

Lenovo Group Limited

2004/05 Annual Results Announcement

Financial Review

June 8, 2005

lenovo

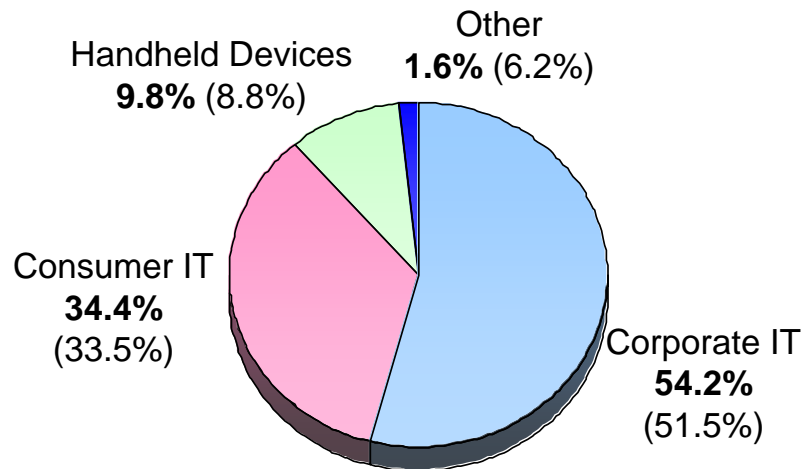
Overview

| HK\$ | 2004/05 | 2003/04 | Change |
|-------------------------------------|--------------------|-------------|----------|
| Turnover | 22.55 bn | 23.18 bn | -2.7% |
| Gross margin | 14.75% | 14.62% | +13 bps |
| EBITDA | 1.174 bn | 1.125 bn | +4.3% |
| Profit attributable to shareholders | 1.120 bn | 1.053 bn | +6.4% |
| Earnings per share (Basic) | 14.99 cents | 14.09 cents | +6.4% |
| Net margin | 4.97% | 4.54% | +43 bps |
| ROE | 23.13% | 24.67% | -154 bps |
| Final dividend (per share) | 2.8 cents | 3.0 cents | -6.7% |

2004/05 Consolidated P&L Account

| HK\$'000 | 2004/05 | % of Turnover | 2004/05 Q4 | 2003/04 | % of Turnover | 2003/04 Q4 |
|--|---------------|------------------|---------------|---------------|------------------|---------------|
| Turnover | \$ 22,554,678 | | \$ 4,713,175 | \$ 23,175,944 | | \$ 5,034,523 |
| EBITDA | \$ 1,173,616 | 5.20% | \$ 195,110 | \$ 1,125,129 | 4.85% | \$ 212,012 |
| Depreciation expenses | \$ (184,490) | | \$ (39,222) | \$ (211,161) | | \$ (62,121) |
| Amortization of intangible assets | \$ (58,078) | | \$ (36,937) | \$ (34,999) | | \$ (9,511) |
| Impairment of assets | \$ (51,364) | | \$ - | \$ - | | \$ - |
| Gains/(losses) on disposal of investments | \$ 156,958 | | \$ (2,235) | \$ 47,558 | | \$ (3,819) |
| Finance income | \$ 105,677 | | \$ 40,126 | \$ 93,368 | | \$ 19,101 |
| Profit from operations | \$ 1,142,319 | 5.06% | \$ 156,842 | \$ 1,019,895 | 4.40% | \$ 155,662 |
| Finance costs | \$ (6,667) | | \$ (884) | \$ (2,881) | | \$ (2,490) |
| | \$ 1,135,652 | | \$ 155,958 | \$ 1,017,014 | | \$ 153,172 |
| Share of losses of jointly controlled entities | \$ (12,327) | | \$ (1,037) | \$ (39,053) | | \$ - |
| Share of profits of associated companies | \$ 4,182 | | \$ 480 | \$ 16,891 | | \$ 580 |
| Profit before taxation | \$ 1,127,507 | | \$ 155,401 | \$ 994,852 | | \$ 153,752 |
| Taxation | \$ (35,184) | | \$ 7,585 | \$ 20,150 | | \$ 18,403 |
| Profit after taxation | \$ 1,092,323 | | \$ 162,986 | \$ 1,015,002 | | \$ 172,155 |
| Minority interests | \$ 27,823 | | \$ 3,041 | \$ 37,883 | | \$ 16,161 |
| Profit attributable to shareholders | \$ 1,120,146 | 4.97% | \$ 166,027 | \$ 1,052,885 | 4.54% | \$ 188,316 |
| Dividends | \$ 388,806 | | N/A | \$ 373,628 | | N/A |
| Earnings per share (Basic) | 14.99 cents | | 2.23 cents | 14.09 cents | | 2.52 cents |
| Earnings per share (Fully diluted) | 14.97 cents | | 2.23 cents | 13.99 cents | | 2.49 cents |

2004/05 Turnover Breakdown



Lenovo PC Shipment

| YoY Change | Full Year | Q4 |
|---------------|--------------|--------------|
| Commercial DT | 14.6% | 4.4% |
| Consumer DT | 16.5% | 38.0% |
| Notebook | 36.4% | 36.0% |
| Server | -8.5% | -3.9% |
| Total | 16.9% | 20.0% |

Note 1: Other business includes IT service and contract manufacturing, which have been deconsolidated since October and June 2004 respectively.

Note 2: FY2003/04 figures are in brackets.



Changes in Turnover Breakdown (Full Year)

| HK\$ Million | 2004/05 Full Year | 2003/04 Full Year | Change |
|-------------------|----------------------|----------------------|--------|
| Corporate IT | \$ 12,226 | \$ 11,925 | 2.5% |
| Consumer IT | \$ 7,768 | \$ 7,761 | 0.1% |
| <i>Sub-total:</i> | \$ 19,994 | \$ 19,686 | 1.6% |
| Handheld Device | \$ 2,203 | \$ 2,050 | 7.5% |
| Other | \$ 358 | \$ 1,440 | -75.2% |
| Total | <u>\$ 22,555</u> | <u>\$ 23,176</u> | -2.7% |

Changes in Turnover Breakdown (Q4)

| HK\$ Million | 2004/05 Q4 | 2003/04 Q4 | Change |
|-------------------|-----------------|-----------------|--------------|
| Corporate IT | \$ 2,084 | \$ 2,369 | -12.0% |
| Consumer IT | \$ 2,005 | \$ 1,692 | 18.5% |
| <i>Sub-total:</i> | \$ 4,089 | \$ 4,061 | 0.7% |
| Handheld Device | \$ 597 | \$ 618 | -3.3% |
| Other | \$ 27 | \$ 356 | -92.4% |
| Total | \$ 4,713 | \$ 5,035 | -6.4% |

Changes in Segment Operating Profit (Full Year)

| HK\$'000 | 2004/05 Full Year | 2003/04 Full Year | Change |
|-------------------|----------------------|----------------------|-------------|
| Corporate IT | \$ 658,034 | \$ 724,886 | -9.2% |
| Consumer IT | \$ 463,459 | \$ 432,225 | 7.2% |
| <i>Sub-total:</i> | \$ 1,121,493 | \$ 1,157,111 | -3.1% |
| Handheld Device | \$ (54,462) | \$ (76,910) | N/A |
| Other | \$ (87,378) | \$ (153,958) | N/A |
| Total | \$ 979,653 | \$ 926,243 | 5.8% |

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



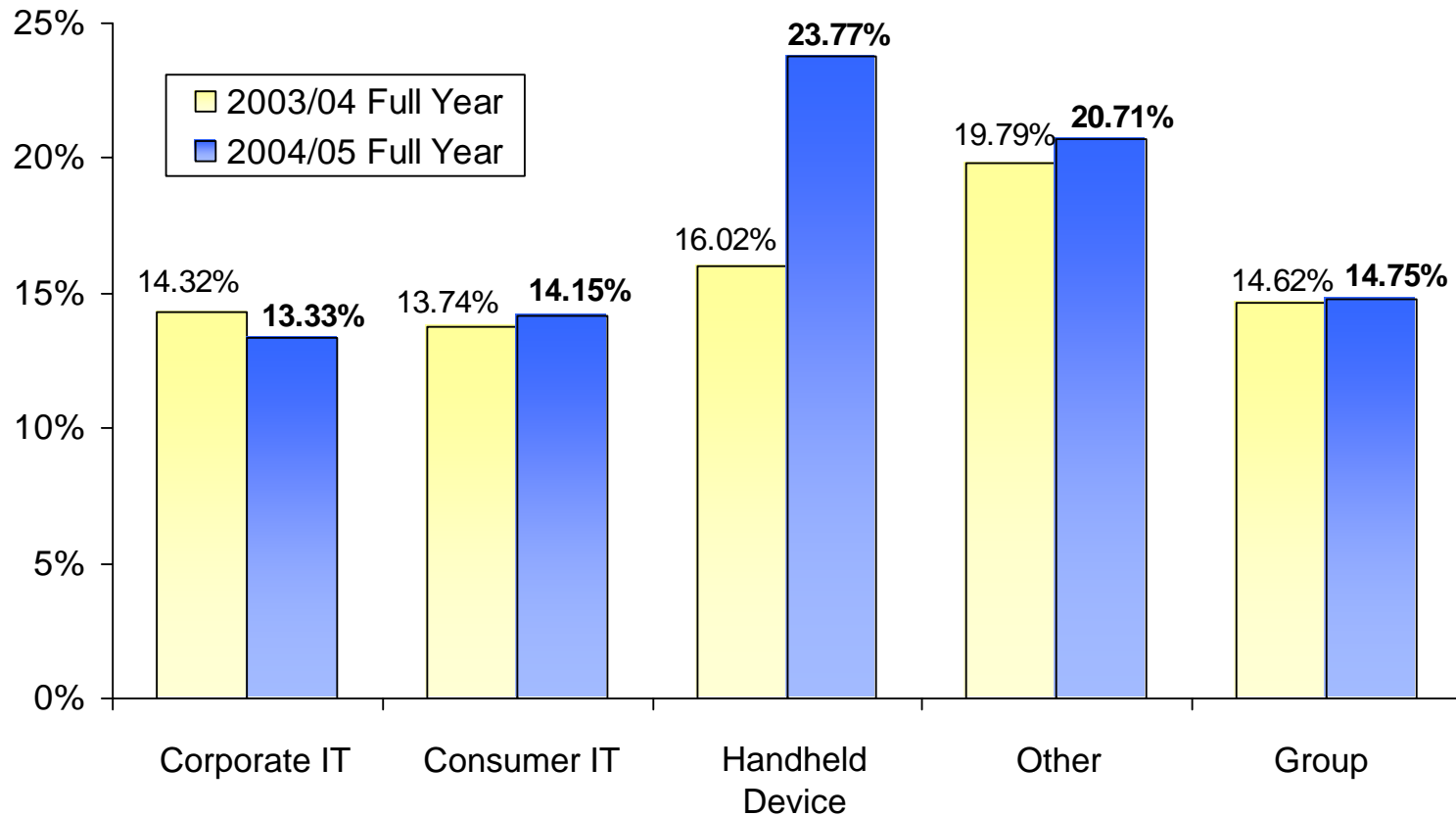
Changes in Segment Operating Profit (Q4)

| HK\$'000 | 2004/05 Q4 | 2003/04 Q4 | Change |
|-------------------|--------------------------|--------------------------|---------------|
| Corporate IT | \$ 108,203 | \$ 148,216 | -27.0% |
| Consumer IT | \$ 100,893 | \$ 99,404 | 1.5% |
| <i>Sub-total:</i> | \$ 209,096 | \$ 247,620 | -15.6% |
| Handheld Device | \$ (30,659) | \$ (13,479) | N/A |
| Other | <u>\$ (24,917)</u> | <u>\$ (64,618)</u> | N/A |
| Total | <u>\$ 153,520</u> | <u>\$ 169,523</u> | -9.4% |

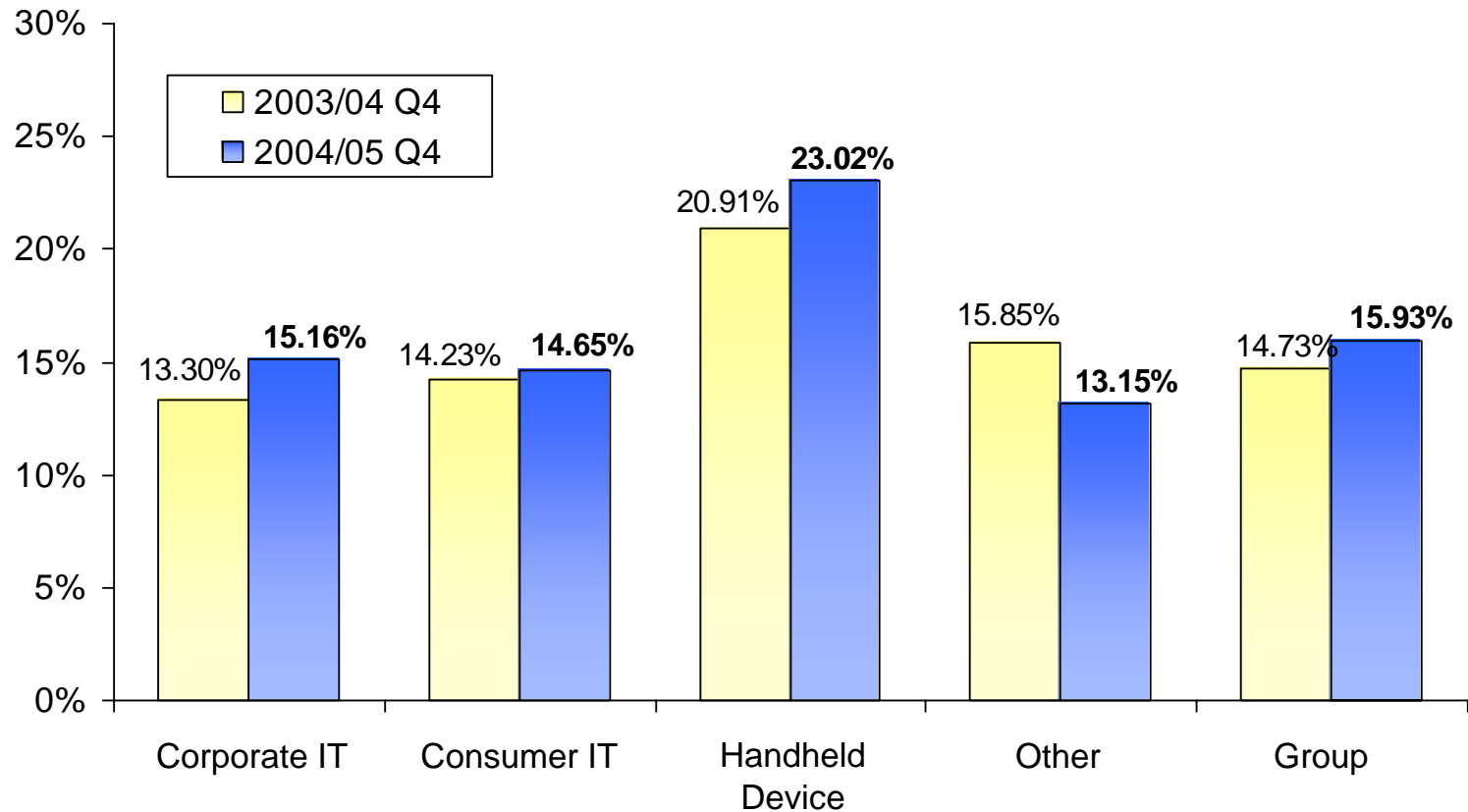
Note 3: Segment operating profit before amortization of goodwill and marketing rights, impairment of assets, finance income and costs, and gains on disposal of investments.



Gross Margin Analysis (Full Year)



Gross Margin Analysis (Q4)



Consolidated Balance Sheet

| HK\$ Million | As at 3/31/2005 | As at 3/31/2004 |
|---------------------------------------|--------------------|--------------------|
| Intangible assets | \$ 513 | \$ 647 |
| Tangible fixed assets | \$ 878 | \$ 987 |
| Construction-in-progress | \$ 257 | \$ 260 |
| Investments | \$ 307 | \$ 313 |
| Deferred tax assets | \$ 53 | \$ 35 |
| Other non-current assets | \$ 569 | \$ - |
| Current assets | \$ 6,454 | \$ 6,100 |
| Current liabilities | \$ 3,472 | \$ 3,297 |
| Net current assets | \$ 2,982 | \$ 2,803 |
| Total assets less current liabilities | \$ 5,559 | \$ 5,045 |
| Shareholders' funds | \$ 5,204 | \$ 4,489 |
| Minority interests | \$ 24 | \$ 29 |
| Long-term liabilities | \$ 331 | \$ 527 |
| | \$ 5,559 | \$ 5,045 |



Key Financial Figures

| HK\$ Million | 2004/05 Full Year | 2003/04 Full Year |
|-----------------------|----------------------|----------------------|
| Cash reserves | \$ 3,019 | \$ 2,650 |
| Total bank borrowings | \$ - | \$ - |
| Net cash reserves | \$ 3,019 | \$ 2,650 |
| Net tangible assets | \$ 4,691 | \$ 3,842 |
| Capital expenditure | \$ 177 | \$ 466 |
| Current ratio | 1.9 x | 1.9 x |
| Days inventory | 20.2 days | 24.9 days |
| Days receivables | 34.9 days | 28.0 days |
| Days payable | 49.9 days | 39.9 days |

Lenovo Group Limited

2004/05 Annual Results Announcement

Market and Business Review

June 8, 2005

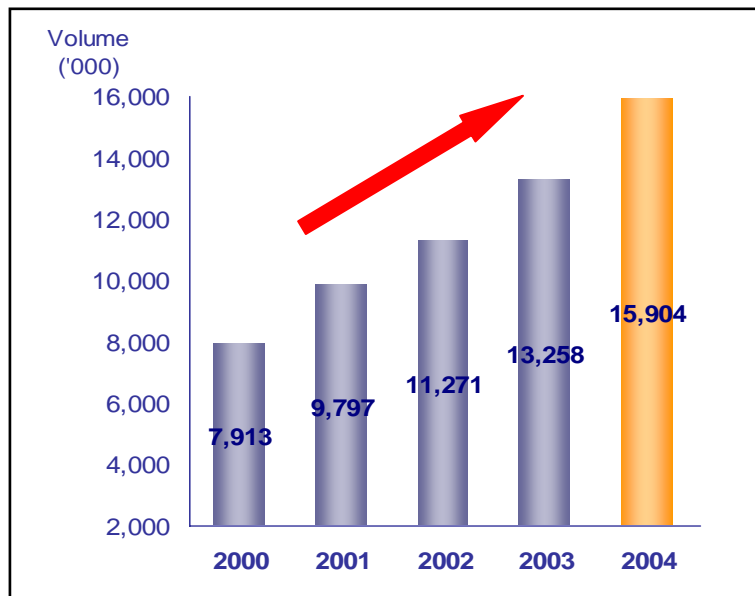
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Market Review

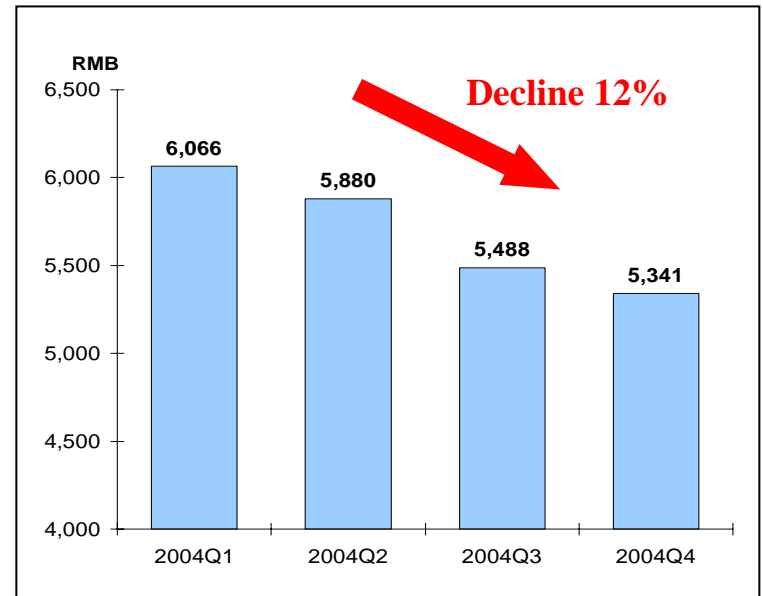
■ China PC Market

- Chinese economy maintaining rapid growth: GDP up 9.5% year-on-year, promoting rapid growth in China PC industry
- Competition is intensifying. Average selling price declined, creating challenge to profitability
- 18% growth in large and median enterprise and government segments. Townships became a key driver for growth in consumer PC market

China PC Market Size 2000-2004



China PC ASP 2004

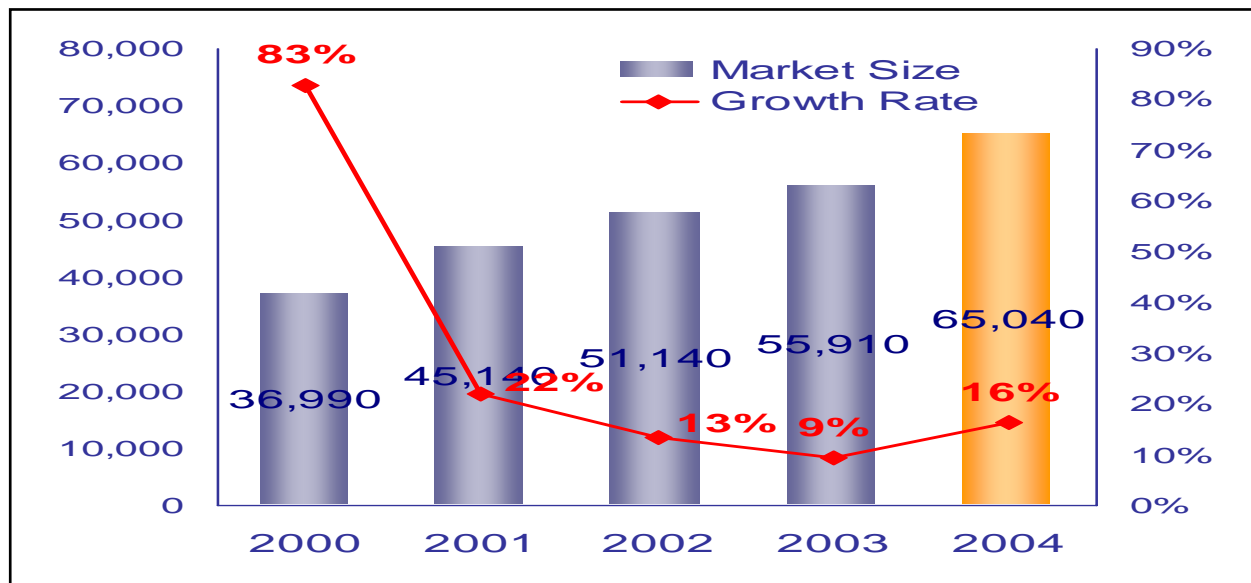


Market Review

■ Mobile Handset Market

- Resumed double-digit growth and remained the world's largest market
- In general, domestic vendors lost share

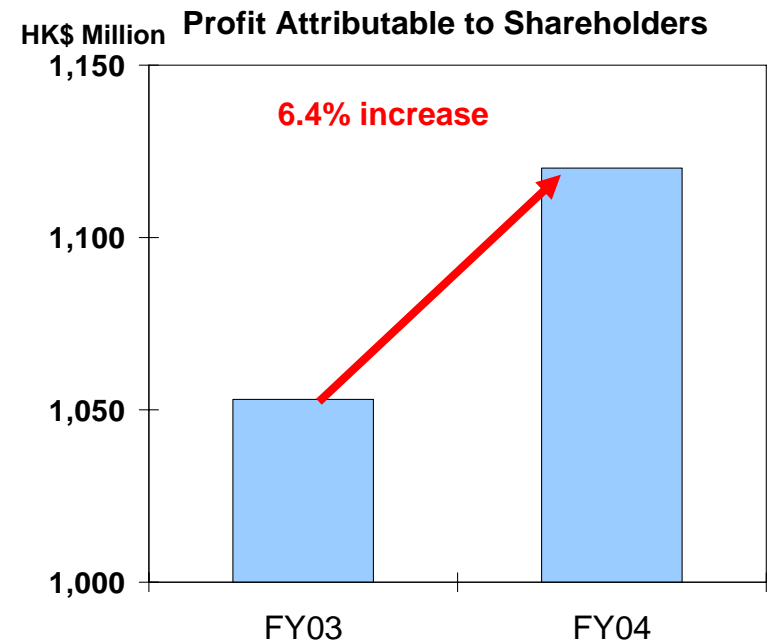
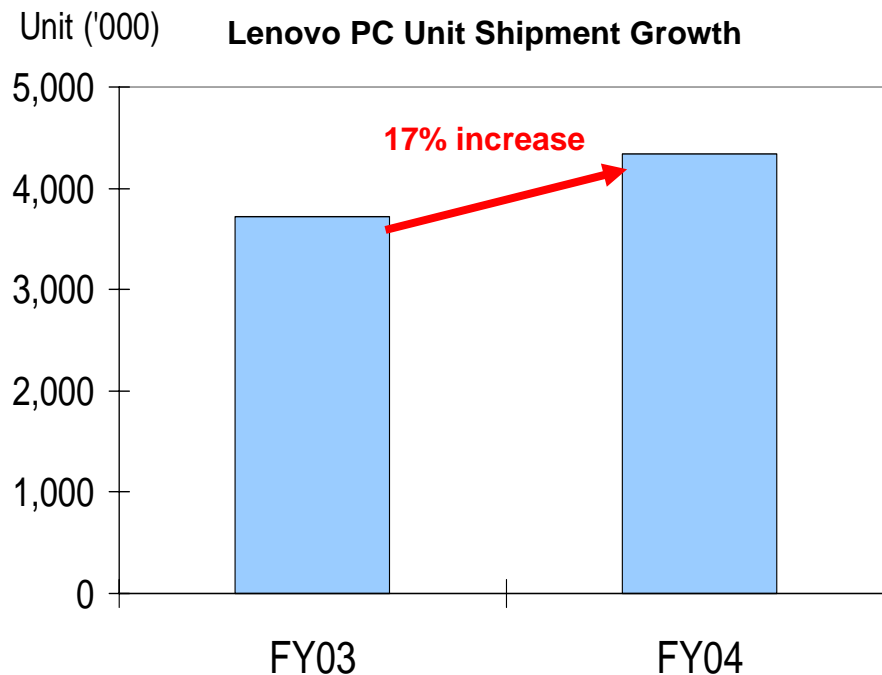
2000- 2004 China Handset Market Size ('000)



Source: SINO

Focus: Outstanding Performance of Core Business

- Divested non-core businesses
- Core PC business unit shipments grew 17% year-on-year
- The Group's profit attributable to shareholders for the full year up 6.4% year-on-year



Source: IDC

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Focus: Breakthrough of Handheld Business

- Market share increased 90%, now a top 10 provider
- Gross margin rose from 15% to 23%
- Over 75% sales volume is in-house products

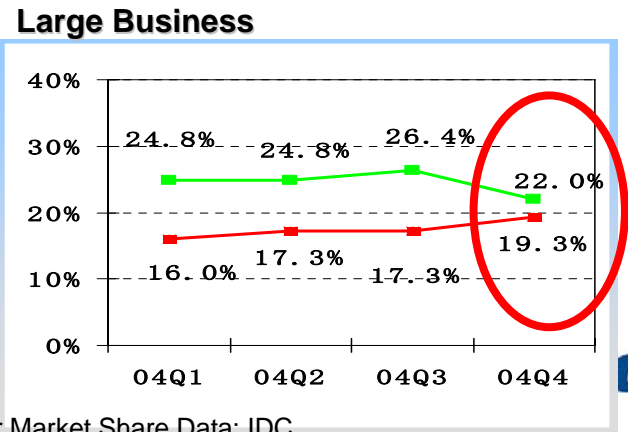
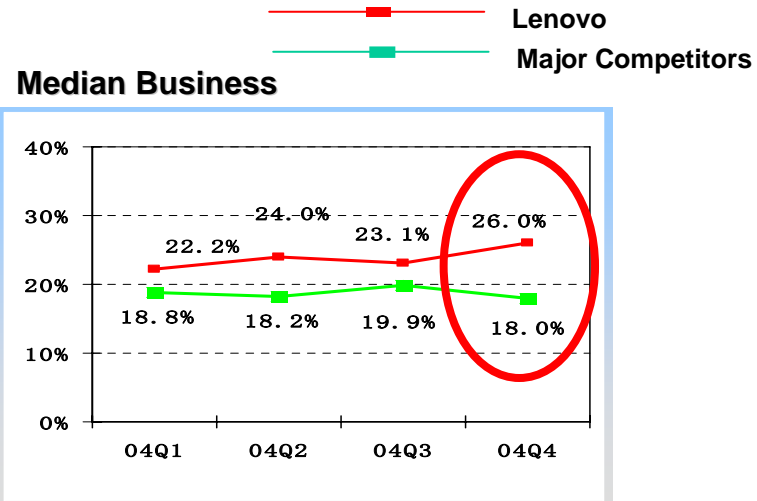
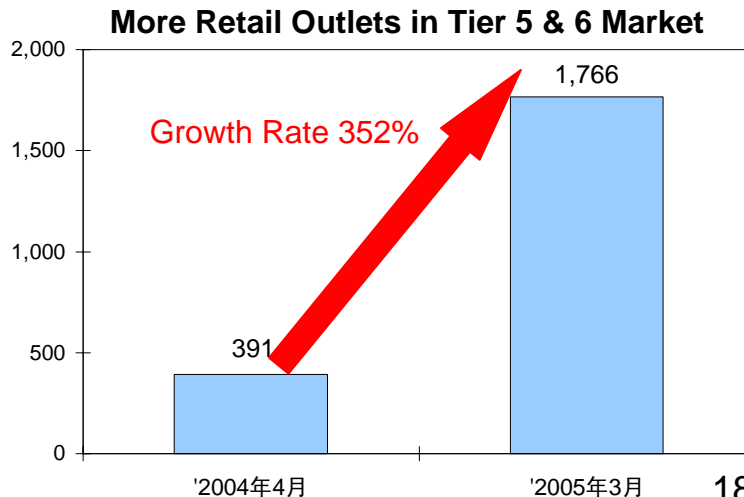
| Order | GSM | Mar-03 |
|-------|--------------|--------|
| 1 | Motorola | 23.9% |
| 2 | Nokia | 20.2% |
| 3 | TCL | 8.6% |
| 4 | Bird | 7.8% |
| 5 | Samsung | 5.7% |
| 6 | Amoisonic | 4.5% |
| 7 | Siemens | 3.7% |
| 8 | Konka | 2.6% |
| 9 | Eastcom | 2.5% |
| 10 | Kejian | 2.3% |
| 11 | Alcatel | 2.1% |
| 12 | Panasonic | 1.9% |
| 13 | Haier | 1.9% |
| 14 | Philips | 1.7% |
| 15 | SonyEricsson | 1.5% |
| 16 | Capitel | 1.4% |
| 17 | Panda | 1.2% |
| 18 | Dbtel | 1.1% |
| 19 | South-Tech | 1.1% |
| 20 | Legend | 0.9% |

| Order | GSM | Mar-04 |
|-------|--------------|--------|
| 1 | Nokia | 17.2% |
| 2 | Motorola | 15.5% |
| 3 | Samsung | 8.0% |
| 4 | Bird | 7.7% |
| 5 | TCL | 7.2% |
| 6 | Dbtel | 4.9% |
| 7 | Amoi | 4.8% |
| 8 | SonyEricsson | 3.7% |
| 9 | Konka | 3.5% |
| 10 | Philips | 2.7% |
| 11 | Haier | 2.6% |
| 12 | Panasonic | 2.5% |
| 13 | Kejian | 2.3% |
| 14 | Eastcom | 2.3% |
| 15 | Siemens | 2.3% |
| 16 | Panda | 1.9% |
| 17 | Lenovo | 1.9% |

| Order | GSM | Mar-05 |
|-------|--------------|--------|
| 1 | Nokia | 19.1% |
| 2 | Motorola | 13.1% |
| 3 | Samsung | 8.2% |
| 4 | Bird | 7.6% |
| 5 | TCL | 5.0% |
| 6 | SonyEricsson | 4.3% |
| 7 | Konka | 4.1% |
| 8 | Amoi | 4.1% |
| 9 | Lenovo | 3.6% |

Customer-oriented: Strengthening Sales Model

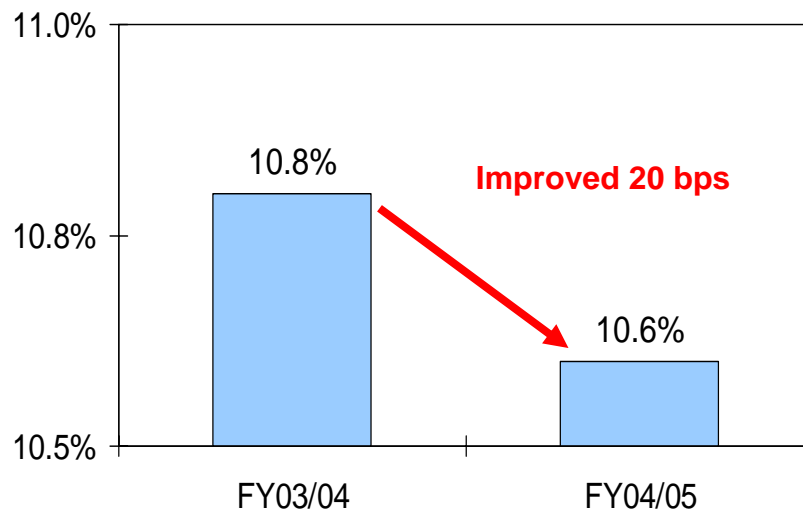
- Transactional customers
 - Capture the high-growth township market with expanded retail network
- Relationship customers
 - Improve the capability to serve large and medium enterprise customers to pre-empt major competitors



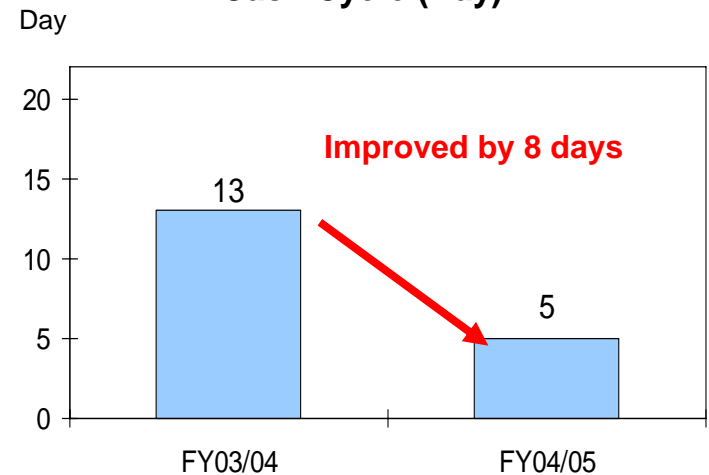
Enhance Efficiency: A Solid Foundation for Further Growth

- Improvements in operations and key performance indicators

Overall Operating Expenses



Cash Cycle (Day)



| Days | FY03/04 | FY04/05 |
|----------|---------|---------|
| Inv. Day | 25 | 20 |
| A/R Day | 28 | 35 |
| A/P Day | 40 | 50 |

Future Prospects of New Lenovo

- Smooth Progress Since The Announcement
 - Dec 8: Announced acquisition of IBM's PC business
 - March 9: Approval by CFIUS ahead of schedule
 - March 31: Announced US\$350 million strategic investment by three of the world's leading private equity firms
 - May 1: Completed acquisition of IBM PC business
 - May 17: Completed strategic investment

Vision for New Lenovo

Lenovo, 5 Years Later.....

- **Outstanding PC Brand**
- **Significantly Higher Market Share**
- **Continued Healthy Profitability**
- **Proven Competitive Business Model**
- **New Business Ramp Up**

Lenovo Group Limited

2004/05 Annual Results Announcement

Integration and Transition

June 8, 2005

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A Committed Management Team



Yuanqing Yang
Chairman



Steve Ward
CEO



George He
SVP, Research &
Technology



Fran O'Sullivan
SVP, COO,
Lenovo
International



Mary Ma
SVP, CFO



Xiaoyan Wang
SVP, Acting CIO
& Transformation



Jun Liu
SVP, COO,
Lenovo China



Song Qiao
SVP, Chief of
Procurement



Ravi Marwaha
SVP, Worldwide
Sales



Zhijun Liu
VP, Mobile BU



Deepak Advani
SVP, CMO and acting
Corporate Strategy

Peter Hortensius
SVP, Worldwide
Product Development



Bill Matson
SVP, Human
Resources



New Investment and Board Members

- Closed US\$350 million strategic investment by three leading private equity firms
- Appointed three non-executive board members
 - James Coulter, Texas Pacific Group
 - William Grabe, General Atlantic LLC
 - Weijian Shan, Newbridge Capital LLC

Since May 1

- Announced Innovation Center with Intel, Microsoft, LANDesk, Symantec and IBM
- Introduced 18 new notebooks, consumer PCs, printers and digital products at the first Lenovo PartnerWorld
- Announced new ThinkCentre desktops and ThinkPad X41 Tablet
- Attracted new customers
 - Cisco
 - PricewaterhouseCoopers
 - Shanghai General Motors
 - Bank of China
 - The Babcock & Wilcox Company
 - NBC

New Lenovo's three-phase plan

Deliver on the promise of Lenovo and on our commitments

Phase 1

- Delight our current customers and retain their business
- Maintain product leadership and sales momentum
- Ensure effective business operations
- Positively introduce and position the company and our brands
- Develop our employees and reward excellence and performance

Phase 2

Increase our competitiveness through operational excellence, innovation, and branding

- Become operationally excellent; faster and more efficient
- Increase Think brand equity and grow Lenovo into a WW brand
- Build a global innovation and performance culture and reputation
- Start targeted investments in new products and markets

Phase 3

Drive growth

- Invest to lead in selected market segments

