

Lenovo Group Limited

2004/05 Interim Results Announcement

Financial Review

November 16, 2004

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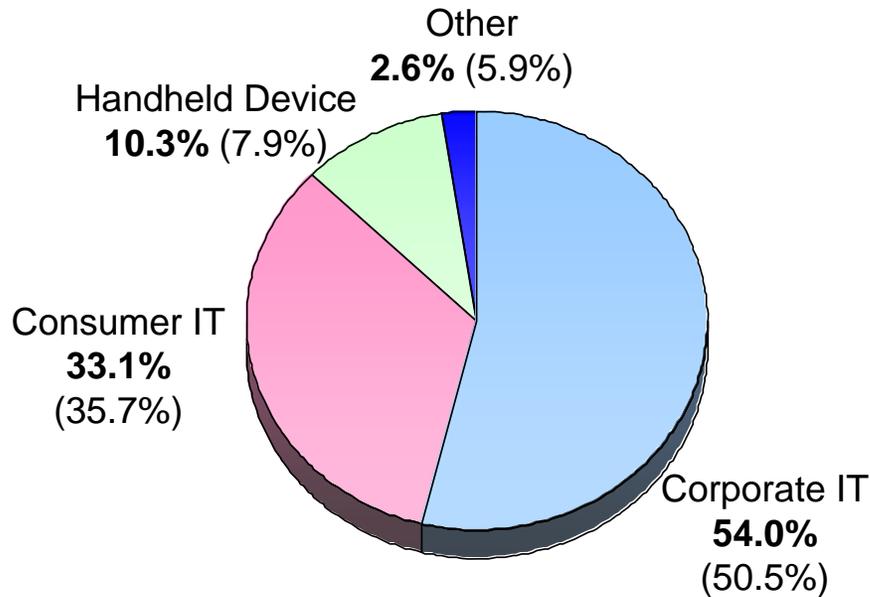
Results Overview

HK\$	2004/05 Interim	2003/04 Interim	Change
Turnover	11.533 bil	11.589 bil	-0.5%
Gross margin	14.77%	14.88%	Down 0.1%
EBITDA	608 mil	602 mil	1.0%
Profit attributable to shareholders	627 mil	539 mil	16.2%
Earnings per share (Basic)	8.39 cents	7.22 cents	16.2%
Net margin	5.44%	4.65%	Up 0.8%
ROE	13.44%	12.66%	Up 0.8%
Interim dividend (per share)	2.4 cents	2.0 cents	-

2004/05 Interim Consolidated P&L Account

HK\$'000	2004/05 Q2	2004/05 Interim	% of Turnover	2003/04 Q2	2003/04 Interim	% of Turnover
Turnover	\$ 5,654,798	\$ 11,532,708		\$ 6,247,401	\$ 11,589,140	
EBITDA	\$ 255,662	\$ 608,114	5.27%	\$ 294,842	\$ 602,170	5.20%
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	
Interest income	\$ 20,895	\$ 41,646		\$ 19,004	\$ 40,049	
Profit from operations	\$ 308,564	\$ 644,999	5.59%	\$ 262,268	\$ 535,651	4.62%
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	\$ (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	5.44%	\$ 261,162	\$ 539,418	4.65%
Dividend	\$ -	\$ 179,357		\$ -	\$ 149,436	
Earnings per share (Basic)	3.89 cents	8.39 cents		3.49 cents	7.22 cents	
Earnings per share (Fully diluted)	3.88 cents	8.38 cents		3.47 cents	7.19 cents	

2004/05 Interim Turnover Breakdown



Lenovo PC Shipment

YoY Change	Q2	1st Half
Commercial DT	14.8%	15.9%
Consumer DT	9.8%	7.7%
Notebook	41.5%	42.8%
Server	-9.6%	-8.7%
Total	14.6%	14.4%

Note 1: Other businesses includes IT service and contract manufacturing which account for 1.8% and 0.8% in FY2004/05 interim and 2.3% and 3.6% in FY2003/04 interim respectively. Contract manufacturing business has been deconsolidated since June 1, 2004.

Note 2: FY2003/04 interim figures are in brackets.

Changes in Turnover Breakdown (Interim)

HK\$ Million	2004/05 Interim	2003/04 Interim	Change
Corporate IT	\$ 6,228	\$ 5,855	6.4%
Consumer IT	\$ 3,819	\$ 4,138	-7.7%
<i>Sub-total:</i>	\$ 10,047	\$ 9,993	0.5%
Handheld Device	\$ 1,192	\$ 909	31.2%
Other	\$ 294	\$ 687	-57.2%
Total	\$ 11,533	\$ 11,589	-0.5%

Note 3: Turnover of IT service decreased 20.8%, amounting to HK\$211.0 million while turnover of contract manufacturing decreased 80.2%, amounting to HK\$83.3 million in FY2004/05 interim.

Changes in Turnover Breakdown (Q2)

HK\$ Million	2004/05 Q2	2003/04 Q2	Change
Corporate IT	\$ 3,243	\$ 3,277	-1.0%
Consumer IT	\$ 1,749	\$ 2,093	-16.4%
<i>Sub-total:</i>	\$ 4,992	\$ 5,370	-7.0%
Handheld Device	\$ 546	\$ 508	7.4%
Other	\$ 117	\$ 369	-68.2%
Total	\$ 5,655	\$ 6,247	-9.5%

Note 4: Turnover of IT service decreased 25.3%, amounting to HK\$117.3 million in FY2004/05 Q2. Contract manufacturing business has been deconsolidated since June 1, 2004.

Changes in Segment Operating Profit (Interim)

HK\$'000	2004/05 Interim	2003/04 Interim	Change
Corporate IT	\$ 313,188	\$ 369,775	-15.3%
Consumer IT	\$ 239,969	\$ 237,716	0.9%
<i>Sub-total:</i>	\$ 553,157	\$ 607,491	-8.9%
Handheld Device	\$ 1,363	\$ (43,527)	N/A
Other	\$ (53,031)	\$ (63,375)	N/A
Total	\$ 501,489	\$ 500,589	0.2%

Note 5: Operating loss of IT service amounted to HK\$40.48 million in FY2004/05 interim as compared to HK\$20.02 million of the same period last year. Operating loss of contract manufacturing amounted to HK\$12.55 million in FY2004/05 interim, as compared to HK\$43.36 million of the same period last year.

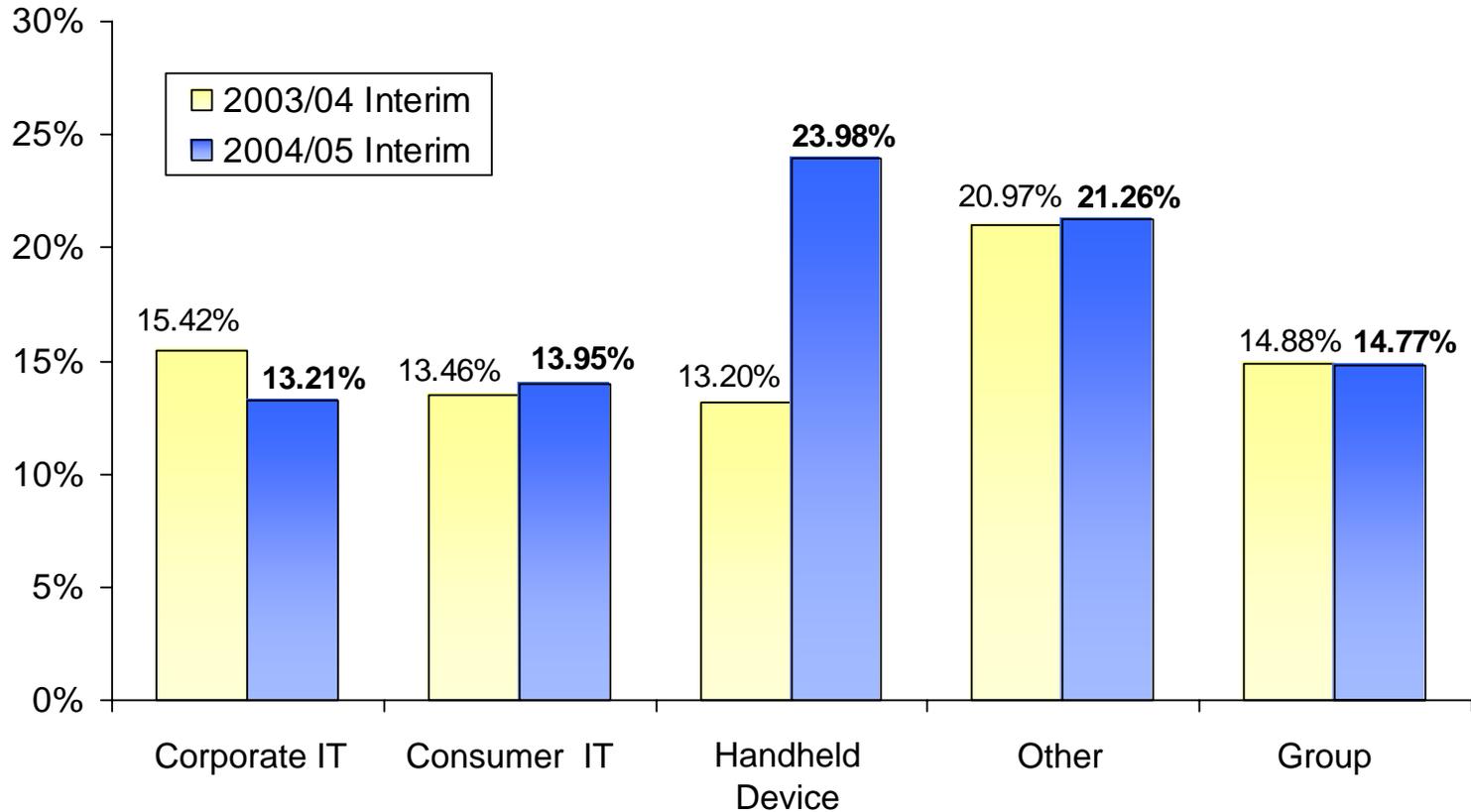
Note 6: Segment operating profit before amortization of goodwill, impairment of assets and gains on disposal of investments.

Changes in Segment Operating Profit (Q2)

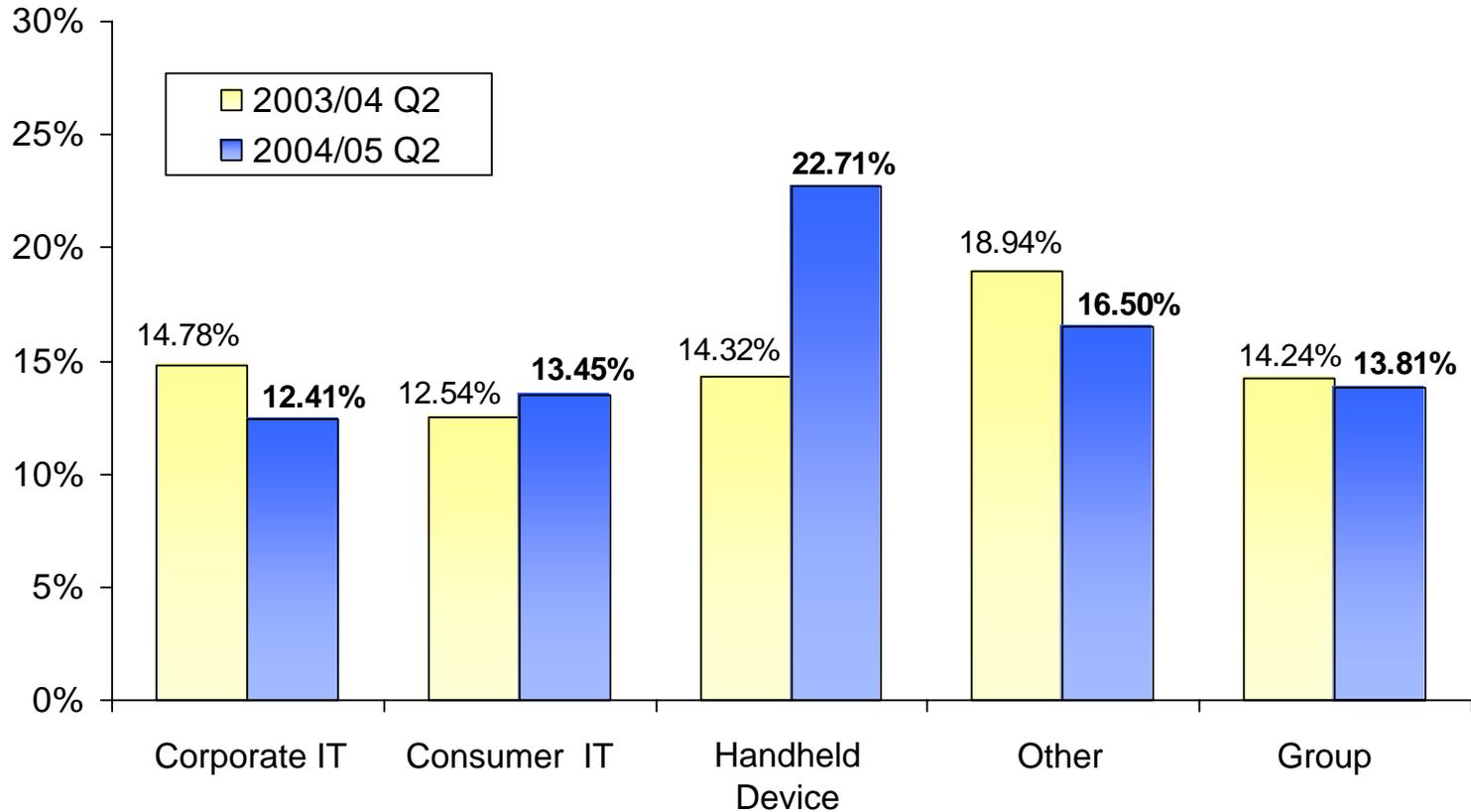
HK\$'000	2004/05 Q2	2003/04 Q2	Change
Corporate IT	\$ 142,571	\$ 202,702	-29.7%
Consumer IT	\$ 92,949	\$ 91,382	1.7%
<i>Sub-total:</i>	\$ 235,520	\$ 294,084	-19.9%
Handheld Device	\$ 463	\$ (18,742)	N/A
Other	\$ (33,152)	\$ (31,761)	N/A
Total	\$ 202,831	\$ 243,581	-16.7%

Note 7: Operating loss of IT service amounted HK\$33.15 million in FY2004/05 interim as compared to HK\$9.78 million of the same period last year. Contract manufacturing business has been deconsolidated since June 1, 2004.

Gross Margin Analysis (Interim)



Gross Margin Analysis (Q2)



Consolidated Balance Sheet

HK\$ Million	As at 30/9/2004	As at 30/6/2004	As at 31/3/2004
Intangible assets	\$ 552	\$ 586	\$ 647
Tangible fixed assets	\$ 867	\$ 911	\$ 987
Construction-in-progress	\$ 291	\$ 267	\$ 260
Investments	\$ 273	\$ 352	\$ 313
Deferred tax assets	\$ 35	\$ 35	\$ 35
Current assets	\$ 7,144	\$ 6,619	\$ 6,100
Current liabilities	\$ 3,850	\$ 3,491	\$ 3,297
Net current assets	\$ 3,294	\$ 3,128	\$ 2,803
Total assets less current liabilities	\$ 5,312	\$ 5,279	\$ 5,045
Shareholders' funds	\$ 4,890	\$ 4,833	\$ 4,489
Minority interests	\$ 31	\$ 24	\$ 29
Deferred tax liabilities	\$ 391	\$ 422	\$ 527
	\$ 5,312	\$ 5,279	\$ 5,045

Key Financial Figures

HK\$ Million	2004/05 Interim	2003/04 Full Year	2003/04 Interim
Cash reserves	\$ 3,126	\$ 2,650	\$ 2,113
Total borrowings	\$ 125	\$ -	\$ -
Net cash reserves	\$ 3,001	\$ 2,650	\$ 2,113
Net tangible assets	\$ 4,338	\$ 3,842	\$ 3,955
Capital expenditure	\$ 110	\$ 466	\$ 220
Current ratio	1.9 x	1.9 x	1.8 x
Days inventory	22.7 days	24.9 days	24.6 days
Days receivable	31.5 days	28.0 days	24.0 days
Days payable	45.8 days	39.9 days	37.7 days

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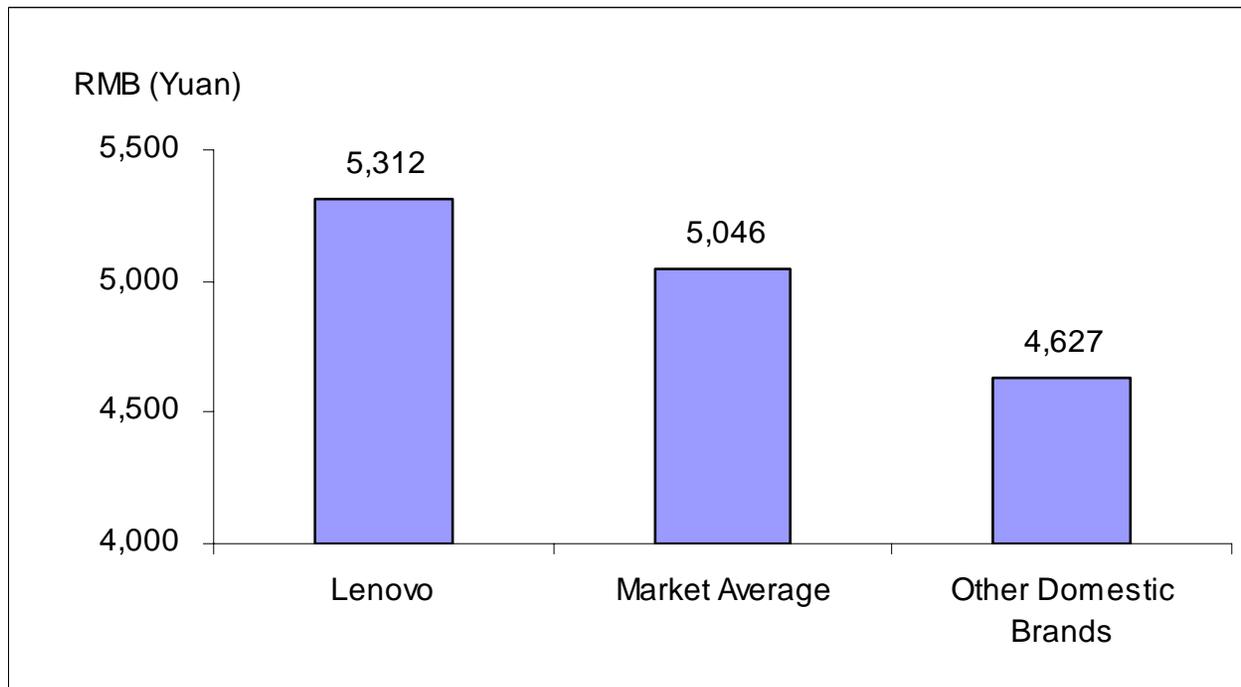
Market and Business Review

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China PC Market Review: ASP Declines

2004 Q1 (Jan – Mar) China Desktop PC Market ASP



Source: IDC

China PC Market Review: Irrational Competition Intensified

- Domestic brands: Low margin competition
- Multinational brands: Increased efforts in China

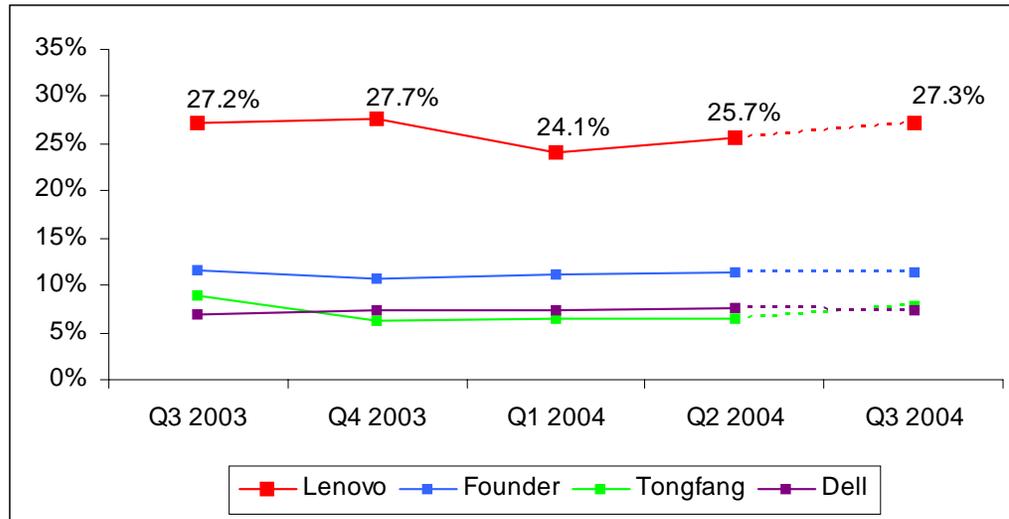
Proactive Market Tactics

- Prerequisites for proactive tactics
 - No change to profit model and maintain >14% gross margin
 - No change to customer base and maintain market share
- The Breakthrough
 - Modify product mix and strive for differentiation

Modify Product Mix – Launch “Yuanmeng”

- Increase share of low-end market
- Explore the emerging tier 5 to 6 city market

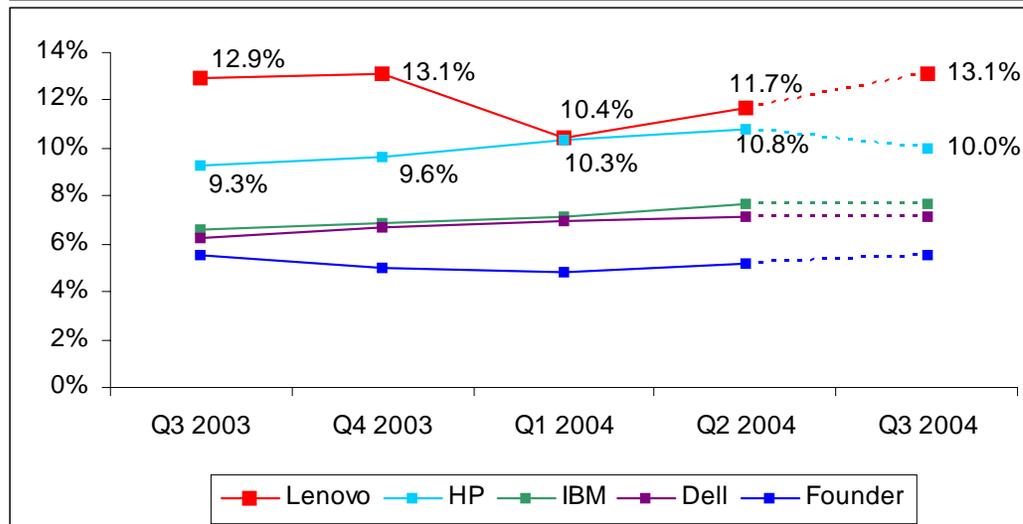
Modify Product Mix



Market Share Changes of Top 4 PC Vendors in China

Source: IDC

Q3 2004 figures are deduced from Asia Pacific pre-announcement



Market Share Changes of Top 5 PC Vendors in Asia Pacific

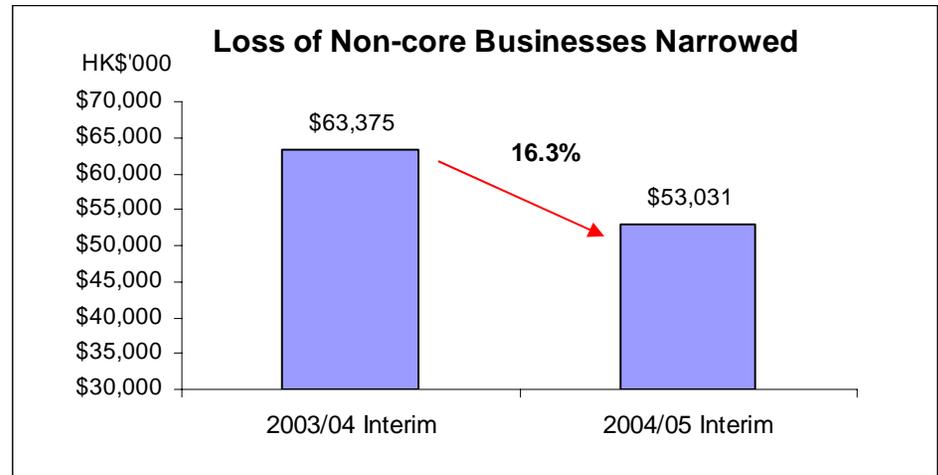
Source: IDC

Factors Affecting Operating Results

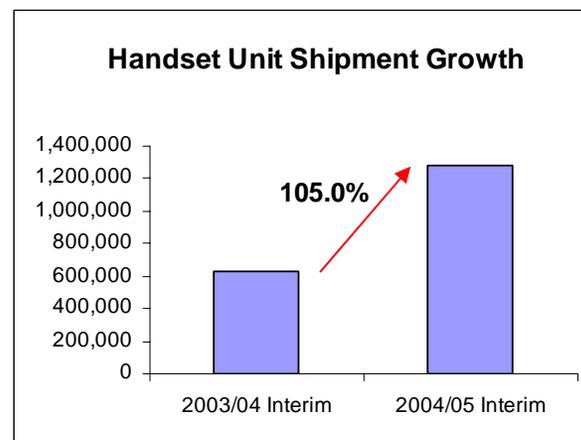
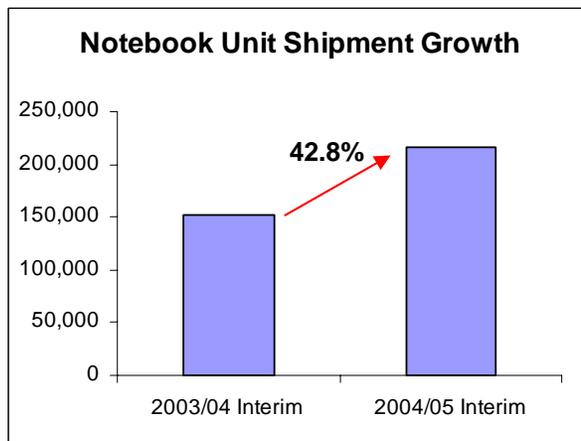
- Implementation of proactive tactics in response to market changes
- During the initial stage of business model changes and strategic reform

Reform Implementation: Focus

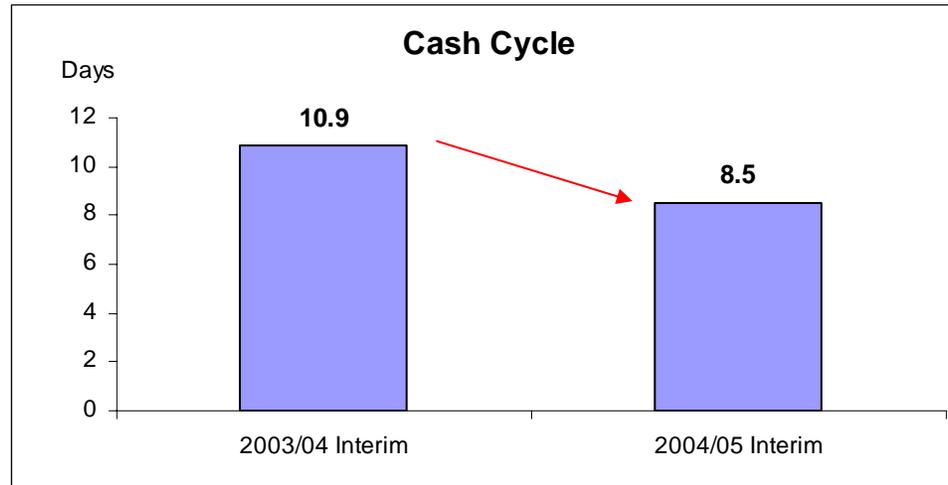
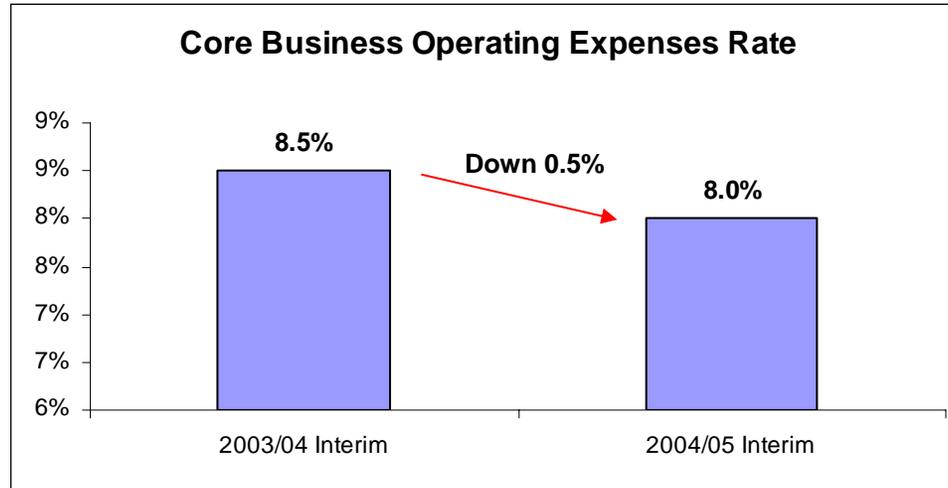
- Decisively adopted an innovative approach to develop non-core businesses



- Ensure the significant growth of strategic new businesses

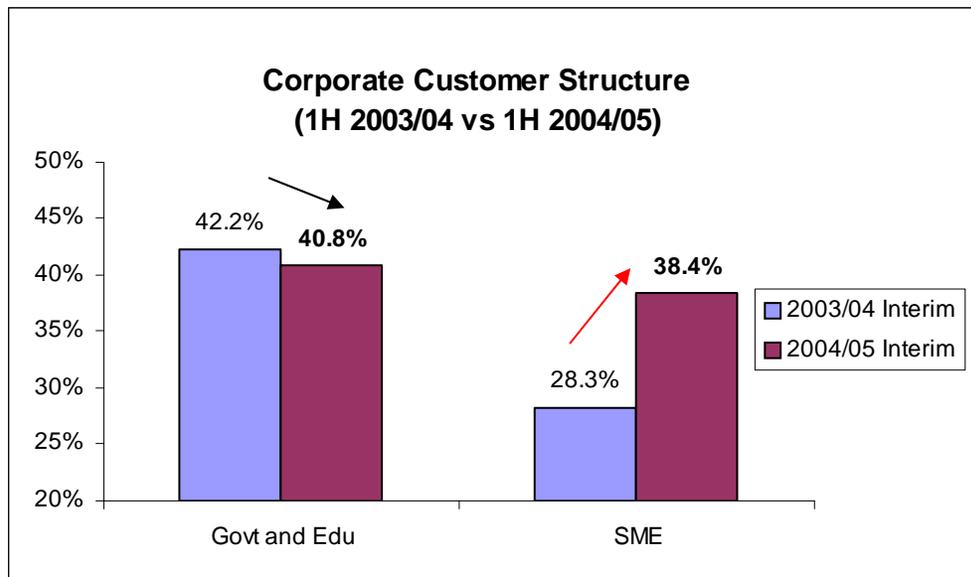


Reform Implementation: Enhance Operational Efficiency



Reform Implementation: Customer-oriented

- Distribution channel / Retail model
 - Make better use of outlets and explore emerging market segment
- Direct-to-customer model
 - Control of customer information and improve the structure of customer base



Outlook

- Market
 - ASP reduces at a slower pace
 - A friendlier competitive environment
- Lenovo
 - Benefits of strategic initiatives more apparent

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Remarks

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