



**Lenovo Group Limited**  
Interim Report  
2004/05

## CORPORATE INFORMATION

### Board of Directors Executive Directors

Mr Liu Chuanzhi (*Chairman*)

Mr Yang Yuanqing

(*Vice Chairman and President*)

Ms Ma Xuezheng

### Non-executive Director

Mr Zeng Maochao

### Independent Non-executive Directors

Mr Wong Wai Ming

Professor Woo Chia-Wei

Mr Ting Lee Sen

### Qualified Accountant

Mr Wong Wai Kwong

### Company Secretary

Ms Look Pui Fan

### Registered Office

23rd Floor, Lincoln House

Taikoo Place

979 King's Road

Quarry Bay

Hong Kong

### Principal Bankers

Bank of China

The Hongkong and Shanghai Banking  
Corporation Limited

Standard Chartered Bank (HK) Limited

### Auditors

PricewaterhouseCoopers

*Certified Public Accountants*

### Share Registrar

Abacus Share Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### American Depository Receipts

(Depository and Registrar)

Citibank, N.A.

14th Floor, 388 Greenwich Street

New York, NY 10013, USA

### Stock Codes

Hong Kong 992

ADR LNVGY

### Website

<http://www.lenovo.com>

## INTERIM 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 six months ended 30 September 2004 together with comparative figures for the corresponding period of last year.

## 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
	Notes				
Turnover	3	5,654,798	11,532,708	6,247,401	11,589,140
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		20,895	41,646	19,004	40,049
Profit from operations	4	308,564	644,999	262,268	535,651
Finance costs		(2,776)	(3,500)	–	–
		305,788	641,499	262,268	535,651
Share of losses of jointly controlled entities		(6,090)	(10,110)	(4,910)	(13,539)
Share of (losses)/profits of associated companies		(2,051)	(246)	270	5,379
Profit before taxation		297,647	631,143	257,628	527,491
Taxation	5	(13,593)	(24,905)	(2,079)	1,326
Profit after taxation		284,054	606,238	255,549	528,817
Minority interests		5,992	20,633	5,613	10,601
Profit attributable to shareholders		290,046	626,871	261,162	539,418
Dividend	6	N/A	179,357	N/A	149,436
Earnings per share – basic	7	3.89 HK cents	8.39 HK cents	3.49 HK cents	7.22 HK cents
Earnings per share – fully diluted	7	3.88 HK cents	8.38 HK cents	3.47 HK cents	7.19 HK cents

## CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
<b>Non-current assets</b>			
Intangible assets		552,487	646,986
Tangible fixed assets		867,707	987,272
Construction-in-progress		290,607	260,377
Investments in jointly controlled entities		193,466	124,124
Investments in associated companies		50,891	112,682
Investment securities		28,283	75,982
Deferred tax assets		34,780	34,718
		<b>2,018,221</b>	<b>2,242,141</b>
<b>Current assets</b>			
Inventories		905,195	1,393,018
Trade receivables	8	1,714,639	1,230,944
Notes receivable		646,442	520,321
Deposits, prepayments and other receivables		751,331	301,513
Tax recoverable		–	4,033
Cash and cash equivalents		3,126,389	2,650,071
		<b>7,143,996</b>	<b>6,099,900</b>
<b>Current liabilities</b>			
Trade payables	8	2,479,248	2,155,057
Notes payable		317,475	356,531
Accruals and other payables		688,153	616,897
Amounts due to jointly controlled entities		107,199	108,471
Tax payable		17,341	5,031
Short-term bank loan		125,000	–
Current portion of long-term liabilities		115,659	55,453
		<b>3,850,075</b>	<b>3,297,440</b>
<b>Net current assets</b>		<b>3,293,921</b>	<b>2,802,460</b>
<b>Total assets less current liabilities</b>		<b>5,312,142</b>	<b>5,044,601</b>
<b>Financed by:</b>			
Share capital		186,830	186,890
Reserves		4,703,171	4,301,834
<b>Shareholders' funds</b>		<b>4,890,001</b>	<b>4,488,724</b>
<b>Minority interests</b>		<b>30,800</b>	<b>29,330</b>
<b>Long-term liabilities</b>		<b>391,341</b>	<b>526,547</b>
		<b>5,312,142</b>	<b>5,044,601</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 September 2004 (unaudited) HK\$'000	6 months ended 30 September 2003 (unaudited) HK\$'000
Net cash inflow from operating activities	598,326	110,401
Net cash outflow from investing activities	(18,532)	(174,014)
Net cash outflow from financing activities	(103,601)	(631,736)
Increase/(decrease) in cash and cash equivalents	476,193	(695,349)
Effect of foreign exchange rate changes	125	(4)
Cash and cash equivalents at the beginning of the period	2,650,071	2,808,323
Cash and cash equivalents at the end of the period	3,126,389	2,112,970

## 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
Balance 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	-	-	-	-	(1,322)	-	-	(1,322)
Exchange differences	-	-	-	13	-	-	-	13
Net gains and losses not recognised in the consolidated profit and loss account	-	-	-	13	(1,322)	-	-	(1,309)
Profit for the period	-	-	-	-	-	-	626,871	626,871
Reserves written off on disposal of subsidiaries	-	-	-	(2,377)	-	-	-	(2,377)
Reserves realised on disposal of investment securities	-	-	-	-	(12,908)	-	-	(12,908)
Impairment of investments	-	-	-	-	19,601	-	-	19,601
Exercise of share options	128	11,556	-	-	-	-	-	11,684
Repurchase of shares	(188)	(16,093)	-	-	-	188	-	(16,093)
Dividend paid	-	-	-	-	-	-	(224,192)	(224,192)
<b>As at 30 September 2004</b>	<b>186,830</b>	<b>4,757,989</b>	<b>27,871</b>	<b>2,217</b>	<b>(605)</b>	<b>3,086</b>	<b>(87,387)</b>	<b>4,890,001</b>
Balance 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	-	-	-	-	13,707	-	-	13,707
Exchange differences	-	-	-	(4)	-	-	-	(4)
Net gains and losses not recognised in the consolidated profit and loss account	-	-	-	(4)	13,707	-	-	13,703
Profit for the period	-	-	-	-	-	-	539,418	539,418
Reserves realised on disposal of investment securities	-	-	-	-	(341)	-	-	(341)
Exercise of share options	8	758	-	-	-	-	-	766
Repurchase of shares	(234)	-	-	-	-	234	(20,124)	(20,124)
Dividend paid	-	-	-	-	-	-	(612,378)	(612,378)
<b>As at 30 September 2003</b>	<b>186,708</b>	<b>4,734,813</b>	<b>27,871</b>	<b>4,307</b>	<b>(1,130)</b>	<b>2,823</b>	<b>(845,827)</b>	<b>4,109,565</b>

Notes:

**1. 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.

**2. Principal accounting policies**

The principal accounting policies and methods of calculations used in the preparation of these unaudited interim 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 six months ended 30 September 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
Profit and loss account					
Turnover	6,228,287	3,818,778	1,191,327	294,316	11,532,708
Segment operating results	313,188	239,969	1,363	(53,031)	501,489
Amortisation of goodwill					(11,154)
Impairment of assets					(51,364)
Gains on disposal of investments					164,382
Finance income					41,646
Finance costs					(3,500)
Contribution to operating profit					641,499
Share of losses of jointly controlled entities					(10,110)
Share of losses of associated companies					(246)
Profit before taxation					631,143
Taxation					(24,905)
Profit after taxation					606,238
Minority interests					20,633
Profit attributable to shareholders					626,871

**3. Turnover, revenue and segment information** (continued)**3A. Primary reporting format – business segments** (continued)

(ii) For the six months ended 30 September 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	5,855,356	4,138,201	908,359	687,224	11,589,140
Segment operating results	369,775	237,716	(43,527)	(63,375)	500,589
Amortisation of goodwill					(10,989)
Gains on disposal of investments					6,002
Finance income					40,049
Finance costs					–
Contribution to operating profit					535,651
Share of losses of jointly controlled entities					(13,539)
Share of profits of associated companies					5,379
Profit before taxation					527,491
Taxation					1,326
Profit after taxation					528,817
Minority interests					10,601
Profit attributable to shareholders					539,418

**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

	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
(a) Turnover	5,654,798	11,532,708	6,247,401	11,589,140
Cost of sales	(4,874,050)	(9,828,870)	(5,357,790)	(9,864,801)
Gross profit	780,748	1,703,838	889,611	1,724,339
Finance income	20,895	41,646	19,004	40,049
Gains on disposal of investments	110,294	164,382	6,002	6,002
Impairment of assets	(20,363)	(51,364)	–	–
Distribution expenses	(399,509)	(818,412)	(446,224)	(832,162)
Administrative expenses	(75,673)	(170,616)	(88,894)	(181,192)
Other operating expenses	(100,367)	(208,584)	(108,790)	(206,151)
Amortisation of intangible assets	(7,461)	(15,891)	(8,441)	(15,234)
Total operating expenses (see (b))	(583,010)	(1,213,503)	(652,349)	(1,234,739)
Profit from operations	308,564	644,999	262,268	535,651
(b) Analysis of operating expenses by nature:				
Selling expenses	(129,472)	(285,794)	(147,902)	(291,952)
Promotional and advertising expenses	(98,193)	(184,141)	(105,109)	(189,345)
Staff costs	(200,753)	(434,349)	(234,473)	(458,496)
Other expenses	(147,131)	(293,328)	(156,424)	(279,712)
Amortisation of intangible assets	(7,461)	(15,891)	(8,441)	(15,234)
Total operating expenses	(583,010)	(1,213,503)	(652,349)	(1,234,739)

## 5. Taxation

	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
Taxation outside Hong Kong	13,154	24,834	5,470	11,554
Deferred taxation	454	(62)	(3,377)	(13,097)
	13,608	24,772	2,093	(1,543)
Share of taxation attributable to:				
jointly controlled entities	(15)	11	–	84
associated companies	–	122	(14)	133
	13,593	24,905	2,079	(1,326)

**6. Dividend**

	<b>6 months ended 30 September 2004 (unaudited) HK\$'000</b>	6 months ended 30 September 2003 (unaudited) HK\$'000
Interim dividend, declared after period end, of 2.4 HK cents (2003/04: 2.0 HK cents) per share	<b>179,357</b>	149,436

**7. Earnings per share**

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

	<b>6 months ended 30 September 2004 (unaudited)</b>	6 months ended 30 September 2003 (unaudited)
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	<b>626,871</b>	539,418
Weighted average number of shares for the purposes of basic earnings per share	<b>7,476,022,359</b>	7,469,327,977
Effect of potential dilutive shares	<b>6,162,854</b>	30,914,415
Weighted average number of shares for the purposes of diluted earnings per share	<b>7,482,185,213</b>	7,500,242,392

**8. Ageing analysis**

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

	<b>As at 30 September 2004 (unaudited) HK\$'000</b>	As at 30 June 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
0-30 days	<b>1,411,565</b>	1,233,249	944,212
31-60 days	<b>176,109</b>	77,050	84,481
61-90 days	<b>12,082</b>	19,358	20,862
Over 90 days	<b>114,883</b>	166,584	181,389
	<b>1,714,639</b>	1,496,241	1,230,944

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.

## 8. Ageing analysis (continued)

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

	As at 30 September 2004 (unaudited) HK\$'000	As at 30 June 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
0-30 days	1,991,482	1,567,468	1,791,869
31-60 days	355,502	335,793	210,993
61-90 days	42,177	69,766	27,554
Over 90 days	90,087	130,210	124,641
	<b>2,479,248</b>	2,103,237	2,155,057

## 9. Condensed balance sheet of the Company

	As at 30 September 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
Tangible fixed assets	24,505	32,115
Investments	2,334,365	2,327,875
Current assets	4,175,612	4,408,126
Current liabilities	124,438	130,700
Net current assets	4,051,174	4,277,426
Total assets less current liabilities	6,410,044	6,637,416
Share capital	186,830	186,890
Retained earnings	1,462,941	1,685,102
Reserves	4,760,273	4,765,424
	<b>6,410,044</b>	6,637,416

## INTERIM DIVIDEND

The Board has declared an interim dividend of 2.4 HK cents (2003/04: 2.0 HK cents) per share for the six months ended 30 September 2004, absorbing an aggregate amount of approximately HK\$179 million (2003/04: HK\$149 million), to shareholders whose names appear on the Register of Members of the Company on 8 December 2004. The interim dividend will be paid on 14 December 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 2 December 2004 to 8 December 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim 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 the Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 1 December 2004.

## FINANCIAL REVIEW

### Results

For the six months ended 30 September 2004, the Group achieved an interim turnover of approximately HK\$11,533 million. Profit attributable to shareholders rose to approximately HK\$627 million during the period, representing an increase of 16.21% against HK\$539 million recorded in the same period last year. Basic earnings per share and fully diluted earnings per share were 8.39 HK cents and 8.38 HK cents, representing increases of 16.20% and 16.55% respectively as compared with the same period last year.

### Segment Results

During the period, turnover of corporate IT business amounted to HK\$6,228 million and segment operating profit reached HK\$313 million. As for consumer IT business, turnover was HK\$3,819 million and segment operating profit reached HK\$240 million. The turnover of handheld device business increased to HK\$1,191 million, segment operating loss of HK\$44 million was recorded last year while segment operating profit of HK\$1.36 million was recorded this year. Turnover of other businesses (IT services and contract manufacturing business) decreased to HK\$294 million, mainly caused by deconsolidation of the contract manufacturing business since 1 June 2004, with segment operating loss reduced to HK\$53 million.

### Gains on Disposal of Investments

The Group recorded net gains of HK\$164 million on disposal of investments during the period. The gains were mainly from the disposal of subsidiaries and associated companies in relation to IT services business and printed circuit board business.

### Impairment of Assets

Impairment losses of HK\$20 million and HK\$31 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\$110 million during the six months ended 30 September 2004, mainly for acquisition of fixed assets, injection into construction-in-progress and optimisation of the Group's information technology systems.

## FINANCIAL REVIEW *(continued)*

### Liquidity and Financial Resources

As at 30 September 2004, total assets of the Group amounted to HK\$9,162 million, which was financed by shareholders' funds of HK\$4,890 million, minority interests of HK\$31 million, long-term and current liabilities of HK\$4,241 million. The current ratio of the Group was 1.86.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 30 September 2004, cash and cash equivalents of the Group totaled at HK\$3,126 million, of which about 12% were in Hong Kong dollars, 26% in US dollars and 62% in Renminbi.

The Group is consistently in a very liquid position and has also arranged credit facilities for contingency purposes. As at 30 September 2004, the Group's total available credit facilities amounted to HK\$4,060 million, of which HK\$1,851 million was in trade line, HK\$1,038 million in short term and revolving money market facilities and HK\$1,171 million in foreign currency contracts and options. As at 30 September 2004, the facility drawn down was HK\$435 million in trade line, HK\$125 million in short term and revolving money market facilities, and HK\$390 million in foreign currency contracts and options. The Group consistently adopts a hedging policy for business transactions to minimise the risk of fluctuation from exchange rates on daily operations.

The Group's outstanding bank loan as at 30 September 2004 was HK\$125 million. When compared with shareholders' funds of HK\$4,890 million, the Group's gearing ratio was 0.026. 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 September 2004.

### Employees

As at 30 September 2004, the Group had a total of 9,206 employees, 9,148 of whom were employed in Chinese mainland and 58 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 AND PROSPECTS

In the first half of the 2004/05 fiscal year, the Group further implemented its strategic initiatives and strengthened the fundamentals of various business segments. The unit shipment growth of Lenovo PCs was consistent with the market rate in China during the July to September quarter. Lenovo's market share increased over the previous quarter, reaching about 27%. Notebook and mobile handset businesses continued their rapid growth. The Group's interim turnover was in line with that in the same period last year. The Group's gross margin reduced slightly to 14.77% while net profit increased by 16.21%, as compared with the same period last year.

The period under review saw the initial effects of the macroeconomic control measures of the Chinese government. The Chinese PC market maintained steady 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, increased rapidly. The demand for home PCs in township market burgeoned. The overall desktop and notebook computer average selling prices (ASPs) in the market declined more rapidly as competitive tendering became a major way of purchase for the government and education sectors, the prices of mainstream home PCs declined and the prices of certain components also came down. During the period, the unit shipment growth in the Chinese mobile handset market slowed down. Due to the disadvantage of domestic vendors in research capabilities as compared to their foreign counterparts, the aggregate market share of domestic vendors decreased. Some domestic vendors grew faster due to their focus on research and development.

During the first half of the fiscal year, the Group adopted an innovative approach to develop its non-core business while at the same time focused its management and market resources on developing its computer and mobile handset businesses. For its corporate and consumer IT businesses, the Group was able to better meet customer needs and improved its control of customer information through setting up a network spanning 18 regions and an integrated distribution model that combines channel sales and direct-to-customer sales. The improved control of customer information has helped the Group optimise its commercial customer portfolio, and enhance its capabilities in managing business leads and targeting commercial customers. During the period, Lenovo also stepped up its penetration of the small and medium enterprise (SME) market in an effort to alleviate the pressure on ASP and gross margin from competitive tendering in the government and education sectors. In the consumer market, the Group actively developed market segment with high volume growth potentials by launching the "Yuanmeng" PC series designed for township home users and the "Xuri" notebook computer series for low-end market. The Group believes it stands to benefit from the

## **BUSINESS REVIEW AND PROSPECTS** (continued)

steady growth in demand by users in the township market. In view of the irrational price competition among second-tier PC vendors and intensified competition from foreign brands since the beginning of the year, the Group proactively adopted certain market tactics. With the principle of maintaining a healthy operation in mind, the Group leveraged its price advantage and strategically adjusted its product line to capture the low-end market and to explore the market segments with high volume growth potentials. Lenovo effectively minimised the impact from the aggressive moves of its competitors and increased its market share.

The Group's handheld device business reported a satisfactory growth during the period with a year-on-year unit shipment growth 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%, thanks to its persistence in developing proprietary products with unique features and implementing the "10,000-shop expansion project".

Looking into the second half of the fiscal year, the Group expects the Chinese PC market to continue its steady growth in a friendlier competitive environment and the market ASP to reduce at a slower pace. Benefits of the strategic initiatives that the Group has implemented for six months will be more apparent. The Group's strategy to strengthen its ties with customers will allow it to improve its capability in serving quality customers. It also expects its efforts in cultivating market segments with high volume growth potentials to bear fruit. Lenovo will continue to strengthen its competitiveness and explore new opportunities in both domestic and overseas markets. The Group believes it will be able to bring long term stable returns to investors.



## SHARE OPTION SCHEMES

At the Extraordinary General Meeting of the Company held on 25 March 2002, the shareholders of the Company approved the adoption of a new share option scheme (the “New Option Scheme”) and the termination of its old share option scheme (the “Old Option Scheme”). Despite the fact that no further options may be granted under the Old Option Scheme, all other provisions shall remain in force to govern all the outstanding options previously granted.

Details of the movement of share options of the Company for the six months ended 30 September 2004 were as follows:

	Options held at 1.4.2004	Options granted during the period	Options exercised during the period	Options cancelled/ lapsed during the period	Options held at 30.9.2004	Exercise price per share HK\$	Grant date	Exercise period
<b>Old Option Scheme</b>								
<i>Directors</i>								
Mr Liu Chuanzhi	2,250,000	-	-	-	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Mr Yang Yuanqing	6,000,000	-	-	-	6,000,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	2,250,000	-	-	-	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Ms Ma Xuezheng	2,920,000	-	-	-	2,920,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	1,600,000	-	-	-	1,600,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
<i>Continuous contract employees</i>	7,712,000	-	-	-	7,712,000	4.038	28.01.2000	28.01.2000 to 27.01.2010
	127,162,000	-	-	36,642,000 (lapsed)	74,480,000	4.312	15.01.2001	15.01.2001 to 14.01.2011
				16,040,000 (cancelled)				
	26,630,000	-	-	-	26,630,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	832,000	-	-	-	832,000	2.904	29.08.2001	29.08.2001 to 28.08.2011
	108,050,000	-	20,000	21,180,000 (lapsed)	70,160,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
				16,690,000 (cancelled)				

**SHARE OPTION SCHEMES** (continued)

	Options held at 1.4.2004	Options granted during the period	Options exercised during the period	Options cancelled/ lapsed during the period	Options held at 30.9.2004	Exercise price per share HK\$	Grant date	Exercise period
<b>New Option Scheme</b>								
<i>Directors</i>								
Mr Liu Chuanzhi	3,000,000	-	-	-	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Zeng Maochao	1,600,000	-	-	-	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Yang Yuanqing	3,000,000	-	-	-	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Ms Ma Xuezheng	1,600,000	-	-	-	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
<i>Continuous contract employees</i>	31,788,000	-	858,000	6,040,000 (lapsed)	24,890,000	2.435	10.10.2002	10.10.2002 to 09.10.2012
	126,942,000	-	4,248,000	15,762,000 (lapsed)	106,932,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
	- 156,278,000	-	-	-	156,278,000	2.545	27.04.2004	27.04.2004 to 26.04.2014
	- 9,400,000	-	-	-	9,400,000	2.170	08.07.2004	08.07.2004 to 07.07.2014
<i>Other participants</i>	16,142,000	-	-	-	16,142,000	2.435	10.10.2002	10.10.2002 to 09.10.2012

**Notes:**

- In respect of the share options granted on 27 April 2004, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.50.
- In respect of the share options granted on 8 July 2004, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.20.
- Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK\$2.85.
- Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK\$2.92.
- A total of 79,624,000 options were lapsed in accordance with the terms of the Old Option Scheme and the New Option Scheme.
- A total of 32,730,000 options were cancelled in accordance with the terms of the Old Option Scheme.
- No cost is recognised when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long Position in the Shares of the Company

	Interests in shares/ underlying shares	Capacity and number held			Aggregate interests
		Personal interests	Family interests	Trusts	
Mr Liu Chuanzhi	Shares	16,010,000	976,000	-	16,986,000
	Share options	5,250,000	-	-	5,250,000
					22,236,000
Mr Zeng Maochao	Shares	8,080,000	600,000	-	8,680,000
	Share options	1,600,000	-	-	1,600,000
					10,280,000
Mr Yang Yuanqing	Shares	10,200,000	-	-	10,200,000
	Share options	11,250,000	-	-	11,250,000
					21,450,000
Ms Ma Xuezheng	Shares	15,834,000	-	7,240,000	23,074,000
	Share options	6,120,000	-	-	6,120,000
					29,194,000

Note: Particulars of directors' interests in the share options of the Company are set out under the section "Share Option Schemes".

Save as disclosed above, as at 30 September 2004, none of the directors, chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests or short positions of every person, other than the directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained under section 336 of the SFO were as follows:

	Long/short position	Capacity and number held		Aggregate long/short position	Percentage (Note 4)
		Beneficial owner	Corporate interests		
Legend Holdings Limited (Note 1)	Long position	2,787,340,724	1,469,311,247 (Note 2)	4,256,651,971	56.96%
	Short position	119,704,000	–	119,704,000	1.60%
Employees' Shareholding Society of Legend Holdings Limited (Note 3)	Long position	–	4,256,651,971	4,256,651,971	56.96%
	Short position	–	119,704,000	119,704,000	1.60%

### Notes:

1. The English name "Legend Holdings Limited" is a direct transliteration of its Chinese company name "聯想控股有限公司".
2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested, or has short positions, in any shares in which they are interested or have short positions.
4. The calculation of percentage figure is based on the aggregate long/short position as a percentage of the number of issued shares of the Company in issue as at 30 September 2004.

Save as disclosed above, as at 30 September 2004, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

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

During the six months ended 30 September 2004, the Company purchased its own shares on 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
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 been established since 1999 with responsibility of assisting the Board in providing an independent review of the accounts and internal control system. It acts in accordance with the Terms of Reference which clearly deal with its membership, authority, duties and frequency of meetings. The Audit Committee is chaired by an independent non-executive director, Mr Wong Wai Ming, and currently comprises four members including Mr Wong, the other two independent non-executive directors, Professor Woo Chia-Wei and Mr Ting Lee Sen, and the non-executive director, Mr Zeng Maochao.

The Audit Committee of the Company has reviewed the interim report for the six months ended 30 September 2004. 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.

## CORPORATE GOVERNANCE

### Code of Best Practice

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 interim results, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules, 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.

### Model Code

The Company has adopted the Model Code along with its guidance note to govern directors' securities transactions. The directors of the Company have complied with the required standard set out in the Model Code and the guidance note.

By order of the Board

**Liu Chuanzhi**

*Chairman*

Hong Kong, 16 November 2004