Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

2005/06 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") is pleased to announce that the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended June 30, 2005 together with unaudited comparative figures for the corresponding period of last year, are as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended June 30, 2005 (unaudited) *HK$'000***	3 months ended June 30, 2004 (unaudited) *HK$'000*
Turnover	*3*	**19,612,842**	5,877,910
Earnings before interest, taxation, depreciation and amortization expenses		**829,012**	352,452
Depreciation expenses and amortization of prepaid lease payments		**(103,294)**	(51,425)
Amortization of intangible assets		**(161,455)**	(8,430)
Amortization of deferred compensation		**(13,145)**	–
Impairment of assets		**–**	(31,001)
(Losses)/gains on disposal of investments and available-for-sale financial assets		**(2,697)**	54,088
Finance income		**23,016**	20,751
Profit from operations	*4*	**571,437**	336,435
Finance costs	*5*	**(52,443)**	(724)
		518,994	335,711
Share of profits/(losses) of jointly controlled entities		**1,073**	(4,020)
Share of (losses)/profits of associated companies		**(5,229)**	1,805
Profit before taxation		**514,838**	333,496
Taxation	*6*	**(151,661)**	(11,312)
Profit for the period		**363,177**	322,184
Attributable to:			
Shareholders' equity of the Company		**356,995**	336,825
Minority interests		**6,182**	(14,641)
		363,177	322,184
Earnings per share			
– Basic	*8*	**4.12 HK cents**	4.50 HK cents
– Fully diluted	*8*	**4.07 HK cents**	4.50 HK cents

CONSOLIDATED BALANCE SHEET

	Note	As at June 30, 2005 (unaudited) HK$'000	As at March 31, 2005 (restated) HK$'000
Non-current assets			
Intangible assets		**15,057,971**	513,078
Property, plant and equipment		**1,348,254**	827,876
Prepaid lease payments		**49,970**	50,268
Construction-in-progress		**268,657**	257,159
Investments in jointly controlled entities		**182,347**	191,523
Investments in associated companies		**46,838**	52,067
Investment securities		**–**	62,970
Available-for-sale financial assets		**65,226**	–
Deferred tax assets		**56,279**	53,498
Other non-current assets		**78,004**	569,673
		17,153,546	2,578,112
Current assets			
Inventories		**1,987,076**	878,900
Trade receivables	*9*	**5,623,693**	851,337
Notes receivable		**979,389**	1,137,174
Deposits, prepayments and other receivables		**8,932,683**	567,046
Cash and cash equivalents		**9,780,626**	3,019,385
		27,303,467	6,453,842
Current liabilities			
Trade payables	*9*	**18,826,313**	2,276,070
Notes payable		**210,013**	195,032
Accruals and other payables	*10*	**7,478,018**	716,906
Amounts due to jointly controlled entities		**108,175**	108,446
Tax payable		**237,600**	493
Current portion of long-term liabilities	*12*	**151,964**	175,866
		27,012,083	3,472,813
Net current assets		**291,384**	2,981,029
Total assets less current liabilities		**17,444,930**	5,559,141
Financed by:			
Share capital	*11*	**230,565**	186,870
Other reserves		**9,155,469**	4,791,018
Retained earnings			
– Proposed dividends		**209,428**	209,428
– Others		**401,948**	17,082
Shareholders' funds		**9,997,410**	5,204,398
Minority interests		**29,791**	23,609
Long-term liabilities	*12*	**7,417,729**	331,134
		17,444,930	5,559,141

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended June 30, 2005 (unaudited) *HK$'000*	3 months ended June 30, 2004 (unaudited) *HK$'000*
Net cash inflow from operating activities	**4,337,814**	292,436
Net cash outflow from investing activities	**(4,208,052)**	(100,902)
Net cash inflow from financing activities	**6,641,402**	175,744
Increase in cash and cash equivalents	**6,771,164**	367,278
Cash and cash equivalents at the beginning of the period	**3,019,385**	2,650,071
Effect of foreign exchange rate changes	**(9,923)**	129
Cash and cash equivalents at the end of the period	**9,780,626**	3,017,478

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) *HK$'000*	Share premium (unaudited) *HK$'000*	Convertible rights in respect of convertible preferred shares (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$'000*	Retained earnings/ (Accumulated losses) (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
As at April 1, 2005	**186,870**	**4,761,498**	**–**	**27,871**	**2,093**	**(3,530)**	**3,086**	**226,510**	**5,204,398**
Adoption of HKFRS 3	**–**	**–**	**–**	**(27,871)**	**–**	**–**	**–**	**27,871**	**–**
As restated	**186,870**	**4,761,498**	**–**	**–**	**2,093**	**(3,530)**	**3,086**	**254,381**	**5,204,398**
Surplus in fair market value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**2,371**	**–**	**–**	**2,371**
Exchange differences	**–**	**–**	**–**	**–**	**2,852**	**–**	**–**	**–**	**2,852**
Net gains not recognized in the income statement	**–**	**–**	**–**	**–**	**2,852**	**2,371**	**–**	**–**	**5,223**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**356,995**	**356,995**
Issue of ordinary shares	**43,572**	**4,291,820**	**–**	**–**	**–**	**–**	**–**	**–**	**4,335,392**
Issue of convertible preferred shares	**–**	**–**	**84,000**	**–**	**–**	**–**	**–**	**–**	**84,000**
Exercise of share options	**123**	**11,279**	**–**	**–**	**–**	**–**	**–**	**–**	**11,402**
As at June 30, 2005	**230,565**	**9,064,597**	**84,000**	**–**	**4,945**	**(1,159)**	**3,086**	**611,376**	**9,997,410**
As at April 1, 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 differences	–	–	–	–	118	–	–	–	118
Net gains and losses not recognized in the income statement	–	–	–	–	118	(173)	–	–	(55)
Profit for the period	–	–	–	–	–	–	–	336,825	336,825
Reserves written off on disposal of subsidiaries	–	–	–	–	(2,786)	–	–	–	(2,786)
Reserves realized on disposal of investments 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)
As at June 30, 2004	186,826	4,757,646	–	27,871	1,913	9,060	3,086	(153,241)	4,833,161

Notes:

1 Basis of preparation

The Board is responsible for the preparation of the Group's unaudited quarterly financials. These unaudited quarterly financials have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that available-for-sale financial assets and financial assets and liabilities are stated at fair value.

The principal accounting policies and methods of computation used in the preparation of these unaudited quarterly financials are consistent with those used in the annual financial statements for the year ended March 31, 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after April 1, 2005.

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

2 Changes in accounting policies

Effect of adopting new HKFRS

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

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. Until March 31, 2005, the investment securities of the Group were classified into non-trading securities and were stated in the balance sheet at fair value. In accordance with the provision of HKAS 39, the investment securities have been classified into available-for-sale financial assets at fair value through investment revaluation reserve.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until March 31, 2005, the provision of share options to employees did not result in an expense in the income statement. Effective on April 1, 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after November 7, 2002 and had not yet vested on April 1, 2005 was expensed retrospectively in the income statement of the respective periods. As at April 1, 2005, the Group had no option granted after November 7, 2002 and had not yet vested on April 1, 2005.

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

– Amortized on a straight line basis over a period ranging from 3 to 10 years; and

– Assessed for an indication of impairment on each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortization of goodwill from April 1, 2005;

– Accumulated amortization as at March 31, 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ending March 31, 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

– Negative goodwill credited to the surplus arising on consolidation as at April 1, 2005 has been credited to the opening balance of retained earnings.

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

(i) The adoption of revised HKAS 17 resulted in:

	As at June 30, 2005 (unaudited) ***HK$'000***	As at March 31, 2005 (unaudited) *HK$'000*
Decrease in property, plant and equipment	**(49,970)**	(50,268)
Increase in prepaid lease payments	**49,970**	50,268

	For the year ended March 31, 2005 (unaudited) ***HK$'000***	**For the three months ended** **June 30, 2005 (unaudited)** ***HK$'000***	June 30, 2004 (unaudited) *HK$'000*
Decrease in depreciation expenses	**(1,193)**	**(298)**	(298)
Increase in amortization of prepaid lease payments	**1,193**	**298**	298

(ii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at June 30, 2005 **(unaudited)** ***HK$'000***
Increase in intangible assets	2,882
Increase in retained earnings	2,882

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

	As at June 30, 2005 **(unaudited)** ***HK$'000***
Increase in available-for-sale financial assets	**65,226**
Decrease in investment securities	**(65,226)**

3 Turnover, revenue and segment information

In accordance with the Group's internal financial reporting, the Group has changed its segment reporting that geographical segments are presented as the primary reporting format and business segments as the secondary reporting format.

(a) Primary reporting format – geographical segments

(i) For the three months ended June 30, 2005

	Americas **(unaudited)** ***HK$'000***	**Europe, Middle East and Africa** **(unaudited)** ***HK$'000***	**Asia Pacific excluding Greater China** **(unaudited)** ***HK$'000***	**Greater China** **(unaudited)** ***HK$'000***	**Total** **(unaudited)** ***HK$'000***
Consolidated income statement					
Turnover	**5,530,015**	**3,663,204**	**2,484,457**	**7,935,166**	**19,612,842**
Segment operating results	**249,125**	**40,261**	**(29,342)**	**463,307**	**723,351**
Amortization of marketing rights and identifiable intangible assets					**(159,088)**
Amortization of deferred compensation					**(13,145)**
Losses on disposal of investments and available-for-sale financial assets					**(2,697)**
Finance income					**23,016**
Finance costs					**(52,443)**
Contribution to operating profit					**518,994**
Share of profits of jointly controlled entities					**1,073**
Share of losses of associated companies					**(5,229)**
Profit before taxation					**514,838**
Taxation					**(151,661)**
Profit for the period					**363,177**

(ii) For the three months ended June 30, 2004

	Americas (unaudited) *HK$'000*	Europe, Middle East and Africa (unaudited) *HK$'000*	Asia Pacific excluding Greater China (unaudited) *HK$'000*	Greater China (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Consolidated income statement					
Turnover	–	–	–	5,877,910	5,877,910
Segment operating results	–	–	–	298,658	298,658
Amortization 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 for the period					322,184

(b) Secondary reporting format – business segments

(i) For the three months ended June 30, 2005

	Desktop (unaudited) ***HK$'000***	**Notebook (unaudited)** ***HK$'000***	**Mobile Handset (unaudited)** ***HK$'000***	**Others (unaudited)** ***HK$'000***	**Total (unaudited)** ***HK$'000***
Turnover	**9,072,338**	**9,262,019**	**819,848**	**458,637**	**19,612,842**
Capital expenditure *(Note)*					**120,739**
Total assets as at June 30, 2005 *(Note)*					**44,457,013**

Note: The Group has not finalized the allocation of capital expenditure and total assets as a result of the significant acquisition of the personal computer business of IBM ("IBM PC Business") as set out in note 13.

(ii) For the three months ended June 30, 2004

	Desktop (unaudited) *HK$'000*	Notebook (unaudited) *HK$'000*	Mobile Handset (unaudited) *HK$'000*	Others (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Turnover	3,770,623	852,780	646,095	608,412	5,877,910
Capital expenditure	25,899	26,440	2,340	1,309	55,988
Segment assets as at March 31, 2005	1,436,581	469,352	451,658	509,820	2,867,411
Investments and unallocated assets as at March 31, 2005					6,164,543
Total assets as at March 31, 2005					9,031,954

4 Profit from operations

(a)

	3 months ended June 30, 2005 (unaudited) *HK$'000*	3 months ended June 30, 2004 (unaudited and restated) *HK$'000*
Turnover	**19,612,842**	5,877,910
Total costs	**(16,606,615)**	(5,069,755)
Gross profit	**3,006,227**	808,155
Finance income	**23,016**	20,751
Impairment of assets	**–**	(31,001)
(Losses)/gains on disposal of investments and available-for-sale financial assets	**(2,697)**	54,088
	3,026,546	851,993
Distribution expenses	**(1,324,853)**	(301,653)
Administrative expenses	**(574,435)**	(92,216)
Other operating expenses	**(381,221)**	(113,259)
Amortization of intangible assets and deferred compensation	**(174,600)**	(8,430)
Total operating expenses *(See (b))*	**(2,455,109)**	(515,558)
Profit from operations	**571,437**	336,435

(b) The total operating expenses included staff costs of HK$836,209,000 (2004/05: HK$233,596,000).

5 Finance costs

	3 months ended June 30, 2005 (unaudited) *HK$'000*	3 months ended June 30, 2004 (unaudited) *HK$'000*
Interest on bank loan and overdrafts	**36,428**	260
Dividend and relevant finance costs on convertible preferred shares not wholly repayable within five years	**16,015**	–
Others	**–**	464
	52,443	724

6 Taxation

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

	3 months ended June 30, 2005 (unaudited) *HK$'000*	3 months ended June 30, 2004 (unaudited) *HK$'000*
Taxation outside Hong Kong	**154,379**	11,680
Deferred taxation	**(2,781)**	(516)
	151,598	11,164
Share of taxation attributable to:		
Jointly controlled entities	**63**	26
Associated companies	**–**	122
Taxation charge	**151,661**	11,312

7 Dividend

The Board of Directors does not recommend the payment of dividend to the ordinary shareholders for the three months ended June 30, 2005 (2004/05: Nil).

8 Earnings per share

(a) Basic

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

	3 months ended June 30, 2005 (unaudited)	3 months ended June 30, 2004 (unaudited)
Profit attributable to shareholders of the Company *(HK$'000)*	**356,995**	336,825
Weighted average number of shares for the purpose of basic earnings per share	**8,665,617,116**	7,478,977,251
Basic earnings per share	**4.12 HK cents**	4.50 HK cents

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preferred shares and share options and warrants. The convertible preferred shares are assumed to have been converted into ordinary shares and the net profit is adjusted to add back the relevant finance costs. For the share options and warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	3 months ended June 30, 2005	3 months ended June 30, 2004
Profit attributable to shareholders of the Company *(HK$'000)*	**356,995**	336,825
Interest expense on convertible preferred shares *(HK$'000)*	**16,015**	–
Profit used to determine diluted earnings per share *(HK$'000)*	**373,010**	336,825
Weighted average number of ordinary shares in issue	**8,665,617,116**	7,478,977,251
Adjustments for		
– Assumed conversion of convertible preferred shares	**484,403,670**	–
– Share options and warrants	**10,356,413**	8,827,594
Weighted average number of ordinary shares for diluted earnings per share	**9,160,377,199**	7,487,804,845
Diluted earnings per share	**4.07 HK cents**	4.50 HK cents

9 Ageing analysis

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

	As at June 30, 2005 (unaudited) *HK$'000*	As at March 31, 2005 (audited) *HK$'000*
0 – 30 days	**4,802,601**	588,389
31 – 60 days	**700,464**	56,966
61 – 90 days	**46,591**	40,702
Over 90 days	**74,037**	165,280
	5,623,693	851,337

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

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

	As at June 30, 2005 (unaudited) ***HK$'000***	As at March 31, 2005 (audited) *HK$'000*
0 – 30 days	**16,378,370**	1,954,188
31 – 60 days	**2,231,945**	149,691
61 – 90 days	**93,314**	59,383
Over 90 days	**122,684**	112,808
	18,826,313	2,276,070

10 Accruals and other payables

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

	As at June 30, 2005 (unaudited) ***HK$'000***	As at March 31, 2005 (audited) *HK$'000*
At the beginning of the period/year	**188,997**	168,977
Provisions made during the period/year	**628,243**	214,634
Less: Amount utilized	**(89,370)**	(194,614)
At the end of the period/year	**727,870**	188,997

11 Share capital

	As at June 30, 2005		As at March 31, 2005	
	(unaudited) ***Number of ordinary shares***	**(unaudited)** ***HK$'000***	(audited) *Number of ordinary shares*	(audited) *HK$'000*
Authorized:				
At the beginning and the end of period/year	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Issued and fully paid voting shares:				
At the beginning of period/year	**7,474,796,108**	**186,870**	7,475,594,108	186,890
Issue of shares during the period/year	**821,234,569**	**20,531**	–	–
Conversion from non-voting shares	**110,635,946**	**2,766**	–	–
Exercise of share options	**4,936,000**	**123**	6,702,000	168
Repurchase of shares	**–**	**–**	(7,500,000)	(188)
At the end of period/year	**8,411,602,623**	**210,290**	7,474,796,108	186,870
Issued and fully paid non-voting shares:				
At the beginning of period/year	**–**	**–**	–	–
Issue of shares during the period/year	**921,636,459**	**23,041**	–	–
Conversion into voting shares	**(110,635,946)**	**(2,766)**	–	–
At the end of period/year	**811,000,513**	**20,275**	–	–
Total issued and fully paid shares	**9,222,603,136**	**230,565**	7,474,796,108	186,870

12 Long-term liabilities

	As at June 30, 2005 (unaudited) *HK$'000*	As at March 31, 2005 (audited) *HK$'000*
Amount payable for marketing rights repayable within five years	**452,995**	507,000
Interest-bearing bank loan repayable within five years	**3,900,000**	–
Convertible preferred shares not wholly repayable within five years	**2,647,000**	–
Other long-term liabilities repayable within five years	**292,832**	–
Other long-term liabilities not wholly repayable within five years	**276,866**	–
	7,569,693	507,000
Current portion repayable within one year	**(151,964)**	(175,866)
	7,417,729	331,134

The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5% per annum on the state value of HK$1,000 per convertible preferred share. The first payment of convertible preferred shares dividend for the period from May 17, 2005 to June 30, 2005 was accrued.

13 Business combinations

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

The estimated total consideration for acquiring the IBM PC Business was approximately HK$9,860 million including cash, Lenovo shares and related transaction costs.

Set forth below is a preliminary calculation of goodwill:

	(unaudited) *HK$'000*
Purchase consideration:	
– Cash paid	5,068,031
– Direct costs relating to the acquisition	456,933
– Fair value of shares issued	4,335,392
Total purchase consideration	9,860,356
Add: Fair value of net liabilities assumed *(Note)*	76,429
Goodwill	9,936,785

Note:

	(unaudited) *HK$'000*
Net liabilities assumed	(4,978,695)
Step-up in tangible fixed assets	16,233
Identifiable intangible assets	4,734,600
Deferred compensation	151,433
Net liabilities assumed	(76,429)

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of the IBM PC Business.

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

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

The assets purchase agreement requires a working capital "true up" adjustment which is expected to result in a cash payment from the Company to IBM. Such adjustment has not been finalized, but an estimate has been recorded in the preliminary purchase price allocation indicated above. This process is expected to be finalized in the third quarter of financial year 2006.

14 Condensed balance sheet of the Company

	As at June 30, 2005 (unaudited) *HK$'000*	As at March 31, 2005 (audited) *HK$'000*
Property, plant and equipment	**20,391**	25,130
Investments in subsidiaries	**13,753,449**	2,327,875
Investment securities	**–**	4,413
Available-for-sale financial assets	**3,687**	–
Other non-current assets	**–**	565,340
	13,777,527	2,922,758
Current assets	**5,877,724**	4,387,158
Current liabilities	**1,192,735**	279,137
Total assets less current liabilities	**18,462,516**	7,030,779
Financed by:		
Share capital	**230,565**	186,870
Other reserves	**9,148,078**	4,761,707
Retained earnings		
– Proposed dividends	**209,428**	209,428
– Others	**2,327,445**	1,872,774
Shareholders' funds	**11,915,516**	7,030,779
Long-term liabilities	**6,547,000**	–
	18,462,516	7,030,779

15 Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation of the financial statements.

FINANCIAL REVIEW

Results highlights

Effective from April 1, 2005, the Group has included non-based manufacturing cost into cost of sales. Non-based manufacturing cost is composed of warranty, inventory loss, technical support as well as outbound freight and shipment. The board considers that it is appropriate for the Group to present its gross profit after such change. As a result, the comparative unaudited figures for the same quarter in last year have been restated.

For the three months ended June 30, 2005, the Group achieved a quarterly turnover of approximately HK$19,613 million. This represented an increase of 233.7 percent as compared to the turnover of HK$5,878 million recorded for the same period of last year. Profit attributable to shareholders reached approximately HK$357 million for the quarter, representing an increase of 6.0 percent as compared to HK$337 million recorded from last year. Basic earnings per share and fully diluted earnings per share were 4.12 HK cents and 4.07 HK cents respectively.

Segment results

During the quarter, geographical turnover and operating profit increased across all geographies. In the Americas, EMEA (Europe, Middle East and Africa) and Asia Pacific excluding Greater China, the increase was primarily due to the newly acquired IBM PC Business.

In Greater China, the results comprised both the results arose from Legacy Lenovo and Greater China segment of newly acquired IBM PC Business.

Amortization of intangible assets and marketing rights

Intangible assets, except for goodwill and intangible assets with indefinite useful life, arising from the acquisition of the IBM PC Business are amortized on a straight-line basis over their estimated useful lives. During the quarter ended June 30, 2005, amortization of HK$127 million was charged to the consolidated income statement.

Marketing rights for the Olympic Partner Program are amortized on a straight-line basis from January 1, 2005 to December 31, 2008. During the quarter ended June 30, 2005, amortization of HK$32 million was charged to the consolidated income statement.

Capital expenditure

Apart from the acquisition of the IBM PC Business, the Group incurred capital expenditures of HK$121 million during the quarter ended June 30, 2005, mainly for acquisition of fixed assets, injection into construction-in-progress and optimization of the Group's information technology systems.

Liquidity and financial resources

As at June 30, 2005, total assets of the Group amounted to HK$44,457 million, which were financed by shareholders' funds of HK$9,997 million, minority interests of HK$30 million, long-term and current liabilities of HK$34,430 million. The current ratio of the Group was 1.01.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operation activities. As at June 30, 2005, cash and cash equivalents of the Group totaled HK$9,781 million. The balance consisted of about 4.3 percent in Euros, 3.3 percent in Japanese Yen, 17.9 percent in Renminbi, 66.2 percent in US dollars and 8.3 percent in other currencies.

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at June 30, 2005, the Group's total available credit facilities amounted to HK$9,422 million, of which HK$1,860 million was in trade line, HK$1,022 million in short-term and revolving money market facilities and HK$6,540 million in currency forward contract and derivatives. As at June 30, 2005, the facility drawn down was HK$296 million in trade line and HK$2,413 million for the currency forward contracts was utilized.

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

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

As at June 30, 2005, the Group's outstanding bank loan, represented the term loan, was HK$3,900 million. When compared with shareholders' funds of HK$9,997 million, the Group's gearing ratio was 0.39.

The Group consistently adopted a hedging policy for business transactions to minimize the risk of fluctuations from exchange rates on daily operations. As at June 30, 2005, the Group had outstanding currency forward contracts amounting to HK$2,413 million.

The Group issued 2,730,000 convertible preferred shares at an issue price of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated cash consideration of approximately HK$2,730 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the issue price of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Group or the convertible preferred shareholders at any time after the maturity date. The fair value of the liability component and equity component of the convertible preferred shares as at June 30, 2005 amounted to approximately HK$2,647 million and HK$84 million respectively.

Contingent liabilities

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

Employees

As at June 30, 2005, the Group had a total of 18,170 employees, 13,685 of whom were employed in mainland China and 4,485 in Hong Kong and overseas.

The Group implements remuneration policy, bonus and share options 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

Lenovo delivered strong results for the quarter ended June 30, 2005. Lenovo reported an increase in consolidated turnover of 233.7 percent year-on-year to HK$19,613 million, driven by two months of contribution from its newly acquired personal computer business from IBM and the strong performance in emerging PC markets. Gross margin improved to approximately 15.3 percent with solid margins in the acquired PC business and early achievement of synergies. The acquired PC business also made significant contribution to the Group's operating profit at the pre-tax level, resulting in an increase of 54.4 percent in consolidated profit before taxation to HK$515 million. Profit attributable to shareholders increased by 6.0 percent to HK$357 million.

Lenovo saw initial success in the first two months of integration. Eight of 16 major functions, including procurement, marketing, finance, accounting and treasury, had been integrated ahead of schedule. During the quarter, Lenovo realized initial synergies in procurement, improved margins and expense management, building a solid foundation for development.

Personal Computer Business

During the quarter, the worldwide PC market posted more than 16 percent growth in shipments, driven by fast-growing segments and notebook adoption. In particular, the China PC market, where Lenovo has been the leading brand for eight consecutive years, continued to show solid growth with an 18 percent year-on-year jump in shipments.

Lenovo strengthened its PC leadership in the emerging markets. In China, Lenovo gained 3 percent market share year-on-year to 34 percent in the April to June 2005 quarter. Building on the enhanced competitiveness of its sales model and product offerings, Lenovo grew its PC shipments by 28 percent year-on-year in China, well above the market growth of approximately 14 percent, excluding Lenovo. The strengths came from Lenovo's push in the township consumer market and notebook adoptions by high-end consumers. Lenovo also enjoyed good growth in its commercial PC shipments, benefiting from the relationship customer model it set up in the previous year.

With the acquisition of the ThinkPad line of products, Lenovo's notebook computers gained additional competitive strengths in the market. Notebook computers represented about 35 percent of the company's worldwide PC shipments for the quarter. In more developed PC markets, including the U.S. and Japan, Lenovo's notebook computers continue to have better than 50 percent share of Lenovo's total shipments.

Worldwide, Lenovo PC shipments grew 7 percent year-on-year and 14 percent sequentially. The growth during the first quarter demonstrated customers' confidence in Lenovo and increased momentum as the integration proceeds. The Americas, EMEA (Europe, Middle East and Africa), and Greater China showed improved margins and each contributed to profitability. Despite the competitive pricing pressure in the Americas, Lenovo's margins showed strength throughout the region. Lenovo reported strong performance in EMEA with solid margins. In Asia Pacific (excluding Greater China), Lenovo saw strong volume growth but also gross margin pressure.

Mobile Handset Business

In China, the handset business grew revenues 26.9 percent on 51.1 percent volume growth year-on-year. Lenovo has successfully moved up in its ranking in the China mobile handset market from ninth place in March 2005 to sixth in June 2005. With strong shipments of over one million mobile handsets for the quarter and good expense controls, Lenovo's mobile handset business recorded significant year-on-year profit increase.

Looking ahead, Lenovo is well-positioned for growth in the worldwide PC market. With its experienced management and successful business model, Lenovo believes that it can emulate its success in other high-growth emerging PC markets. Lenovo's innovative notebook technology will also allow it to maximize the benefits from the ongoing shift in demand to notebook computers. Lenovo will also speed up the integration process to achieve earlier realization of synergies.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the three months ended June 30, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

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

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

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

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the unaudited quarterly financials for the three months ended June 30, 2005. It meets regularly with the management, the external auditors and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

By order of the Board
Yuanqing Yang
Chairman

Hong Kong, August 10, 2005

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

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