

[For Immediate Release]

**LENOVO ANNOUNCES 2004/05 INTERIM RESULTS
NET PROFIT GROWS 16% TO HK\$627 MILLION**

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**PROACTIVELY RESPONDS TO CHANGES
AGGRESSIVELY DEVELOPS MARKET WITH HIGH VOLUME GROWTH POTENTIALS**

(Hong Kong, November 16, 2004) — **Lenovo Group Limited** (“Lenovo”)(stock code: 992) today announced its interim results for the period ended September 30, 2004.

In the first half of the 2004/05 fiscal year, the Group further stepped up its strategic initiatives and strengthened the fundamentals of its various business segments. The unit shipment growth of Lenovo PCs was consistent with market growth. The market share of Lenovo PCs increased over the previous quarter during July to September, reaching about 27%. Notebook and mobile handset businesses, in particular, continued their rapid growth. During the review period, total group turnover was in line with that in the same period last year, amounted to approximately HK\$11.533 billion. Profit attributable to shareholders increased 16.2% to HK\$627 million. The Board of Directors has proposed an interim dividend of 2.4 HK cents per share.

Yang Yuanqing, President and CEO of Lenovo, said, “The first half of this fiscal year had been critical in the activation of the Group’s strategic initiatives. All initiatives have been in satisfactory progresses, with continuous growth in our core and strategic new businesses and steady increase in market share. Steadfast in implementing our initiatives, we also responded proactively to changes in the market keeping in mind the principle of maintaining a healthy operation. We adjusted our product mix and aggressively developed market segment with high volume growth potentials. These moves enabled us to triumph over our competitions and increased our market share.”

During the period, the Chinese PC market maintained steady unit shipment growth with the government and education sectors remained as the major sources of demand. While the demand for desktop computers recorded stable growth, the unit shipment of notebook computers, promoted by wireless connectivity access, increased rapidly. The demand for PCs in township market also burgeoned. At the same time, rapid changes occurred in the Chinese PC market. The government and education sectors, the two important constituents of the corporate market, have been increasingly reliant on competitive tendering in purchase. In the consumer PC market, the irrational price competition among second-tier PC vendors and increased effort of foreign brands since the beginning of the year also influenced the ASPs of PCs. Facing the changing market environment, the Group responded proactively while strictly pursued its strategic initiatives. For its corporate and consumer IT businesses, the Group was able to better meet customer needs and control customer information through setting up a network comprising 108 sales zones spanning 18 regions and an integrated distribution model that combines channel sales and direct-to-customer sales.

For consumer IT customers, the Group directed major efforts into developing market with high volume growth potentials. These efforts included the launching of the “Yuanmeng” PC series designed for township home users and the “Xuri” notebook computer series for low-end markets. The Group believes it stands to benefit from the steady growth in demand of the township market. With the principle of maintaining a healthy operation in mind, the Group leveraged its strategic price advantage to successfully capture the low-end market and explore the high volume growth market. It effectively minimized the impact from the aggressive moves of its competitors and increased its market share. Besides, to better serve its customers, Lenovo enhanced its control over outlets which have direct contacts with product end users. During the period, over 1,200 retail were opened and largely strengthened Lenovo’s penetration in the township market.

For commercial customers, the Group optimized its customer portfolio, and enhanced its capabilities in managing business leads and targeting customers. The proportion of quality enterprise customers in the Group’s customer portfolio continued to increase. Furthermore, while successfully sustaining its market position in the government and education sectors, Lenovo stepped up its penetration of the small and medium enterprise (SME) market, so as to relieving the margin decrease caused by purchases through competitive tendering of government and education customers.

The Group’s mobile handset business reported satisfactory growth during the period with a year-on-year unit shipment increase of 105%, despite the competitive market environment. While the profit margins of other Chinese vendors narrowed, the Group was able to maintain its gross margin at above 23%, from its persistence in developing proprietary products with unique features and implementing the “10,000-shop expansion project”.

Yang Yuanqing concluded, “Looking into the second half of the fiscal year, we expect the Chinese PC market to continue its steady growth in a friendlier competitive environment and the market ASP of PCs to reduce at a slower pace. The Group will also gradually see the initial effects of its strategic initiatives after half year of implementation. Our strategy to strengthen ties with customers will allow us to improve our capability in serving quality customers. We also expect our efforts in cultivating market with high growth potentials to bear fruit. We firmly believe that our competitiveness will continue to be strengthened and Lenovo will be able to bring long term stable returns to investors. At the same time, the management keeps exploring opportunities for development within the country as well as in overseas.”

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

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2004/05 Interim Results

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	3 months ended 30 September 2004 (unaudited) HK\$'000	6 months ended 30 September 2004 (unaudited) HK\$'000	3 months ended 30 September 2003 (unaudited) HK\$'000	6 months ended 30 September 2003 (unaudited) HK\$'000
Turnover	<u>5,654,798</u>	<u>11,532,708</u>	<u>6,247,401</u>	<u>11,589,140</u>
Earnings before interest, taxation, depreciation and amortisation expenses	255,662	608,114	294,842	602,170
Depreciation expenses	(50,463)	(101,888)	(49,139)	(97,336)
Amortisation of intangible assets	(7,461)	(15,891)	(8,441)	(15,234)
Impairment of assets	(20,363)	(51,364)	-	-
Gains on disposal of investments	110,294	164,382	6,002	6,002
Finance income	<u>20,895</u>	<u>41,646</u>	<u>19,004</u>	<u>40,049</u>
Profit from operations	308,564	644,999	262,268	535,651
Finance costs	<u>(2,776)</u>	<u>(3,500)</u>	<u>-</u>	<u>-</u>
	<u>305,788</u>	<u>641,499</u>	<u>262,268</u>	<u>535,651</u>
Share of losses of jointly controlled entities	(6,090)	(10,110)	(4,910)	(13,539)
Share of (losses)/ profits of associated companies	<u>(2,051)</u>	<u>(246)</u>	<u>270</u>	<u>5,379</u>
Profit before taxation	297,647	631,143	257,628	527,491
Taxation	<u>(13,593)</u>	<u>(24,905)</u>	<u>(2,079)</u>	<u>1,326</u>
Profit after taxation	284,054	606,238	255,549	528,817
Minority interests	<u>5,992</u>	<u>20,633</u>	<u>5,613</u>	<u>10,601</u>
Profit attributable to shareholders	<u>290,046</u>	<u>626,871</u>	<u>261,162</u>	<u>539,418</u>
Dividend	<u>N/A</u>	<u>179,357</u>	<u>N/A</u>	<u>149,436</u>
Earnings per share - basic	<u>3.89 HK cents</u>	<u>8.39 HK cents</u>	<u>3.49 HK cents</u>	<u>7.22 HK cents</u>
Earnings per share - fully diluted	<u>3.88 HK cents</u>	<u>8.38 HK cents</u>	<u>3.47 HK cents</u>	<u>7.19 HK cents</u>

Note:

Basis of preparation

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