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## Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

### 2004/05 FIRST QUARTER RESULTS ANNOUNCEMENT

#### QUARTERLY RESULTS

The Directors of Lenovo Group Limited (the “Company”) are pleased to announce that the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended 30 June 2004 together with comparative figures for the corresponding period of last year, are as follows:

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	3 months ended 30 June 2004 (unaudited) HK\$'000	3 months ended 30 June 2003 (unaudited) HK\$'000
Turnover	3	<u>5,877,910</u>	<u>5,341,739</u>
Earnings before interest, taxation depreciation and amortisation expenses		352,452	307,328
Depreciation expenses		(51,425)	(48,197)
Amortisation of intangible assets		(8,430)	(6,793)
Impairment of assets		(31,001)	–
Gains on disposal of investments		54,088	–
Finance income		20,751	21,045
Profit from operations	4	<u>336,435</u>	<u>273,383</u>
Finance costs		(724)	–
		335,711	273,383
Share of losses of jointly controlled entities		(4,020)	(8,629)
Share of profits of associated companies		1,805	5,109
Profit before taxation		<u>333,496</u>	<u>269,863</u>
Taxation	5	(11,312)	3,405
Profit after taxation		<u>322,184</u>	<u>273,268</u>
Minority interests		14,641	4,988
Profit attributable to shareholders		<u>336,825</u>	<u>278,256</u>
Earnings per share – basic	7	<u>4.50 HK cents</u>	<u>3.73 HK cents</u>
Earnings per share – fully diluted	7	<u>4.50 HK cents</u>	<u>3.72 HK cents</u>

## CONSOLIDATED BALANCE SHEET

	As at 30 June 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
<b>Non-current assets</b>		
Intangible assets	585,691	646,986
Tangible fixed assets	911,120	987,272
Construction-in-progress	266,854	260,377
Investments in jointly controlled entities	209,541	124,124
Investments in associated companies	51,407	112,682
Investment securities	91,317	75,982
Deferred tax assets	35,234	34,718
	<hr/> 2,151,164	<hr/> 2,242,141
<b>Current assets</b>		
Inventories	1,208,993	1,393,018
Trade receivables	1,496,241	1,230,944
Notes receivable	424,565	520,321
Deposits, prepayments and other receivables	471,605	301,513
Tax recoverable	–	4,033
Cash and cash equivalents	3,017,478	2,650,071
	<hr/> 6,618,882	<hr/> 6,099,900
<b>Current liabilities</b>		
Trade payables	2,103,237	2,155,057
Notes payable	300,977	356,531
Accruals and other payables	705,887	616,897
Amount due to jointly controlled entities	110,143	108,471
Tax payable	5,178	5,031
Short-term bank loan	180,500	–
Current portion of long-term liabilities	85,556	55,453
	<hr/> 3,491,478	<hr/> 3,297,440
<b>Net current assets</b>	<hr/> 3,127,404	<hr/> 2,802,460
<b>Total assets less current liabilities</b>	<hr/> <b>5,278,568</b>	<hr/> <b>5,044,601</b>
<b>Financed by:</b>		
Share capital	186,826	186,890
Reserves	4,646,335	4,301,834
	<hr/> 4,833,161	<hr/> 4,488,724
<b>Shareholders' funds</b>	4,833,161	4,488,724
<b>Minority interests</b>	23,963	29,330
<b>Long-term liabilities</b>	<hr/> 421,444	<hr/> 526,547
	<hr/> <b>5,278,568</b>	<hr/> <b>5,044,601</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>3 months ended 30 June 2004 (unaudited) HK\$'000</b>	3 months ended 30 June 2003 (unaudited) HK\$'000
Net cash inflow from operating activities	<b>292,436</b>	210,268
Net cash outflow from investing activities	<b>(100,902)</b>	(62,508)
Net cash inflow/(outflow) from financing activities	<b>175,744</b>	(20,124)
	<hr/>	<hr/>
Increase in cash and cash equivalents	<b>367,278</b>	127,636
Effect of foreign exchange rate changes	<b>129</b>	(11)
Cash and cash equivalents at the beginning of the period	<b>2,650,071</b>	2,808,323
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>3,017,478</b>	2,935,948
	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Surplus arising on consolidation (unaudited) HK\$'000	Exchange reserve (unaudited) HK\$'000	Investment revaluation reserve (unaudited) HK\$'000	Share redemption reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
As at 1 April 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Deficit in fair market value of investment securities	-	-	-	-	(173)	-	-	(173)
Exchange difference	-	-	-	118	-	-	-	118
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net gains and losses not recognised in the profit and loss account	-	-	-	118	(173)	-	-	(55)
Profit for the period	-	-	-	-	-	-	336,825	336,825
Reserves written off on disposal of subsidiaries	-	-	-	(2,786)	-	-	-	(2,786)
Reserves realised on disposal of investment securities	-	-	-	-	(4,392)	-	-	(4,392)
Impairment of investments	-	-	-	-	19,601	-	-	19,601
Exercise of share options	124	11,213	-	-	-	-	-	11,337
Repurchase of shares	(188)	(16,093)	-	-	-	188	-	(16,093)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2004	<b>186,826</b>	<b>4,757,646</b>	<b>27,871</b>	<b>1,913</b>	<b>9,060</b>	<b>3,086</b>	<b>(153,241)</b>	<b>4,833,161</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 1 April 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Surplus in fair market value of investment securities	-	-	-	-	9,987	-	-	9,987
Exchange difference	-	-	-	(11)	-	-	-	(11)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net gains and losses not recognised in the profit and loss account	-	-	-	(11)	9,987	-	-	9,976
Profit for the period	-	-	-	-	-	-	278,256	278,256
Repurchase of shares	(234)	-	-	-	-	234	(20,124)	(20,124)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2003	<b>186,700</b>	<b>4,734,055</b>	<b>27,871</b>	<b>4,300</b>	<b>(4,509)</b>	<b>2,823</b>	<b>(494,611)</b>	<b>4,456,629</b>
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Notes:

## 1. Basis of preparation

The Directors are responsible for the preparation of the Group's unaudited quarterly financials. These unaudited quarterly financials have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. These condensed accounts should be read in conjunction with the audited accounts for the year ended 31 March 2004.

## 2. Principal accounting policies

The principal accounting policies and methods of calculations used in the preparation of these unaudited quarterly financials are consistent with those used in the annual accounts for the year ended 31 March 2004.

## 3. Turnover, revenue and segment information

### 3A. Primary reporting format – business segments

(i) For the three months ended 30 June 2004:

	Corporate IT business (unaudited) HK\$'000	Consumer IT business (unaudited) HK\$'000	Handheld device business (unaudited) HK\$'000	Other business (unaudited) HK\$'000	Total (unaudited) HK\$'000
<b>Profit and loss account</b>					
Turnover	<u>2,985,031</u>	<u>2,069,797</u>	<u>646,095</u>	<u>176,987</u>	<u>5,877,910</u>
Segment operating results	<u>170,617</u>	<u>147,020</u>	<u>900</u>	<u>(19,879)</u>	298,658
Amortisation of goodwill					(6,061)
Impairment of assets					(31,001)
Gains on disposal of investments					54,088
Finance income					20,751
Finance costs					(724)
Contribution to operating profit					335,711
Share of losses of jointly controlled entities					(4,020)
Share of profits of associated companies					1,805
Profit before taxation					333,496
Taxation					(11,312)
Profit after taxation					322,184
Minority interests					14,641
Profit attributable to shareholders					<u>336,825</u>

(ii) For the three months ended 30 June 2003:

	Corporate IT business (unaudited) HK\$'000	Consumer IT business (unaudited) HK\$'000	Handheld device business (unaudited) HK\$'000	Other business (unaudited) HK\$'000	Total (unaudited) HK\$'000
Profit and loss account					
Turnover	<u>2,578,273</u>	<u>2,045,080</u>	<u>400,521</u>	<u>317,865</u>	<u>5,341,739</u>
Segment operating results	<u>167,073</u>	<u>146,334</u>	<u>(24,785)</u>	<u>(31,614)</u>	257,008
Amortisation of goodwill					(4,670)
Finance income					21,045
Finance costs					–
Contribution to operating profit					273,383
Share of losses of jointly controlled entities					(8,629)
Share of profits of associated companies					5,109
Profit before taxation					269,863
Taxation					3,405
Profit after taxation					273,268
Minority interests					4,988
Profit attributable to shareholders					<u>278,256</u>

### 3B. Secondary reporting format – geographical segments

As over 90% of the Group's business operations are located in the People's Republic of China, no geographical segment analysis is presented.

#### 4. Profit from operations

	<b>3 months ended 30 June 2004 (unaudited) HK\$'000</b>	3 months ended 30 June 2003 (unaudited) HK\$'000
(a) Turnover	<b>5,877,910</b>	5,341,739
Cost of sales	<b>(4,954,820)</b>	(4,507,011)
	<hr/>	<hr/>
Gross profit	<b>923,090</b>	834,728
Finance income	<b>20,751</b>	21,045
Gains on disposal of investments	<b>54,088</b>	–
Impairment of assets	<b>(31,001)</b>	–
Distribution expenses	<b>(418,903)</b>	(385,938)
Administrative expenses	<b>(94,943)</b>	(92,298)
Other operating expenses	<b>(108,217)</b>	(97,361)
Amortisation of intangible assets	<b>(8,430)</b>	(6,793)
Total operating expenses ( <i>see (b)</i> )	<b>(630,493)</b>	(582,390)
	<hr/>	<hr/>
Profit from operations	<b>336,435</b>	273,383
	<hr/>	<hr/>
(b) Analysis of operating expenses by nature:		
Selling expenses	<b>(156,322)</b>	(144,050)
Promotional and advertising expenses	<b>(85,948)</b>	(84,236)
Staff costs	<b>(233,596)</b>	(224,023)
Other expenses	<b>(146,197)</b>	(123,288)
Amortisation of intangible assets	<b>(8,430)</b>	(6,793)
	<hr/>	<hr/>
Total operating expenses	<b>(630,493)</b>	(582,390)
	<hr/>	<hr/>

#### 5. Taxation

	<b>3 months ended 30 June 2004 (unaudited) HK\$'000</b>	3 months ended 30 June 2003 (unaudited) HK\$'000
Taxation outside Hong Kong	<b>11,680</b>	6,084
Deferred taxation	<b>(516)</b>	(9,720)
	<hr/>	<hr/>
	<b>11,164</b>	(3,636)
Share of taxation attributable to:		
jointly controlled entities	<b>26</b>	84
associated companies	<b>122</b>	147
	<hr/>	<hr/>
	<b>11,312</b>	(3,405)
	<hr/>	<hr/>

#### 6. Dividend

The Directors do not recommend the payment of any dividend for the quarter under review (2003/04: Nil).

## 7. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	<b>3 months ended 30 June 2004 (unaudited)</b>	3 months ended 30 June 2003 (unaudited)
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	<u>336,825</u>	<u>278,256</u>
Weighted average number of shares for the purposes of basic earnings per share	7,478,977,251	7,470,491,031
Effect of potential dilutive shares	<u>8,827,594</u>	<u>9,832,431</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>7,487,804,845</u>	<u>7,480,323,462</u>

## 8. Ageing analysis

Ageing analysis of trade receivables as at 30 June 2004 is as follow:

	<b>As at 30 June 2004 (unaudited) HK\$'000</b>	As at 31 March 2004 (audited) HK\$'000
0-30 days	1,233,249	944,212
31-60 days	77,050	84,481
61-90 days	19,358	20,862
Over 90 days	<u>166,584</u>	<u>181,389</u>
	<u>1,496,241</u>	<u>1,230,944</u>

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

Ageing analysis of trade payables as at 30 June 2004 is as follow:

	<b>As at 30 June 2004 (unaudited) HK\$'000</b>	As at 31 March 2004 (audited) HK\$'000
0-30 days	1,567,468	1,791,869
31-60 days	335,793	210,993
61-90 days	69,766	27,554
Over 90 days	<u>130,210</u>	<u>124,641</u>
	<u>2,103,237</u>	<u>2,155,057</u>

## 9. Condensed balance sheet of the Company

	As at 30 June 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
Tangible fixed assets	28,174	32,115
Investments	2,327,875	2,327,875
Current assets	4,400,119	4,408,126
Current liabilities	127,099	130,700
Net current assets	4,273,020	4,277,426
Total assets less current liabilities	<u>6,629,069</u>	<u>6,637,416</u>
Share capital	186,826	186,890
Retained earnings	1,681,511	1,685,102
Reserves	4,760,732	4,765,424
	<u>6,629,069</u>	<u>6,637,416</u>

## FINANCIAL REVIEW

### Results

For the three months ended 30 June 2004, the Group achieved a quarterly turnover of approximately HK\$5,878 million. It represented an increase of 10.04% compared with the turnover of HK\$5,342 million recorded for the same period last year. Profit attributable to shareholders rose to approximately HK\$337 million during the quarter, representing an increase of 21.05% against HK\$278 million recorded in the same period last year. Both of basic earnings per share and fully diluted earnings per share were 4.50 HK cents, representing increases of 20.64% and 20.84% respectively when compared with the same period last year.

### Segment Results

During the quarter, turnover of corporate IT business grew 15.78% over the same period last year to HK\$2,985 million and segment operating profit increased by 2.12% to HK\$171 million. As for consumer IT business, turnover increased by 1.21% to HK\$2,070 million and segment operating profit increased by 0.47% to HK\$147 million over the same period last year. The turnover of handheld device business increased by 61.31% to HK\$646 million, segment operating loss of HK\$25 million was recorded last year while segment operating profit of HK\$0.9 million was recorded this year. Quarterly turnover of other businesses (IT services and contract manufacturing business) decreased by 44.32% to HK\$177 million, mainly caused by deconsolidation of the contract manufacturing business since 1 June 2004, with segment operating loss reduced to HK\$20 million, when compared with the same period last year.

### Gains on disposal of investments

The Group recorded a net profit of HK\$54 million on disposal of investments during the quarter. The gain was mainly from the disposal of an associated company.

### Impairment of assets

Impairment losses of HK\$20 million and HK\$11 million for investment securities and goodwill arising from business combination were charged to the consolidated profit and loss account respectively.



## **Capital expenditure**

The Group incurred capital expenditures of HK\$56 million during the quarter ended 30 June 2004, mainly for acquisition of fixed assets, injection into construction-in-progress and optimisation of the Group's information technology systems.

## **Liquidity and financial resources**

As at 30 June 2004, total assets of the Group amounted to HK\$8,770 million which was financed by shareholders' funds of HK\$4,833 million, minority interests of HK\$24 million, long-term and current liabilities of HK\$3,913 million. The current ratio of the Group was 1.90.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 30 June 2004, cash and cash equivalents of the Group totalled at HK\$3,017 million, of which about 18% were in Hong Kong dollars, 31% in US dollars and 51% in Renminbi.

The Group has consistently been in a very liquid position and has also arranged credit facilities for contingency purposes. As at 30 June 2004, the Group's total available credit facilities amounted to HK\$3,461 million, of which HK\$1,578 million was in trade line, HK\$812 million in short term and revolving money market facilities and HK\$1,071 million in foreign currency contracts and options. As at 30 June 2004, the facility drawn down was HK\$462 million in trade line, HK\$181 million in short term and revolving money market facilities, and HK\$468 in foreign currency contracts and options. The Group consistently adopts a hedging policy for business transactions to minimize the risk of fluctuation from exchange rates on daily operations.

The Group's outstanding bank loan as at 30 June 2004 was HK\$181 million. When compared with shareholders' funds of HK\$4,833 million, the Group's gearing ratio was 0.04. There were no assets held under finance lease during the period and as at the period end.

## **Contingent liabilities**

The Group had no material contingent liabilities as at 30 June 2004.

## **Employees**

As at 30 June 2004, the Group had a total of 9,663 employees, 9,601 of whom were employed in Chinese mainland and 62 were employed in Hong Kong and overseas.

The Group implemented remuneration policy, bonus and share options schemes which are subject to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to sustain competitiveness of the Group.

## **BUSINESS REVIEW**

During April to June 2004, the Chinese economy saw healthy growth. The country recorded a GDP growth of 9.6% for the period. With the government and the small and medium-sized enterprise sectors leading the way, China's PC market unit shipment rose steadily. The mobile handset market in China achieved a 27% year-on-year shipment growth, mainly benefited from the growing demand of mid-end segment for colour-screen handsets and camera-embedded phones.

Implementation of the Group's new initiatives started earlier this year has been on track. During the quarter, the Group's corporate IT business attained satisfactory growth; handheld device business broke even; losses in other businesses were reduced and control of operating expenses improved. The Group's overall turnover increased 10.04%; gross margin improved to 15.70%; and net profit rose 21.05%. During the quarter, the Group started to implement its integrated distribution strategy which combines retail, channel distribution and direct-to-customer models. Progress has also been made in boosting distribution channel's capability of serving customers and in fine-tuning the direct-to-customer model.

In the first fiscal quarter, efforts made by the Group together with its channel partners resulted in 15.78% rise in the turnover of its corporate IT business. During the quarter, the Group launched “Qitian IV” and “Kaitian S” computer series targeting the government and education sectors and SMEs respectively. To better satisfy customer needs, the Group tailor made solutions according to the specific needs of different government departments. During the quarter, the Group also introduced four new models of notebook computers – another strategic product of the Group – boasting innovative features and technological applications such as nano technology, 180° rotating screen, and intelligent power management capabilities. These new products showcased the Group’s R&D expertise and helped elevate its product image substantially.

During the period under review, the Group’s consumer IT business stepped up developing and penetrating the markets in tier 4 to 6 cities with a nationwide retail sales network currently comprising more than 4,000 retail shops. Targeted at the consumer market, the Group developed a number of highly competitive products and mounted major sport marketing promotion campaigns during the peak sales period. The campaigns spanned the Labour Day golden week and the school summer vacation to take advantage of peak buying from students.

The Group’s handheld device business grew considerably with unit shipment of mobile handsets boosting 145.9% year-on-year growth and continuous gross margin surge. In addition to satisfactory growth of the handset market, the Group also began to reap the fruit of its efforts over the past two years in building its sales channels. Its successful launch of a number of self-developed handsets with unique features plus major brand promotional efforts riding on sports related themes were all factors contributing to the strong growth of handset sales.

After implementing for a quarter, the Group’s new initiatives aiming at strengthening ties, winning and cultivating long term relationship with customers have proved to meet current market situations. The Group will continue to implement these new initiatives in subsequent quarters and, in particular, will strive to further enhance the development of its integrated distribution model. It will also step up market penetration in tier 4 to 6 cities thereby, realising the full competitive strengths of the Group.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the three months ended 30 June 2004, the Company purchased its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as follows:

Month/Year	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration paid (including expenses) <i>HK\$’000</i>
June 2004	7,500,000	2.175	2.025	16,093

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

#### REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited quarterly financials.

<b>CODE OF BEST PRACTICE</b>
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None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this quarterly results, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting in accordance with the Company's Articles of Association.

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

*As at the date of this announcement, the Board is comprised of three executive Directors, namely Mr Liu Chuanzhi, Mr Yang Yuanqing and Ms Ma Xuezheng, one non-executive Director, namely Mr Zeng Maochao and three independent non-executive Directors, namely Mr Wong Wai Ming, Professor Woo Chia-Wei and Mr Ting Lee Sen.*

Hong Kong, 11 August 2004

Website: [www.lenovo.com](http://www.lenovo.com)

“Please also refer to the published version of this announcement in the South China Morning Post and The Standard”