

Lenovo Group Limited

2004/05 Q3 Results Announcement

Financial Review

February 4, 2005

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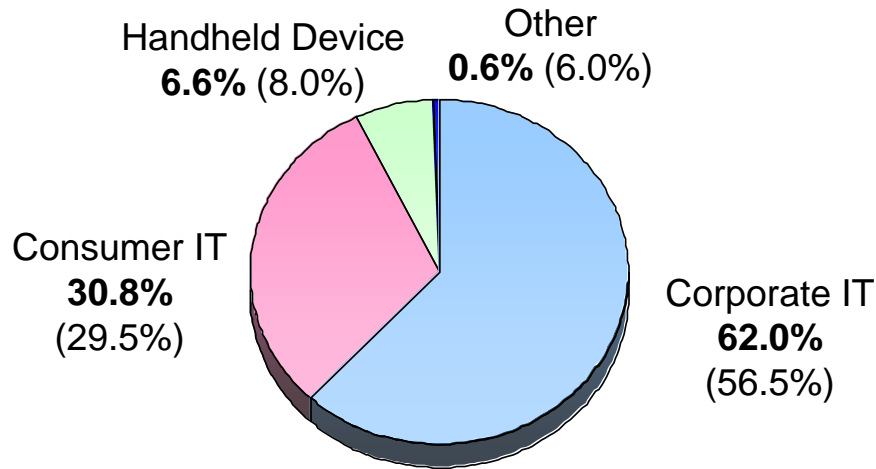
Overview

HK\$	2004/05 Q3	2003/04 Q3	Change
Turnover	6.309 bil	6.552 bil	-3.7%
Gross margin	13.83%	14.08%	Down 0.3%
EBITDA	370 mil	311 mil	19.1%
Profit attributable to shareholders	327 mil	325 mil	0.6%
Earnings per share (Basic)	4.37 cents	4.35 cents	0.5%
Net margin	5.19%	4.96%	Up 0.2%
ROE	6.60%	7.76%	Down 1.2%

2004/05 Q3 Consolidated P&L Account

HK\$'000	2004/05 Q3	% of Turnover	2004/05 Q1 - Q3	2003/04 Q3	% of Turnover	2003/04 Q1 - Q3
Turnover	\$ 6,308,795		\$ 17,841,503	\$ 6,552,281		\$ 18,141,421
EBITDA	\$ 370,392	5.87%	\$ 978,506	\$ 310,947	4.75%	\$ 913,117
Depreciation expenses	\$ (43,380)		\$ (145,268)	\$ (51,704)		\$ (149,040)
Amortization of intangible assets	\$ (5,250)		\$ (21,141)	\$ (10,254)		\$ (25,488)
Impairment of assets	\$ -		\$ (51,364)	\$ -		\$ -
(Losses)/gains on disposal of investments	\$ (5,189)		\$ 159,193	\$ 45,375		\$ 51,377
Finance income	\$ 23,905		\$ 65,551	\$ 34,218		\$ 74,267
Profit from operations	\$ 340,478	5.40%	\$ 985,477	\$ 328,582	5.01%	\$ 864,233
Finance costs	\$ (2,283)		\$ (5,783)	\$ (391)		\$ (391)
	\$ 338,195		\$ 979,694	\$ 328,191		\$ 863,842
Share of losses of jointly controlled entities	\$ (1,180)		\$ (11,290)	\$ (25,514)		\$ (39,053)
Share of profits of associated companies	\$ 3,948		\$ 3,702	\$ 10,932		\$ 16,311
Profit before taxation	\$ 340,963		\$ 972,106	\$ 313,609		\$ 841,100
Taxation	\$ (17,864)		\$ (42,769)	\$ 421		\$ 1,747
Profit after taxation	\$ 323,099		\$ 929,337	\$ 314,030		\$ 842,847
Minority interests	\$ 4,149		\$ 24,782	\$ 11,121		\$ 21,722
Profit attributable to shareholders	\$ 327,248	5.19%	\$ 954,119	\$ 325,151	4.96%	\$ 864,569
Dividend	\$ -		\$ 179,378	\$ -		\$ 149,436
Earnings per share (Basic)	4.37 cents		12.76 cents	4.35 cents		11.57 cents
Earnings per share (Fully diluted)	4.36 cents		12.74 cents	4.31 cents		11.50 cents

2004/05 Q3 Turnover Breakdown



Lenovo PC Shipment

YoY Change	Q3
Commercial DT	19.2%
Consumer DT	17.5%
Notebook	28.1%
Server	-17.0%
Total	19.1%

Note 1: Other business in FY2004/05 Q3 excludes the discontinued IT service business and contract manufacturing business which have been deconsolidated since October and June 2004 respectively.

Note 2: FY2003/04 Q3 figures are in brackets.

Changes in Turnover Breakdown (Q3)

HK\$ Million	2004/05 Q3	2003/04 Q3	Change
Corporate IT	\$ 3,914	\$ 3,701	5.8%
Consumer IT	\$ 1,944	\$ 1,930	0.7%
<i>Sub-total:</i>	\$ 5,858	\$ 5,631	4.0%
Handheld Device	\$ 414	\$ 524	-20.9%
Other	\$ 37	\$ 397	-90.9%
Total	\$ 6,309	\$ 6,552	-3.7%

Changes in Turnover Breakdown (Q1 – Q3)

HK\$ Million	2004/05 Q1 - Q3	2003/04 Q1 - Q3	Change
Corporate IT	\$ 10,142	\$ 9,556	6.1%
Consumer IT	\$ 5,763	\$ 6,069	-5.0%
<i>Sub-total:</i>	\$ 15,905	\$ 15,625	1.8%
Handheld Device	\$ 1,606	\$ 1,432	12.1%
Other	\$ 331	\$ 1,084	-69.5%
Total	\$ 17,842	\$ 18,141	-1.7%

Changes in Segment Operating Profit (Q3)

HK\$'000	2004/05 Q3	2003/04 Q3	Change
Corporate IT	\$ 236,643	\$ 206,895	14.4%
Consumer IT	\$ 122,597	\$ 95,105	28.9%
<i>Sub-total:</i>	\$ 359,240	\$ 302,000	19.0%
Handheld Device	\$ (25,166)	\$ (19,904)	N/A
Other	\$ (9,430)	\$ (25,965)	N/A
Total	\$ 324,644	\$ 256,131	26.7%

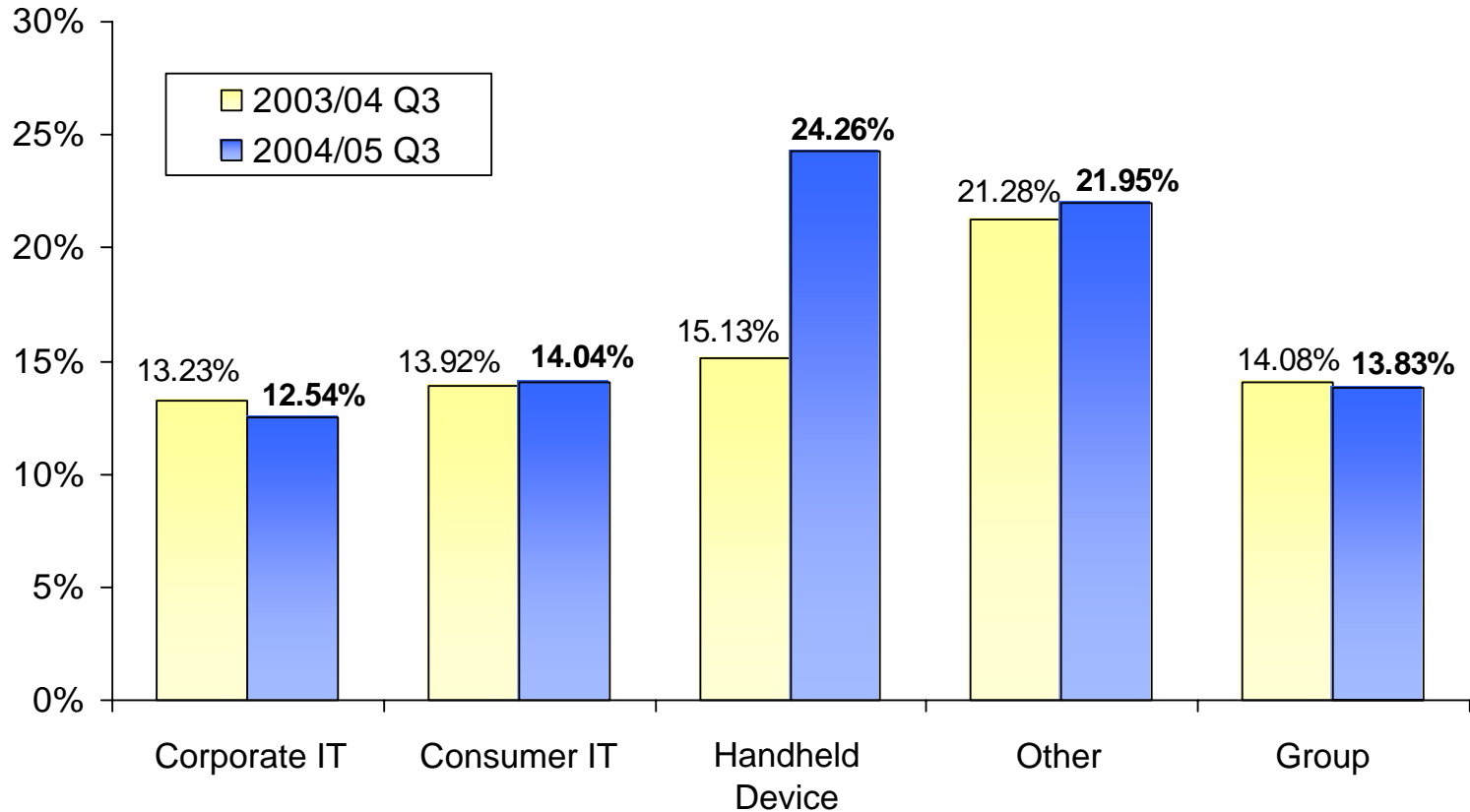
Note 3: Segment operating profit before amortization of goodwill, impairment of assets, finance income and costs, and gains on disposal of investments.

Changes in Segment Operating Profit (Q1 – Q3)

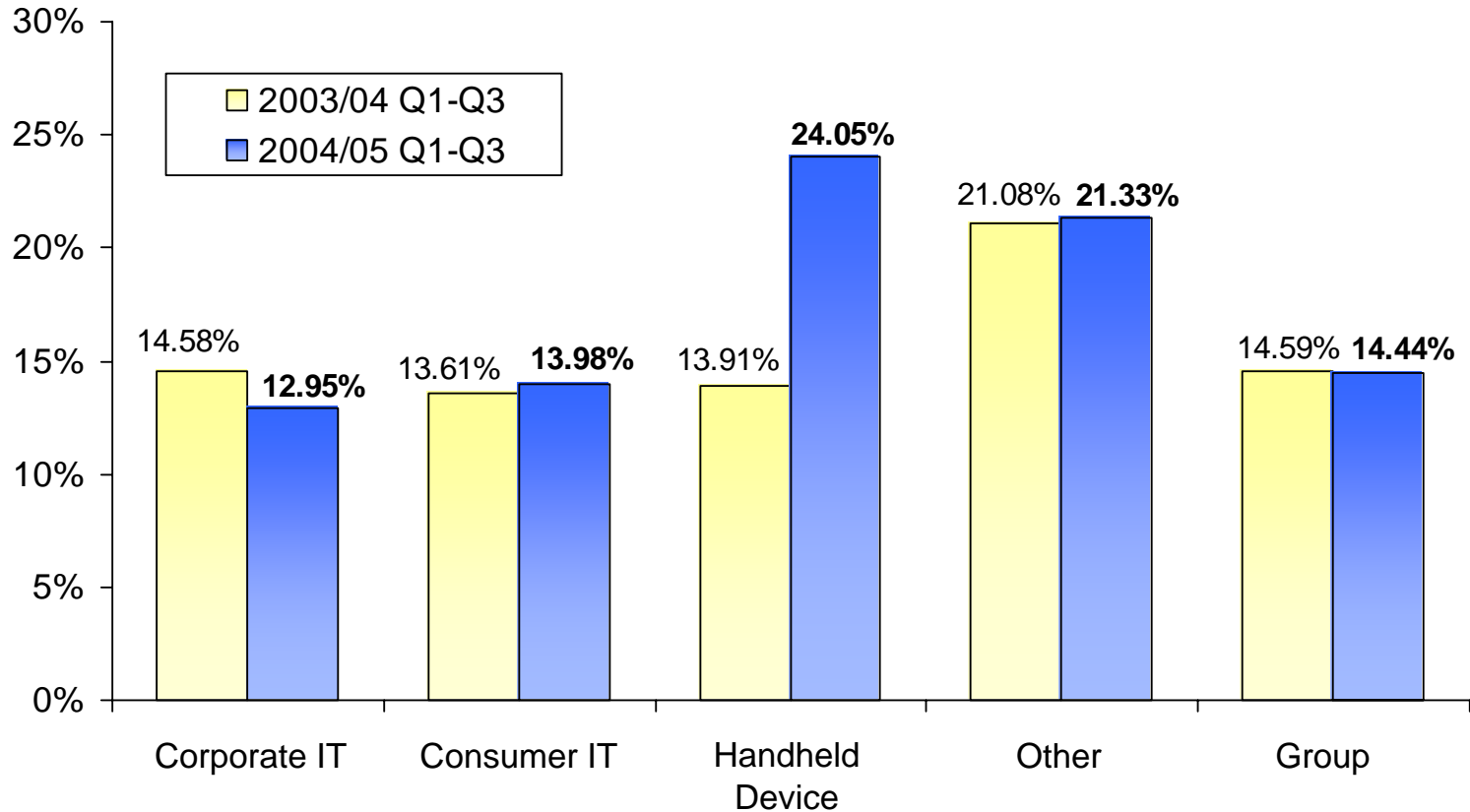
HK\$'000	2004/05 Q1 - Q3	2003/04 Q1 - Q3	Change
Corporate IT	\$ 549,831	\$ 576,670	-4.7%
Consumer IT	\$ 362,566	\$ 332,821	8.9%
<i>Sub-total:</i>	\$ 912,397	\$ 909,491	0.3%
Handheld Device	\$ (23,803)	\$ (63,431)	N/A
Other	\$ (62,461)	\$ (89,340)	N/A
Total	\$ 826,133	\$ 756,720	9.2%

Note 3: Segment operating profit before amortization of goodwill, impairment of assets, finance income and costs, and gains on disposal of investments.

Gross Margin Analysis (Q3)



Gross Margin Analysis (Q1 – Q3)



Consolidated Balance Sheet

HK\$ Million	As at 31/12/2004	As at 30/9/2004	As at 31/3/2004
Intangible assets	\$ 548	\$ 552	\$ 647
Tangible fixed assets	\$ 891	\$ 867	\$ 987
Construction-in-progress	\$ 262	\$ 291	\$ 260
Investments	\$ 316	\$ 273	\$ 313
Deferred tax assets	\$ 43	\$ 35	\$ 35
Current assets	\$ 7,916	\$ 7,144	\$ 6,100
Current liabilities	\$ 4,543	\$ 3,850	\$ 3,297
Net current assets	\$ 3,373	\$ 3,294	\$ 2,803
Total assets less current liabilities	\$ 5,432	\$ 5,312	\$ 5,045
Shareholders' funds	\$ 5,044	\$ 4,890	\$ 4,489
Minority interests	\$ 27	\$ 31	\$ 29
Deferred tax liabilities	\$ 361	\$ 391	\$ 527
	\$ 5,432	\$ 5,312	\$ 5,045

Key Financial Figures

HK\$ Million	2004/05 Q3	2003/04 Full Year	2003/04 Q3
Cash reserves	\$ 3,579	\$ 2,650	\$ 2,727
Total borrowings	\$ 225	\$ -	\$ 150
Net cash reserves	\$ 3,354	\$ 2,650	\$ 2,577
Net tangible assets	\$ 4,496	\$ 3,842	\$ 4,135
Capital expenditure	\$ 40	\$ 466	\$ 102
Current ratio	1.7 x	1.9 x	1.7 x
Days inventory	15.6 days	24.9 days	24.3 days
Days receivable	37.1 days	28.0 days	31.3 days
Days payable	52.4 days	39.9 days	41.2 days

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Market and Business Review

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Market Review

- During Oct to Dec 2004, China's PC market shipment recorded healthy growth
 - Commercial PC shipment benefited from seasonal purchases by government and enterprises
 - Notebook shipment rose significantly
 - Consumer notebook market grew rapidly as more consumers replaced their desktop computers with notebooks
 - Corporate notebook market benefited from increased purchase by the government and increased demand for mobile computing by enterprises
 - Sales promotion efforts of various computer vendors during the National Day and New Year holidays helped stimulate consumer demand

- China's mobile handset market shipment increased slightly
 - Aggregate market share of domestic brands reduced by 6%, as compared to that at the beginning of the year. Inventory accumulated in channels.
 - Market demand for camera phone increased rapidly. The need to adjust product line frequently posed immense challenge to domestic vendors

Business Review

- **Lenovo PC business outperformed the market in Q3 FY2004/05**
 - Lenovo gained 4% in its share of China's PC market in four quarters' time
 - Unmatched by its competitors in market share gain
 - In Asia Pacific (excluding Japan) market, Lenovo has been gaining distance leaving its competitors further behind

Market Share of Top 3 PC Vendors in China
(Desktop + Notebook + Server)

CY	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Lenovo	24.1%	25.7%	26.8%	28.1%
Founder	11.2%	11.3%	11.6%	12.0%
Dell	7.4%	7.5%	7.3%	7.6%

Market Share of Top 3 PC Vendors in Asia Pacific
(Desktop + Notebook + Server)

CY	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Lenovo	10.4%	11.7%	13.0%	13.9%
HP	10.3%	10.8%	9.9%	10.4%
Dell	7.0%	7.1%	7.1%	7.4%

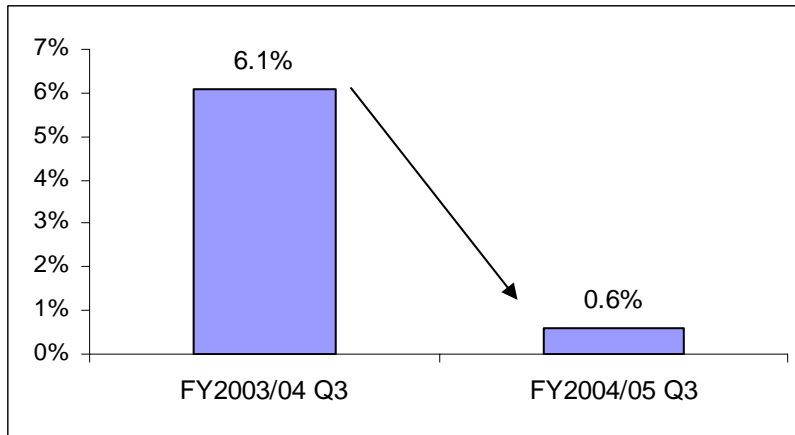
Source: IDC (Q4 2004 figures are deducted from Asia Pacific pre-announcement)

- **Gross margin and channel inventory of handset business remained healthy**

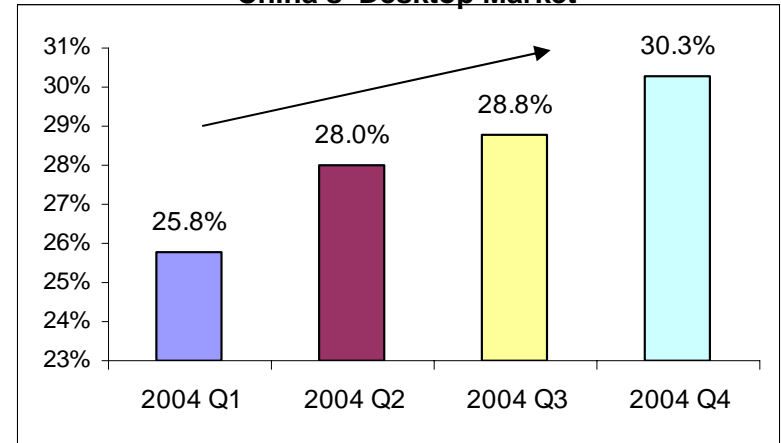
Business Review

- **Focus** on the development of core business and strategic new business

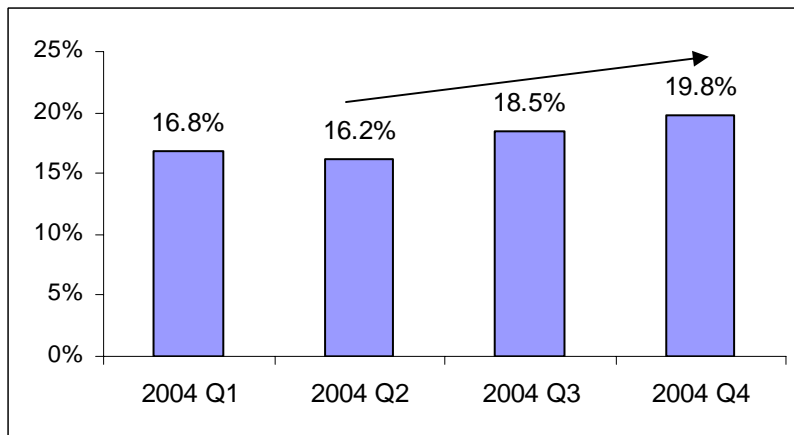
Proportion of Non-Core Business in Total Turnover Reduced



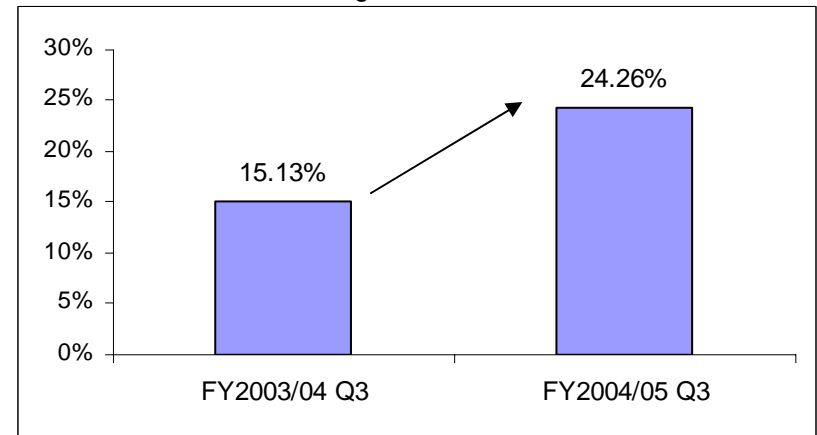
Lenovo Continued to Gain Share in China's Desktop Market



Steady Growth of Lenovo's Share of Notebook Market
Maintained # 1 in China NB Market for two consecutive quarters



Handset Business Focuses on Self-Development
Gross margin increased to 24%

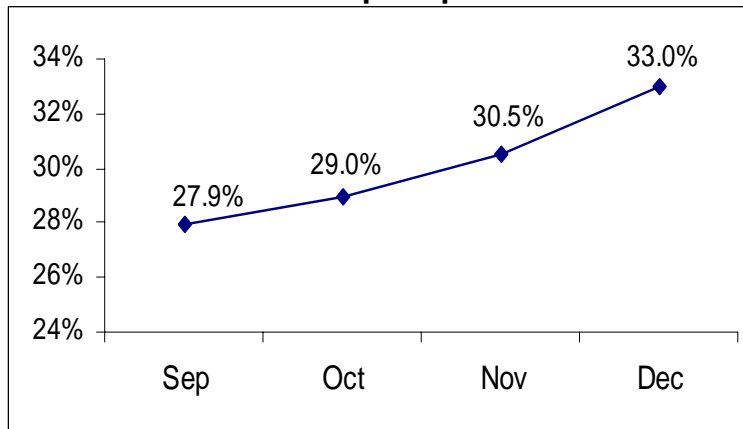


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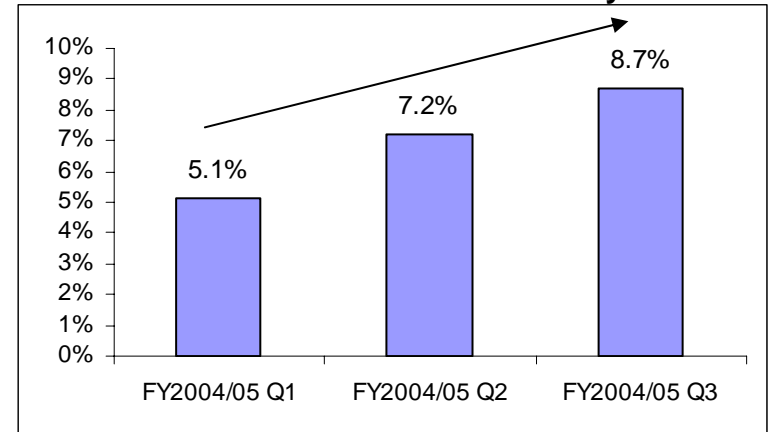
Business Review

- Reform on **customer-oriented** sales model
 - Improved distribution and retail models to strengthen market development capability in Tier 5 to 6 cities
 - Established relationship customer model that fully covers the supply chain ranging from development, marketing, sales, operation to services

Proportion of Tier 5 to 6 Cities in Total Consumer Desktop Shipment Increased



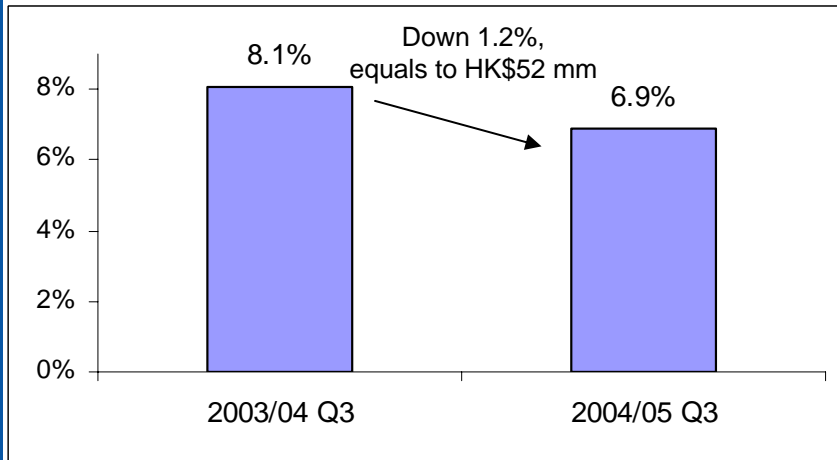
Proportion of Large Clients in Core Business Turnover Increased Steadily



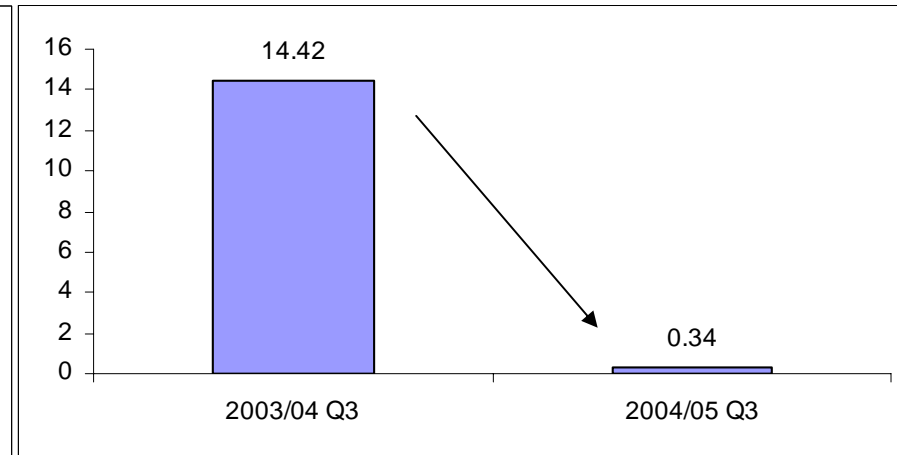
Business Review

- Enhanced operational *efficiency*
 - Rate of operating expenses of core business further reduced
 - Cash cycle shortened significantly

Rate of Operating Expenses of Core Business



Cash Cycle (Day)

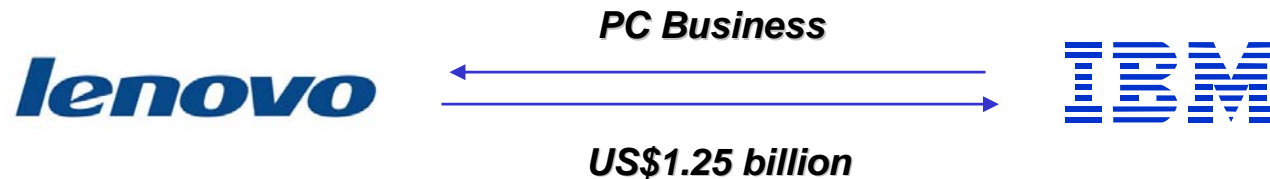


Acquisition of IBM PC Business & Updates

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Breakthrough in Globalization Strategy

Acquiring IBM PC Business (PCD)



- Besides reporting outstanding financial performance, during the quarter, Lenovo also achieved a breakthrough in implementing its globalization strategy
 - Lenovo and IBM reached an agreement on Lenovo acquiring IBM's worldwide desktop and notebook computer business at a consideration of US\$1.25 billion (app. HK\$9.75 billion)



Breakthrough in Globalization Strategy

Communication

- Following the announcement, Lenovo and PCD carried out a comprehensive communication program targeted at employees, customers and business partners. Responses were positive.
 - More than 90% of the respondents of PCD's worldwide customer survey return favorable comments
 - Over 95% of Lenovo customers were supportive
- Better understanding through management visits

Acquisition-related

- Set up Project Management Office (PMO) and a number of project teams to oversee the transaction
- Entered into agreement with four banks to arrange a loan to fund the acquisition



Management Team Members



Lenovo and IBM PCD worked together in strengthening channel's confidence

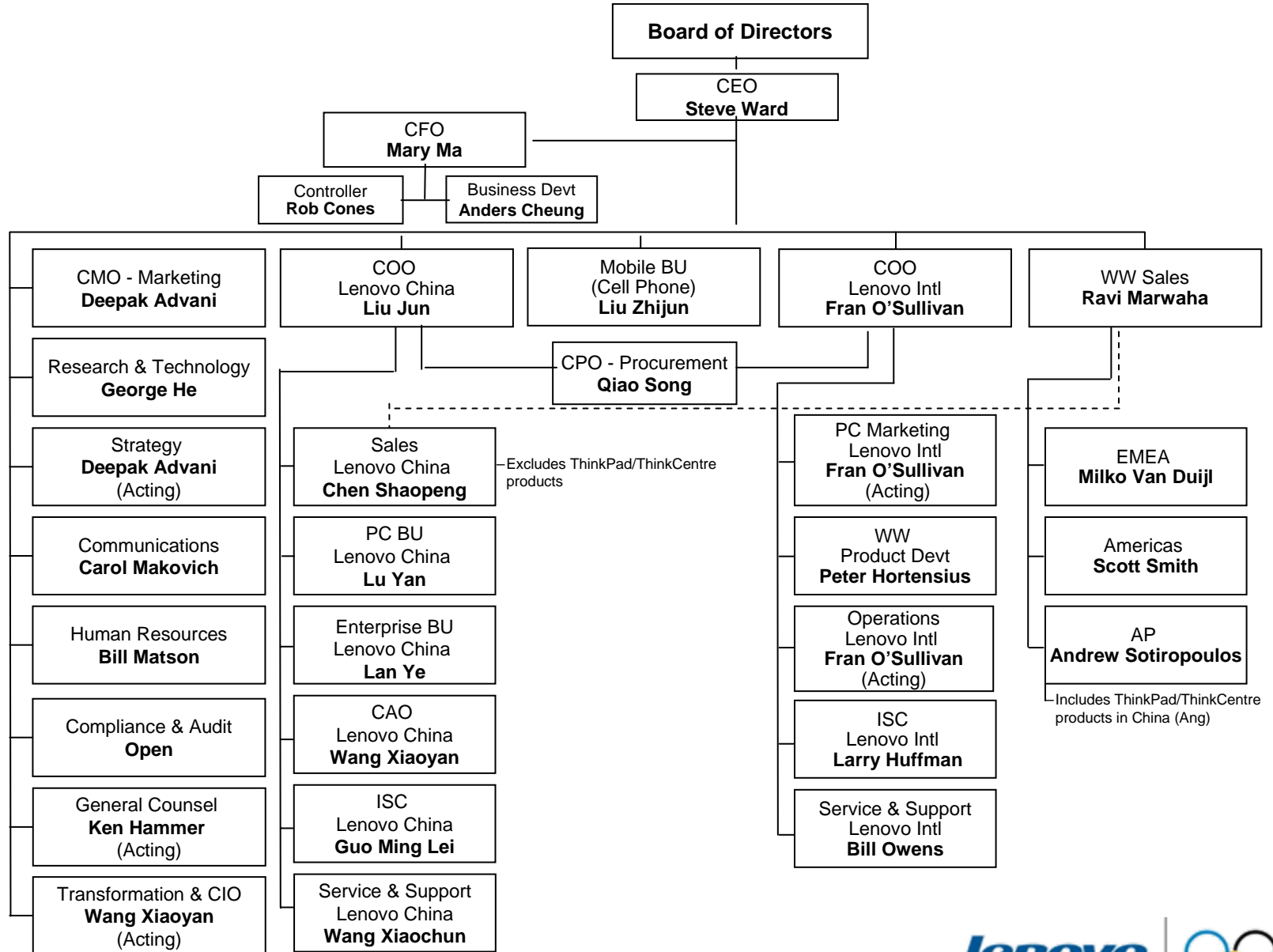
Core Competence of New Lenovo



Key Focus in Coming Year

- Clarify corporate governance matters and establish supporting functions
- Strive for early realization of synergies in procurement, supply chain and product line extension to ensure the profitability of the new Lenovo for the benefits of shareholders
- Lenovo China and Lenovo International (i.e. the current IBM PCD) will operate relatively independently to guarantee business stability and a smooth transition and to minimize disruption to customers

Initial Organizational Structure



Realizing benefits of the strategic reform

Stable development of core business

Breakthrough in globalization strategy

Acquisition on track