lenovo's market share in the worldwide notebook PC market increased 2.3 percentage points from a year ago to 12.7 percent, while its worldwide desktop PC market share increased by 3.0 percentage points from the same corresponding period last fiscal year to 13.0 percent, according to preliminary industry estimates. Lenovo became the largest company in the global commercial notebook and the second largest desktop PC players in the fiscal quarter two.

MIDH worldwide business accounted for 3.6 percent of the Group's total sales and, as stated, Lenovo's mobile handset business posted strong unit shipments growth during the interim period. This was driven by the continued strong mobile handset demand in China. Lenovo's market share in China's feature phone market increased by 1.1 percentage points from a year ago to 6.2 percent. The Group's 3G smartphone recaptured its growth momentum, especially the newly launched entry level A60 model, which showed strong demand since its launch in August. In addition, the Group's tablet products also attracted encouraging market responses after the successful launches of its first tablet, LePad. In July 2011, the Group announced the launch of a new family of tablets – the IdeaPad Tablet K1 for consumers, the ThinkPad Tablet for business customers, and the IdeaPad Tablet P1 for home and office use, as well as the new entry level model IdeaPad Tablet A1. The initial sales responses for these new tablet products were encouraging.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Outlook

Although the worldwide PC market has shown marginal improvement during the interim period, challenges to worldwide PC demand remains such as the pace of global economic recovery and the on-going debt crisis in Western Europe. Nevertheless, Lenovo remains optimistic that its growth momentum will continue as it has the right strategy at the right time in the market, innovative products, strong culture, and a talented team. The Group is fully committed to the PC industry and is strong where the market is strong. The Group will continue its successful "Protect and Attack" strategy in order to drive balanced strong unit shipments growth, business scale expansion and profitability enhancement even with increased investments in innovation and branding.

The China PC market will continue to show gradual improvement and maintain its growth premium against the global PC market in coming quarters, benefiting from China's healthy economic growth, and the relatively low PC penetration rates in emerging cities. Lenovo will endeavor to further extend its PC market share lead at stable profitability. The Group will continue to drive its strong growth momentum in Emerging Markets (excluding China) under its attack strategy with an aim to capture market share, and improve profitability as the Group expands its market share close to double-digit shares in key regions. Meanwhile, Lenovo believes that growth in the commercial PC demand will remain on track and corporate PC refresh cycle will continue to drive PC industry growth in Mature Markets. Lenovo is well positioned to leverage this market trend. The Group will continue to focus on improving profitability in Mature Markets by protecting its relationship business and attacking the growth opportunity in both consumer and SMB PC segments. Nevertheless, the recent flood in Thailand impacting global supply of hard disc drives would likely affect the PC supply in the short term, the Group will monitor the situation closely and take necessary actions to mitigate the potential impact.

Lenovo will continue to invest in product innovation for its customers. The Group will continue to expand its pursuit of opportunities in the Mobile Internet space through new products and creating a great user experience. Lenovo is optimistic about the new tablet products as well as the new innovations in its product pipeline.

Lenovo also launched a new global branding campaign – "Lenovo: For Those Who Do" – which is now in full swing in key markets to increase brand awareness and consideration, as well as to drive consumers demand. Lenovo will continue to invest in building a global brand that will become a strength that makes the Group more competitive in consumer sales, and improves its profitability over time.

The Group will continue to refine its business model and deliver efficient growth, building on the great success in Relationship sales and continuing to improve the speed of its Transactional model to take advantage of market opportunities. The Group is growing in the enterprise and the consumer space – and our customers know we are fully committed to the PC market for the long term. At the same time, Lenovo will continue to invest in innovative products that will help drive the convergence of technologies and services across all four screens – smartphones, tablets, PCs and smart TV and deliver a great user experience across all platforms.

Lenovo has successfully completed business combination of NEC PC business and Medion during the interim period, which have already contributed to the growth of the Group as planned. Given its strong balance sheet, Lenovo will continue to actively look for inorganic growth opportunities within the PC industry, which would supplement its organic growth strategy to accelerate future expansion. Lenovo will build on that success by continuing to focus on scaling our growth and controlling costs, thereby enhancing its competitiveness.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

(A) Share Option Schemes

At the Extraordinary General Meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the old share option scheme (the "Old Option Scheme"). Although no further options may be granted under the Old Option Scheme, all remaining provisions will remain in force to govern the exercise of all the options previously granted.

Details of the movement of share options of the Company for the six months ended September 30, 2011 were as follows:

	Options held at April 1, 2011	Options exercised during the period	Options lapsed during the period	Options held at September 30, 2011	Exercise price HK$	Grant date (mm.dd.yyyy)	Exercise period (mm.dd.yyyy)
Old Option Scheme							
Continuous contract employees	1,380,000	1,000,000	380,000	–	4.072	04.16.2001	04.16.2001 to 04.15.2011
	27,290,000	12,454,000	14,836,000	–	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme							
Director							
Ms. Ma Xuezheng	406,000	–	–	406,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Continuous contract employees	7,492,000	166,000	–	7,326,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	24,455,000	372,000	–	24,083,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	67,537,051	2,398,000	–	65,139,051	2.545	04.27.2004	04.27.2004 to 04.26.2014
Other participants	9,538,000	282,000	–	9,256,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	1,540,000	–	–	1,540,000	2.245	04.26.2003	04.26.2003 to 04.25.2013

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 was HK$4.789.

2. 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 was HK$5.178.

3. No options are granted and/or cancelled during the period.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(B) Long-Term Incentive Program

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

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

(i) Share Appreciation Rights ("SARs")

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

(ii) Restricted Share Units ("RSUs")

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

(iii) Performance Based Share Units

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

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

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

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

During the period, CEO, senior management and selected employees received an annual award comprised of SARs and RSUs.

Awards outstanding for executive and non-executive directors as of September 30, 2011 under the LTI program are presented below.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(B) Long-Term Incentive Program *(continued)*

The total number of awards of the members of the Board, including the Chairman of the Board and CEO, under the LTI Program as disclosed pursuant to Securities and Future Ordinance is set out below.

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2011 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ lapsed during the period	As at September 30, 2011 (unvested)	Total outstanding as at September 30, 2011	Vesting period (mm.dd.yyyy)
Mr. Liu Chuanzhi	SAR	05/06	3.15	–	–	–	–	–	–	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.17	13,875,000	–	4,625,000	–	–	9,250,000	18,500,000	05.25.2010 – 05.25-2013
	SAR	09/10	5.23	3,953,361	–	–	–	–	3,953,361	5,930,042	02.08.2011 – 02.08.2013
	SAR	10/11	4.92	6,644,127	–	–	–	–	6,644,127	6,644,127	02.21.2012 – 02.21.2014
	SAR	11/12	4.30	–	6,837,282	6,837,282	–		–	6,837,282	06.16.2011
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
Mr. Yang Yuanqing	SAR	06/07	2.35	–	–	–	–	–	–	13,385,665	06.01.2007 – 06.01.2010
	SAR	07/08	3.94	1,500,502	–	1,500,502	–	–	–	6,002,009	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	1,969,927	–	984,964	–	–	984,963	3,939,855	06.01.2009 – 06.01.2012
	SAR	09/10	3.17	17,100,000	–	5,700,000	–	–	11,400,000	22,800,000	05.25.2010 – 05.25.2013
	SAR	09/10	5.23	4,947,117	–	–	–	–	4,947,117	6,596,156	02.08.2011 – 02.08.2014
	SAR	10/11	4.92	11,030,219	–	–	–		11,030,219	11,030,219	02.21.2012 – 02.21.2015
	RSU	07/08	3.94	1,681,100	–	1,681,100	–	–	–	–	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	525,314	–	262,657	–	–	262,657	262,657	06.01.2009 – 06.01.2012
	RSU	09/10	3.17	7,650,000	–	2,550,000	–	–	5,100,000	5,100,000	05.25.2010 – 05.25.2013
	RSU	09/10	5.23	3,710,338	–	–	–	–	3,710,338	3,710,338	02.08.2011 – 02.08.2014
	RSU	10/11	4.92	7,878,728	–	–	–	–	7,878,728	7,878,728	02.21.2012 – 02.21.2015

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(B) Long-Term Incentive Program *(continued)*

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2011 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ lapsed during the period	As at September 30, 2011 (unvested)	Total outstanding as at September 30, 2011	Vesting period (mm.dd.yyyy)
Mr. Zhu Linan	SAR	05/06	3.15	–	–	–	–	–	–	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Ms. Ma Xuezheng	SAR	07/08	5.62	173,282	–	173,282	–	–	–	693,130	06.01.2008 – 06.01.2011
	SAR	08/09	5.88	65,326	–	65,326	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	175,864	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	07/08	5.62	57,760	–	57,760	–	–	–	–	06.01.2008 – 06.01.2011
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Mr. William O. Grabe	SAR	05/06	3.15	–	–	–	–	–	–	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
	RSU (Deferral)	11/12	4.30	–	40,552	40,552	–	–	–	–	Note
	RSU (Deferral)	11/12	4.56	–	38,452	38,452	–	–	–	–	Note

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(B) Long-Term Incentive Program *(continued)*

				Number of units							
Name	Award type	Fiscal Year of Award	Effective price (HK$)	As at April 1, 2011 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ lapsed during the period	As at September 30, 2011 (unvested)	Total outstanding as at September 30, 2011	Vesting period (mm.dd.yyyy)
Dr. Wu Yibing	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Professor Woo Chia-Wei	SAR	05/06	3.15	–	–	–	–	–	–	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	–	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
	RSU (Deferral)	11/12	4.30	–	36,047	36,047	–	–	–	–	Note
	RSU (Deferral)	11/12	4.56	–	34,180	34,180	–	–	–	–	Note
Mr. Ting Lee Sen	SAR	05/06	3.15	–	–	–	–	–	564,000	564,000	05.01.2006 – 05.01.2008
	SAR	06/07	2.99	–	–	–	–	–	390,000	390,000	06.01.2007 – 06.01.2009
	SAR	07/08	3.94	–	–	–	–	–	–	297,000	06.01.2008 – 06.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES *(continued)*

(B) Long-Term Incentive Program *(continued)*

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2011 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ lapsed during the period	As at September 30, 2011 (unvested)	Total outstanding as at September 30, 2011	Vesting period (mm.dd.yyyy)
Dr. Tian Suning	SAR	07/08	5.14	–	–	–	–	–	–	151,950	09.01.2008 – 09.01.2010
	SAR	08/09	5.88	65,327	–	65,327	–	–	–	195,980	06.01.2009 – 06.01.2011
	SAR	09/10	3.88	175,864	–	87,932	–	–	87,932	263,796	08.07.2010 – 08.07.2012
	SAR	09/10	4.47	25,442	–	–	–	–	25,442	38,163	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	08/09	5.88	26,130	–	26,130	–	–	–	–	06.01.2009 – 06.01.2011
	RSU	09/10	3.88	79,938	–	39,969	–	–	39,969	39,969	08.07.2010 – 08.07.2012
	RSU	09/10	4.47	11,565	–	–	–	–	11,565	11,565	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014
Mr. Nicholas C. Allen	SAR	09/10	4.47	71,562	–	–	–	–	71,562	107,343	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	237,001	–	79,000	–	–	158,001	237,001	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	323,000	–	–	–	323,000	323,000	08.19.2012 – 08.19.2014
	RSU	09/10	4.47	32,528	–	–	–	–	32,528	32,528	11.30.2010 – 11.30.2012
	RSU	10/11	4.59	118,501	–	39,500	–	–	79,001	79,001	08.20.2011 – 08.20.2013
	RSU	11/12	4.56	–	153,810	–	–	–	153,810	153,810	08.19.2012 – 08.19.2014

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

DIRECTORS' INTERESTS

As at September 30, 2011, 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

		Capacity and number of shares/ underlying shares held				
Name of Director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate long/short position**	**Approximate percentage of shareholding** *(Note 3)*
Mr. Liu Chuanzhi	Ordinary shares	24,724,062	976,000	–	25,700,062	
	Share awards	32,521,149	–	–	32,521,149	
					58,221,211(L)	0.58%
Mr. Yang Yuanqing	Ordinary shares	69,021,920	–	797,324,152 *(Note 4)*	866,346,072	
	Share awards	80,705,627	–	–	80,705,627	
					947,051,699(L)	9.24%
	Ordinary shares	–	–	797,324,152	797,324,152(S) *(Note 5)*	7.78%
Mr. Zhu Linan	Ordinary shares	4,161,138	–	–	4,161,138	
	Share awards	2,593,285	–	–	2,593,285	
					6,754,423(L)	0.07%
Ms. Ma Xuezheng	Ordinary shares	16,003,247	–	7,240,000	23,243,247	
	Share options	406,000	–	–	406,000	
	Share awards	1,947,483	–	–	1,947,483	
					25,596,730(L)	0.25%
Mr. William O. Grabe	Ordinary shares	1,052,093	–	–	1,052,093	
	Share awards	2,631,737	–	–	2,631,737	
					3,683,830(L)	0.04%
Dr. Wu Yibing	Ordinary shares	125,690	–	–	125,690	
	Share awards	1,146,305	–	–	1,146,305	
					1,271,995(L)	0.01%
Professor Woo Chia-Wei	Ordinary shares	971,976	–	–	971,976	
	Share awards	2,627,465	–	–	2,627,465	
					3,599,441(L)	0.03%

DIRECTORS' INTERESTS *(continued)*

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

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/ underlying shares held: Personal interests	Family interests	Corporate interests	Aggregate long position	Approximate percentage of shareholding *(Note 3)*
Mr. Ting Lee Sen	Ordinary shares	519,960	–	–	519,960	
	Share awards	2,593,285	–	–	2,593,285	
					3,113,245(L)	0.03%
Dr. Tian Suning	Ordinary shares	256,130	–	–	256,130	
	Share awards	1,494,235	–	–	1,494,235	
					1,750,365(L)	0.02%
Mr. Nicholas C. Allen	Ordinary shares	55,926	–	–	55,926	
	Share awards	932,683	–	–	932,683	
					988,609(L)	0.01%

(L) denotes long position (S) denotes short position

Notes:

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

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

3. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.

4. The shares are held by Sureinvest Holdings Limited which is wholly-owned by Mr. Yang Yuanqing. Therefore, Mr. Yang is taken to have an interest in 797,324,152 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' Interests".

5. The 797,324,152 shares represent a short position held by Sureinvest Holdings Limited which is wholly-owned by Mr. Yang Yuanqing.

Save as disclosed above, as at September 30, 2011, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at September 30, 2011, the following persons (other than the directors and chief executive of the Company as disclosed above) had an interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

		Capacity and number of shares/ underlying shares held				
Name	**Long position/ short position**	**Beneficial owner**	**Corporate interests**	**Other interests**	**Aggregate long and short positions**	**Approximate percentage of shareholding** *(Note 5)*
Legend Holdings Limited*	Long position	2,667,636,724	1,600,243,469 *(Note 1)*	–	4,267,880,193	41.63%
	Short position	–	233,500,000 *(Note 1)*	–	233,500,000	2.28%
Beijing Lian Chi Zhi Yuan Management Consulting Center* *(Note 2)*	Long position	–	4,267,880,193	–	4,267,880,193	41.63%
	Short position	–	233,500,000	–	233,500,000	2.28%
Beijing Lian Chi Zhi Tung Management Consulting Ltd.* *(Note 3)*	Long position	–	4,267,880,193	–	4,267,880,193	41.63%
	Short position	–	233,500,000	–	233,500,000	2.28%
Right Lane Limited	Long position	1,504,297,247	95,946,222	–	1,600,243,469	15.61%
	Short position	233,500,000	–	–	233,500,000	2.28%
Sureinvest Holdings Limited *(Note 4)*	Long position	797,324,152	–	–	797,324,152	7.78%
	Short position	–	–	797,324,152	797,324,152	7.78%

* Direct transliteration of its Chinese company name

Notes:

1. The shares were held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited ("Legend Holdings"), and its subsidiaries.

2. Beijing Lian Chi Zhi Yuan Management Consulting Center owns 35% interests in Legend Holdings. Therefore, it is taken to be interested in the shares in which they are interested under the SFO.

3. Beijing Lian Chi Zhi Tung Management Consulting Ltd. is the general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center. Therefore, it is taken to be interested in the shares in which they are interested under the SFO.

4. Sureinvest Holdings Limited is wholly-owned by Mr. Yang Yuanqing. This interest is also included as a corporate interest of Mr. Yang Yuanqing in the above section headed "Directors' Interests".

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

Save as disclosed above, as at September 30, 2011, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

During the six months ended September 30, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FACILITY AGREEMENT WITH COVENANT ON CONTROLLING SHAREHOLDER

The Company entered into a facility agreement with a syndicate of banks on February 2, 2011 (the "Facility Agreement") for a term loan facility of up to US$500 million (the "Facility"). The final maturity date of the Facility will fall on the date which is 60 months after February 2, 2011. The Facility Agreement includes, inter alia, terms to the effect that it will be an event of default if Legend Holdings Limited, the controlling shareholder of the Company: (i) is not or ceases to be the direct or indirect beneficial owner of 20% or more of the issued share capital of the Company; or (ii) is not or ceases to be the single largest shareholder in the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.8 cents (2010/11: HK2.6 cents) per ordinary share for the six months ended September 30, 2011, absorbing an aggregate amount of approximately HK$392.2 million (approximately US$50.5 million) (2010/11: approximately HK$252.6 million (approximately US$32.6 million)), to shareholders whose names appear on the Register of Members of ordinary shares of the Company on Wednesday, November 23, 2011. The interim dividend will be paid on Wednesday, November 30, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Monday, November 21, 2011 to Wednesday, November 23, 2011, 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 4:30 p.m. on Friday, November 18, 2011.

CHANGES IN DIRECTORS' EMOLUMENTS

Pursuant to Rule 13.51(B)1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes in directors' emoluments of the Company subsequent to the date of the 2010/11 Annual Report or the latest pertaining publication of the Company (whichever later) are set out below:

Director	**Details of Changes**
Mr. Yang Yuanqing	For the financial year ending March 31, 2012, Mr. Yang Yuanqing is remunerated with an annual base salary of US$1,083,000, a target bonus of US$2,166,000 and an award of 11,030,219 units of SARs and 7,878,728 units of RSUs under the LTI Program of the Company.
Non-Executive Directors	For the financial year ending March 31, 2012, the remuneration for a non-executive director is increased from US$220,000 to US$260,000, comprising cash director's fees of US$80,000 and equity rights with a value of US$180,000.

Save as disclosed above, there is no other information to be disclosed pursuant to Rule 13.51(B)1 of the Listing Rules.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2011. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2011, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules save for the deviation under Code A.4.1 as disclosed in the 2010/11 annual report of the Company and that the Chairman of the Board was unable to attend the Company's annual general meeting which was held on July 22, 2011 (as required under Code E.1.2) as he had an engagement that was important to the Company's business.

MODEL CODE

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

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

By Order of the Board
Liu Chuanzhi
Chairman

Beijing, November 2, 2011

CORPORATE INFORMATION

Honorary Chairman
Mr. Liu Chuanzhi (appointed with effect from November 3, 2011)

Board of Directors
Chairman and executive director
Mr. Yang Yuanqing (appointed as Chairman with effect from November 3, 2011)

Non-executive directors
Mr. Zhu Linan
Ms. Ma Xuezheng
Mr. William O. Grabe
Dr. Wu Yibing
Mr. Zhao John Huan (appointed with effect from November 3, 2011)

Independent non-executive directors
Professor Woo Chia-Wei
Mr. Ting Lee Sen
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei (appointed with effect from September 28, 2011)

Chief Financial Officer
Mr. Wong Wai Ming

Company Secretary
Mr. Mok Chung Fu

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

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

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

Share Registrar
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East, 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: 992
American Depositary Receipts: LNVGY

Website
www.lenovo.com