

[For Immediate Release]

LENOVO ANNOUNCES 2004/05 FIRST QUARTER RESULTS
NET PROFIT GREW SUBSTANTIALLY BY 21%

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NEW INITIATIVES ON TRACK

(Hong Kong, August 11, 2004) — **Lenovo Group Limited** (“Lenovo”)(stock code: 992) today announced its results for the quarter ended June 30, 2004.

For the first quarter of 2004/05 fiscal year, the Group achieved a turnover of approximately HK\$5.878 billion, representing an increase of 10.0% as compared with the same period last year. Profit attributable to shareholders was approximately HK\$337 million, up substantially by 21.1%. Overall gross margin was 15.7%, and net margin rose to 5.7%.

Yang Yuanqing, President and CEO of Lenovo, said, “This was the first quarter since we started implementing our new strategy. During the period, we have actively and effectively pursued a series of initiatives aiming at focusing on our core businesses, and building a more customer-oriented sales model and organizational structure. The new initiatives proceeded smoothly with business performance of the first fiscal quarter in line with management expectation. The Group’s PC business performed steadily and mobile handset business achieved substantial growth. New approaches have been adopted with determination and helped develop the non-core businesses effectively. Benefited from the decisive implementation of the focused strategy, the Group achieved outstanding results in the past quarter.”

The Group’s new initiatives of focusing on core business and strategic new businesses have been on track. During the quarter, the Group’s PC business maintained steady growth. Corporate IT business recorded 15.8% increase in turnover. The Group launched a series of new PC products, deploying a comprehensive strategic product mix. The new PC products included the “Qitian IV” and “Kaitian S” computer series targeting the government and education sectors and SMEs respectively, as well as four new models of notebook computers which showcased the Group’s R&D expertise. Furthermore, in line with its customer segmentation strategy, the Group led the market in introducing the new consumer PC series “Yuanmeng” with highly attractive price-to-performance ratio targeting township market. This strategic move marked the Group’s further penetration of the township market which has immense volume growth potentials.

The Group's strategic new business, mobile handset business, achieved outstanding performance and contributed profit during the quarter. Unit shipment of mobile handsets grew substantially by 145.9% over the same quarter last year. Gross margin surged continuously reaching 25.06%. Lenovo began to reap the fruit of its efforts in building its sales channels -- the "10,000-shop expansion project" -- over the past two years. In addition, the substantial increase in the shipment of self-developed models plus major marketing activities riding on sports related themes were also major factors contributing to the strong growth of the Group's handset sales.

Establishing a more customer-oriented sales models and organizational structure is another focal point of the Group's strategic initiatives. During the period, the Group completed the construction of a more customer-oriented market system. An extensive sales network with 18 sales regions and a total of 108 grids has already been built across the country and deeply penetrates into township areas. All these allow Lenovo to build stronger ties with customers and to efficiently respond to their needs. At the same time, the Group started to implement its integrated distribution strategy which combines retail, channel distribution and direct-to-customer models, allowing it to cover various customer groups comprehensively. Currently the Group's nationwide retail network comprises more than 4,000 retail shops. In addition, progress has been made in enhancing the capabilities of distribution channels in serving customers. The Group has also achieved mutual understanding with channels through effective communications of the Group's strategic initiatives, resulting in a better division of labor and complementary advantages. The Group's sales model targeting large clients as well as telesales model also seen considerable progress.

In addition to adopting new sales models, Lenovo also further enhanced its overall operational efficiency in the first quarter of the financial year and effectively controlled its operating expenses.

Yang concluded, "After implementing for a quarter, our new initiatives aiming at strengthening ties, winning and cultivating long term relationship with customers have initially proved that we have been moving in the right strategic direction. It also testified our determination in implementing the moves. In subsequent quarters, we will continue to push ahead with these new initiatives to foster the development of our integrated distribution model and step up the penetration of township market to realize our full competitive strengths."

(N.B.: Enclosed please find the consolidated profit and loss account of Lenovo Group Ltd.)

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Lenovo Group Limited

2004/05 First Quarter Results

Consolidated profit and loss account

	3 months ended 30 June 2004 (unaudited) HK\$'000	3 months ended 30 June 2003 (unaudited) HK\$'000
Turnover	5,877,910	5,341,739
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	336,435	273,383
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	333,496	269,863
Taxation	(11,312)	3,405
Profit after taxation	322,184	273,268
Minority interests	14,641	4,988
Profit attributable to shareholders	336,825	278,256
Earnings per share - basic	4.51 HK cents	3.73 HK cents
Earnings per share - fully diluted	4.50 HK cents	3.72 HK cents

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.