



Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

2003/04 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover increased by 14.54% to HK\$23,176 million
- EBITDA reached HK\$1,125 million
- Profit attributable to shareholders attained HK\$1,053 million
- Basic earnings per share was 14.09 HK cents. Fully diluted earnings per share was 13.99 HK cents
- Proposed final dividend is 3.0 HK cents per share

AUDITED CONSOLIDATED RESULTS

The board of directors (the “Directors”) of Lenovo Group Limited (the “Company”) is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March 2004, together with the comparative figures for last year, are as follows:

Consolidated profit and loss account

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Turnover	<i>1</i>	<u>23,175,944</u>	<u>20,233,290</u>
Earnings before interest, taxation, depreciation and amortisation expenses		1,125,129	1,174,720
Depreciation expenses		(211,161)	(160,304)
Amortisation of intangible assets		(34,999)	(15,246)
Gains/(losses) on disposal of investments		47,558	(26,802)
Finance income		<u>93,368</u>	<u>77,233</u>
Profit from operations	<i>2</i>	1,019,895	1,049,601
Finance costs		<u>(2,881)</u>	<u>(20)</u>
		1,017,014	1,049,581

Share of losses of jointly controlled entities		(39,053)	(34,756)
Share of profits of associated companies		<u>16,891</u>	<u>13,826</u>
Profit before taxation		994,852	1,028,651
Taxation	3	<u>20,150</u>	<u>(26,018)</u>
Profit after taxation		1,015,002	1,002,633
Minority interests		<u>37,883</u>	<u>14,519</u>
Profit attributable to shareholders		<u>1,052,885</u>	<u>1,017,152</u>
Dividends	4	<u>373,704</u>	<u>747,412</u>
Earnings per share			
– Basic	5	14.09 HK cents	13.55 HK cents
– Fully diluted	5	<u>13.99 HK cents</u>	<u>13.54 HK cents</u>

Notes:

1 Turnover, revenue and segment information

(a) Primary reporting format – geographical segments

	People's Republic of China ("PRC") 2004 HK\$'000	Others 2004 HK\$'000	Total 2004 HK\$'000
Profit and loss account			
Turnover	<u>22,878,303</u>	<u>297,641</u>	<u>23,175,944</u>
Segment operating results	<u>947,125</u>	<u>(33,157)</u>	913,968
Gains on disposal of investments	47,558	–	47,558
Amortisation of intangible assets	(34,999)	–	(34,999)
Finance income			93,368
Finance costs			<u>(2,881)</u>
Contribution to operating profit			1,017,014
Share of losses of jointly controlled entities	(39,053)	–	(39,053)
Share of profits of associated companies	16,891	–	<u>16,891</u>
Profit before taxation			994,852
Taxation			<u>20,150</u>
Profit after taxation			1,015,002
Minority interests			<u>37,883</u>
Profit attributable to shareholders			<u>1,052,885</u>

	PRC 2003 HK\$'000	Others 2003 HK\$'000	Total 2003 HK\$'000
Profit and loss account			
Turnover	<u>19,738,075</u>	<u>495,215</u>	<u>20,233,290</u>
Segment operating results	<u>1,011,204</u>	<u>3,212</u>	1,014,416
Losses on disposal of investments	(26,802)	–	(26,802)
Amortisation of intangible assets	(15,246)	–	(15,246)
Finance income			77,233
Finance costs			(20)
Contribution to operating profit			1,049,581
Share of losses of jointly controlled entities	(34,756)	–	(34,756)
Share of profits of associated companies	13,826	–	13,826
Profit before taxation			1,028,651
Taxation			(26,018)
Profit after taxation			1,002,633
Minority interests			14,519
Profit attributable to shareholders			<u>1,017,152</u>

(b) *Secondary reporting format – business segments*

	Turnover 2004 HK\$'000	Contribution to operating profit 2004 HK\$'000
Corporate IT business	11,925,240	777,698
Consumer IT business	7,760,668	466,814
Handheld device business	2,050,164	(74,565)
IT service business	547,780	(58,009)
Contract manufacturing business	892,092	(95,208)
Gains on disposal of investments	–	47,558
Amortisation of goodwill	–	(25,274)
Others	–	(22,000)
	<u>23,175,944</u>	<u>1,017,014</u>

	Turnover 2003 <i>HK\$'000</i>	Contribution to operating profit 2003 <i>HK\$'000</i>
Corporate IT business	10,803,311	744,153
Consumer IT business	6,822,633	363,527
Handheld device business	1,440,328	29,017
IT service business	183,800	(61,405)
Contract manufacturing business	983,218	8,554
Losses on disposal of investments	–	(26,802)
Amortisation of goodwill	–	(7,463)
	<u>20,233,290</u>	<u>1,049,581</u>

2 Profit from operations

(a)

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	23,175,944	20,233,290
Cost of sales	<u>(19,787,944)</u>	<u>(17,234,746)</u>
Gross profit	3,388,000	2,998,544
Finance income	93,368	77,233
Gains/(losses) on disposal of investments	<u>47,558</u>	<u>(26,802)</u>
	3,528,926	3,048,975
Distribution expenses	(1,686,932)	(1,393,990)
Administrative expenses	(343,306)	(328,736)
Other operating expenses	(443,794)	(261,402)
Amortisation of intangible assets	<u>(34,999)</u>	<u>(15,246)</u>
Total operating expenses (<i>Note (b)</i>)	<u>(2,509,031)</u>	<u>(1,999,374)</u>
Profit from operations	<u>1,019,895</u>	<u>1,049,601</u>

(b) *Analysis of total operating expenses by nature:*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Selling expenses	(558,124)	(379,842)
Promotional and advertising expenses	(395,905)	(425,143)
Staff costs	(851,476)	(688,519)
Other expenses	(668,527)	(490,624)
Amortisation of intangible assets	<u>(34,999)</u>	<u>(15,246)</u>
Total operating expenses	<u>(2,509,031)</u>	<u>(1,999,374)</u>

3 Taxation

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation:		
– Taxation outside Hong Kong	14,482	23,730
– Over provisions in prior years	–	(339)
Deferred taxation	(35,048)	–
	(20,566)	23,391
Share of taxation attributable to:		
Jointly controlled entities	84	1,416
Associated companies	332	1,211
Taxation (credit)/charge	(20,150)	26,018

4 Dividends

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim dividend of 2.0 HK cents per share (2003: 1.8 HK cents)	149,436	135,034
Proposed final dividend of 3.0 HK cents per share (2003: 3.0 HK cents)	224,268	224,040
Special dividend of 5.2 HK cents per share for 2003	–	388,338
	373,704	747,412

At a board meeting held on 2nd June 2004, the Directors recommended a final dividend of 3.0 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

5 Earnings per share

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

	2004	2003
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	1,052,885	1,017,152
Weighted average number of shares for the purposes of basic earnings per share	7,471,766,157	7,504,340,579
Effect of potential dilutive shares	53,541,036	9,827,387
Weighted average number of shares for the purposes of diluted earnings per share	7,525,307,193	7,514,167,966

PROPOSED DIVIDEND

The Directors recommended a final dividend of 3.0 HK cents per share for the year ended 31st March 2004 to the shareholders whose names appear on the Register of Members of the Company on 23rd July 2004. Subject to the shareholders' approval at the forthcoming annual general meeting, the proposed dividend will be paid on 28th July 2004.

BUSINESS REVIEW

After the adjustments in 2002, China IT market entered into a new phase of growth in more confident strides in 2003. Total market value grew at 11.1% year on year. As for Lenovo, its turnover rose by 14.5% this year, surpassing market performance. Operating expenses increased as the results of establishing new businesses, loss incurred by contract manufacturing business and continued investment in research and development. Net profit of the Group thus recorded an increase of 3.5%.

Corporate IT Business

- Competition was intense in China's corporate IT market in 2003. While demand shrunk in the government and education sectors as a result of the SARS outbreak, orders surged among SMEs and in local municipal markets.
- Lenovo's corporate IT business recorded an increase of 10.4% in turnover over the previous year. Gross margin, however, saw a drop from the past year's 15.3% to 14.3% this year. The unit shipment of notebook computers out-performed other products boasting a growth of 51.0%.
- With strengthened design capabilities for notebook computers, Lenovo launched its first proprietary notebook computer "Soleil E600" in November 2003. The product was well-received by the market.
- Launched in last September, "Kaitian II" desktop computer is the first Collaborating PC with unmatched security, collaboration and manageability by other products in the market. Capitalizing on the commercial buying season in the third quarter of the fiscal year and the demand from growth enterprises, Lenovo mounted effective marketing activities for its products and achieved record sales.

Consumer IT Business

- Consumer IT market experienced steady growth in 2003. Consumer PC sales were enhanced by increase of family income and continuous improvement in quality of living. The SARS outbreak also stimulated short-term sales.
- Lenovo's consumer IT business reported an increase of 13.8% in turnover and a rise in gross margin from the previous year's 13.3% to 13.7% of this year. Effective customer segmentation was the reason for the outstanding performance of this business stream. The competitive edges of Lenovo's retail sales system and streamlined supply chain stood out especially during the SARS outbreak as it promises consumers quick and easy purchase of the IT products they need.
- Employing a differentiation strategy, Lenovo commits itself to technological innovation and launching products of the most advanced designs. The strategy is vital to the continuous improvement of gross margins for its consumer IT business. In November 2003, the Group introduced the first home PC, "Tianjiao Avantia", embedded with Collaborating Applications technologies. This new product realizes discretionary combination of functions among computers, home appliances and other terminal devices, with automatic wireless collaborating features. The market returned positive response.
- Recognizing the growing need for mobile computing among consumers, Lenovo led the market in developing the "Tianyi" notebook computer. The unique design and multimedia capabilities of "Tianyi" have created a superior image for Lenovo in the market. The Group's share of this particular market segment increased to more than 30%.

Handheld Device Business

- China's mobile handset market saw steady growth in 2003, recording 9.3% increase in unit shipments. It was the result of massive launch of new generation handsets and aggressive marketing of value added digital services by telecommunications providers. The overall profit level was, however, lowered as some manufacturers sought to reduce their stock of monochrome handsets.
- During the year, unit shipments of Lenovo handsets grew more than 90% and the turnover of the Group's handheld device business increased by 42.3% over the previous year. Profit was, however, affected by the inventory of monochrome handsets and excess supply of OEM handsets in the market.
- As a result of the Group's dedicated efforts in the research and development of proprietary handset products, self-developed products are contributing a growing share to the total sales. They accounted for remarkable 64.2% of the Group's handset shipment this year, testifying to the successful transition from a primarily OEM model to a self-developed model. Helping to maintain gross margin at 16.0%, the new focus enabled the handheld device business to gradually reduce losses in the second half of the year.
- Lenovo launched 16 new handset models during the year including 2 smart phone models featuring integrated communication and digital applications.

IT Service Business

- With China's IT service market's promising long-term growth potential, the turnover of Lenovo's IT service business recorded an impressive growth of 198% over the previous year. Its gross margin rose to 38.9% this year from 28.7% of the past year.
- Lenovo reported breakthroughs in e-government, network security and finance sectors during the year, successfully established itself as a professional IT service provider.

Contract Manufacturing Business

- With severe competition in the European motherboard market, gross margin of the business in 2003 was affected and loss was incurred.
- To focus on its computer and handset businesses, Lenovo sold 50% of its motherboard business to Ramaxel Technology Limited in November 2003. The Group believes this is beneficial to the development of the business.

FINANCIAL REVIEW

Results Highlights

Comparing with last year's results, the Group's turnover increased by 14.54% to HK\$23,176 million in the current fiscal year. EBITDA reached HK\$1,125 million. Profit attributable to shareholders for the year increased by 3.51% to HK\$1,053 million. The basic earnings per share and fully diluted earnings per share were 14.09 HK cents and 13.99 HK cents representing increases of 3.99% and 3.32% respectively.

Turnover and Contribution

Total turnover of the corporate IT business grew 10.39% over the previous year to HK\$11,925 million and contribution to operating profit increased 4.51% to HK\$778 million.

The Group's consumer IT business recorded growth in turnover and contribution to operating profit of 13.75% and 28.41%, reaching HK\$7,761 million and HK\$467 million, respectively.

Sales of handheld device business increased 42.34% to HK\$2,050 million for the year while the loss of the business was HK\$75 million.

During the year, turnover of the IT service business rose by 198.03% to HK\$548 million, and loss was reduced to HK\$58 million.

Turnover of contract manufacturing business dropped by 9.27% to HK\$892 million and loss of HK\$95 million for the year was recorded.

Significant investments and Capital expenditure

In line with the Group's overall business and resources allocation strategies, the Group sold 50% stake of its motherboard business during the year. The deal brought in profit amounted to HK\$12 million. The Group also recorded a net profit of HK\$35 million from the sales of securities investment. The cooperation with AOL on developing internet business ended last year, shares of the jointly controlled entity previously owned by AOL were repurchased and the jointly controlled entity subsequently became a wholly owned subsidiary of the Group.

During the year, capital expenditure of HK\$466 million were incurred. Of this amount, HK\$58 million was used for investment in a subsidiary that develops and manufactures networking hardware products for the corporate IT business. The remaining HK\$408 million was used primarily for acquisition of fixed assets, injection into construction-in-progress and optimization of the Group's information technology systems.

During the year, HK\$561 million was recorded as addition of intangible assets which was mainly attributable to the sponsorship of The Olympic Partner Programme and recognition of goodwill arising from acquisition of subsidiaries.

Liquidity and financial resources

As at 31st March 2004, total asset of the Group was HK\$8,342 million which was financed by shareholder fund of HK\$4,489 million, minority interests of HK\$29 million, long-term and current liabilities of HK\$3,824 million. The current ratio of the Group was 1.85.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operation activities. As at 31st March 2004, cash and cash equivalents of the Group totaled at HK\$2,650 million. The balances consisted of about 26.9% in Hong Kong dollars, 22.7% in US dollars and 50.4% in Renminbi.

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31st March 2004, the Group's total available credit facilities amounted to HK\$3,783 million, of which HK\$1,609 million was in trade line, HK\$1,103 million in short term and revolving money market facilities and HK\$1,071 million in foreign exchange contract. As at 31st March 2004, the facility drawn down was HK\$671 million and HK\$468 million for the foreign currency options was utilized.

As at 31st March 2004, the Group has long-term loan amounted to HK\$75 million, comparing with the shareholders' fund of HK\$4,489 million, the Group's gearing ratio at the year end is 0.017. The Group will continue its prudent borrowing policy so as to maintain its gearing ratio at an acceptable level.

There were no assets held under finance lease during the year and as at the year end.

The Group consistently adopted a hedging policy for business transactions to minimize the risk of fluctuations from exchange rates on daily operations. As at 31st March 2004, the Group had outstanding foreign currency options amounting to HK\$468 million.

Contingent liabilities

The Group has no material contingent liabilities as at 31st March 2004.

Employees

As at 31st March 2004, the Group had a total of 11,408 employees, 11,311 of whom were employed in Chinese mainland and 97 were employed in Hong Kong and overseas. Through reallocation of resources, the Group reinforced its focus on the development of its core business. It also undertook strategic personnel restructuring involving a total expense of about HK\$22 million for the year. The Group implements remuneration policy, bonus and share options schemes subject to the performance of the Group and individual employees. It also provides training and benefits such as insurance, medical and retirement funds to its staff to sustain the competitiveness of the Group.

PROSPECTS

China's economy has seen rapid growth in the past few years. With the macroeconomic tightening measures of the Chinese government, the economy is expected to enter into a new phase of fast and robust growth. Privately-run and foreign-invested enterprises are emerging as new drivers of economic growth in the country. And their demands for IT products and services are among the largest in the market, hence presenting the Group with immense business opportunities.

China IT market is expected to see steady growth in 2004 while the Chinese government's macroeconomic tightening measures are not expected to negatively affect the development of the market. Unit shipment of notebook computers will see significant surge, making the limelight in the market. As for desktop PCs, sales are going to peak as consumers seek to replace equipments bought between 1999 and 2000 for Internet capabilities and the "Y2K" transition. This growth trend in the consumer IT market will be further fueled by the expanding applications and usage of the broadband network. The continuous evolution of the different sectors, such as the government, education and manufacturing will also enhance the stable advancement of the corporate IT market.

To further strengthen its core PC business, the Group has already introduced a series of initiatives since the fourth quarter of FY2003/04. Adopting a more focused strategy, the Group aims at developing its PC business into a sustainable and international business. The Group will implement active strategy to build stronger ties with its customers, to win more customers and to serve them on a long-term basis. The Group's sales forces have already penetrated into 18 regions in China. With a combined sales model, the Group will be able to secure a wider range of customers, thus filling the gap left by only using channel distribution model. At the same time, the Group will be able to better cover the diversified needs of large corporations and more diverse groups of customers, while strengthening its advantages in meeting the needs of individual customers and SMEs.

After a period of development, the handset business has proved to be able to leverage Lenovo's brand and other resources and advantages in its future expansion. Hence, the Group will continue to invest and develop this business. For the non-core businesses, the Group will adopt more flexible approaches such as introducing new partners to jointly develop the businesses.

Looking ahead, Lenovo will be able to fully realize its competitive advantages after the strategic adjustments, and capture opportunities for breakthroughs in the long run.

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

During the year, 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 HK\$	Lowest price per share HK\$	Aggregate consideration paid (including expenses) HK\$'000
April 2003	9,350,000	2.375	2.025	20,124
March 2004	3,000,000	2.775	2.725	8,270

The repurchased shares were subsequently cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof and an aggregate nominal value of shares repurchased of HK\$308,750 (2003: HK\$783,250) was transferred from retained earnings to share redemption reserve. The premium payable on repurchase was charged against the retained earnings 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 year.

FULL DETAILS OF FINANCIAL INFORMATION

A detailed results announcement of the Company containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") will be published on the websites of the Stock Exchange and the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 19th July 2004 to 23rd July 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Abacus Share Registrars Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 16th July 2004.

CODE OF BEST PRACTICE

Apart from the fact that the non-executive directors 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, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

By Order of the Board
Liu Chuanzhi
Chairman

As at the date hereof, the board of Directors 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, 2nd June 2004

Website: www.lenovo.com

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