

Lenovo Group Limited FY2005/06 Q1 Results

August 10, 2005

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Financial and Business Review

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2005/06 Q1 Financial Highlights

- Turnover: HK\$19.6 billion, up 234%
- Gross margin: 15.33%, up 1.58 points from 13.75%
- EBITDA: HK\$829 million, up 135% from HK\$352 million
- Profit before tax: HK\$515 million, up 54% from HK\$333 million
- Cash flow from operations: HK\$4.3 billion
- Net cash reserves: HK\$5.9 billion
- Cash conversion cycle: -35 days, improved from +10 days

Note: All comparisons Y/Y

All results comparisons are between new Lenovo and legacy Lenovo

Unit shipment numbers are based on merged 3 months performance, including one month IBM PCD notebook and desktop numbers

Source: Market performance is based on industry and company estimates

Gross Margin: Total Manufacturing Cost adopted to include both BMC and NBMC



2005/06 Q1 Results

HK\$ Million	2005/06 Q1	2004/05 Q1	Change
Turnover	19,613	5,878	234%
Gross margin	15.33%	13.75%	+1.58 pts
EBITDA	829	352	135%
Profit before taxation	515	333	54%
Profit attributable to shareholders	357	337	6%
Earnings per share (Basic)	4.12 HK cents	4.50 HK cents	-8%
Net margin	1.82%	5.73%	-3.91 pts
ROE	3.57%	6.97%	-3.40 pts

- Group's total PC clients shipped as reported by IDC 3.52 million units*
- HK\$161 million amortization of intangible assets, including HK\$127 million deal intangible assets, HK\$32 million Olympic marketing rights, and HK\$2 million other intangible assets.

* IDC's report for three month period ended June 30, including 3 months of Lenovo China, 2 months of acquisition, and 1 month of IBM PC client.

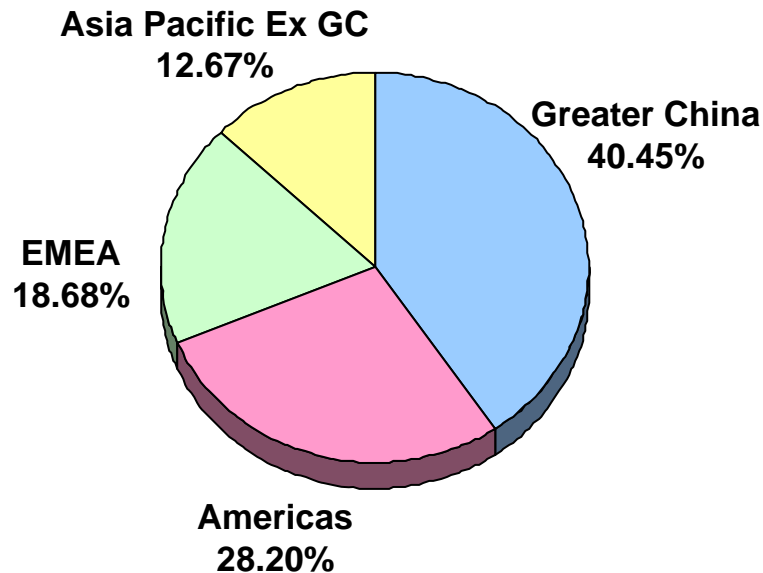


2005/06 Q1 Turnover Breakdown

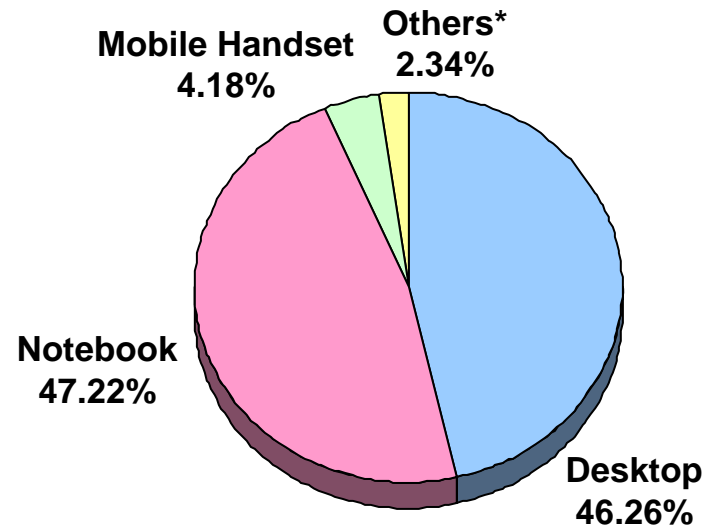
Balanced Portfolio

Increased Notebook Mix

By Region



By Product



* Others includes servers, printers, digital products, IT service, etc.

2005/06 Q1 Region Summary: Strong Profitability

HK\$ Million	Greater China	Asia Pacific (ex GC)	EMEA	Americas	Total Group
Turnover					
Total	7,935*	2,485	3,663	5,530	19,613
<i>PC business</i>	6,657				
<i>Mobile handset</i>	820				
Segment operating profit					
Total	463	(29)	40	249	723

- **Greater China**
 - Revenue up 35%, operating profit up 55% Y/Y
 - PC shipments growth well above market
- **Americas**
 - Solid margins in all regions
 - Strength in notebooks, Brazil
- **EMEA**
 - Strength in desktop, notebook
 - Strength in Russia
- **Asia Pacific (ex GC)**
 - Slow demand in Japan
 - India PC client shipments up 32% Q/Q, vs. market up 8% Q/Q

*Including other businesses

PC client = Desktop + Notebook

Source: Market performance is based on industry and company estimates



Lenovo Worldwide Market Share

New Lenovo Performance

Region	Ships ('000)	Client Unit Growth		Unit Share
		Y/Y	Q/Q	
Americas	825	-4%	4%	4.5%
EMEA	677	2%	10%	4.6%
Greater China	1,542	24%	26%	30.6%
Asia Pacific ex GC	474	-6%	4%	6.1%
Worldwide	3,519	7%	14%	7.7%

- #3 Market Position Worldwide
- Sequential growth outpacing the market growth
- Gaining share in all regions Q/Q

PC Client = Desktop + Notebook

Source: Market performance is based on industry and company estimates



Key Financial Figures

HK\$ Million	2005/06 Q1	2004/05 Full Year	2004/05 Q1
Cash earnings	\$ 532	\$ 1,043	\$ 320
Cash reserves	\$ 9,781	\$ 3,019	\$ 3,017
Total bank borrowings	\$ 3,900	\$ -	\$ 181
Net cash reserves	\$ 5,881	\$ 3,019	\$ 2,837
Capital expenditure	\$ 121	\$ 177	56
Current ratio	1.0 x	1.9 x	1.9 x
Days inventory	8 days	20 days	25 days
Days receivable	18 days	35 days	31 days
Days payable	61 days	50 days	46 days

Cash Conversion Cycle

-35 days

+10 days

Cash Earnings: Defined as net income before amortization of goodwill and acquired intangible assets, other acquisition related charges, disposal gain/loss on investment, and impairment loss of goodwill and assets.



Emerging Markets: Successful Business Model in China

- Strengthen relationship and transactional models
 - Relationship: improved profit margin, reduced inventory cost, continue to gain market share in Large Enterprise segment
 - Transactional: increased sales zone, contact/service to customers
- Focus on notebook
 - Notebook market share increased to 34%, shipments up 31%
- Penetrate into high-volume growth segments
 - Consumer DT market share increased from 27% to 36%
 - Township PC rapid growth in tier 5 and 6 cities
- Overall results in Mainland China
 - Volume up 28% vs. Market (Ex-Lenovo) up 14%
 - Share 34%; up 2.6 points

All comparisons Y/Y

Source: Market performance is based on industry and company estimates



Emerging Markets: Significant Growth

Region	New Lenovo Performance		Market Performance Excluding Lenovo	
	Client Unit Growth Y/Y	Client Unit Growth Q/Q	Client Unit Growth Y/Y	Client Unit Growth Q/Q
Mainland China	28%	28%	14%	5%
India	35%	32%	29%	6%
Brazil	58%	25%	44%	15%
Russia	50%	51%	28%	-1%

- India: New sales team in non-metropolitan cities to align with growth opportunities
- Brazil: Expanding product portfolio, manufacturing capability, and marketing coverage

PC Client = Desktop + Notebook

Source: Market performance is based on industry and company estimates



Notebook

- Revenue HK\$ 9.3 billion; 47% of total Lenovo revenue
- Worldwide notebook gaining momentum in marketplace
 - sequential growth was 9% outpacing the industry forecast
- Continued Innovation in 2005
 - Launched products with Intel Alviso processor (X, T, R Series)
 - Fingerprint Reader on ThinkPad X Series and R Series
 - World's most secure notebooks
 - Demo working Fuel Cell notebook Prototype
 - Lenovo branded consumer notebooks with improved features, such as wide screen, wireless internet connection, trendy design, camera, captured fast growing consumer segment
 - X41 Tablet



ThinkPad X41 Tablet

“I’ve been waiting for a ThinkPad that was a tablet form factor, and I know a lot of other folks have, too.”

- Steve Ballmer, CEO, Microsoft

“The new ThinkPad X41 Tablet is the lightest convertible on the market, and is perfectly positioned to help bring tablets into the mainstream.”

- PC Magazine Editor’s Choice

Desktop

- Revenue: HK\$ 9.1 billion
- 46% of revenue from desktop
- Worldwide Desktop had a very strong quarter
 - Sequential growth of 17%, well ahead of the industry
- Innovative products, targeted to growing customer segments
 - ThinkCentre with integrated fingerprint reader, World's most secure DT
 - ThinkCentre with first dual-core processor platform
 - Lenovo Yangtian commercial desktop with innovation for SMB
 - “One-key virus kill”, “One-key system restoration”
 - Lenovo Jiayue consumer desktop with innovation for families
 - Preinstalled software and on-line service for education
 - Lenovo Fengxing consumer desktop with innovation for gaming
 - Adjustable CPU performance



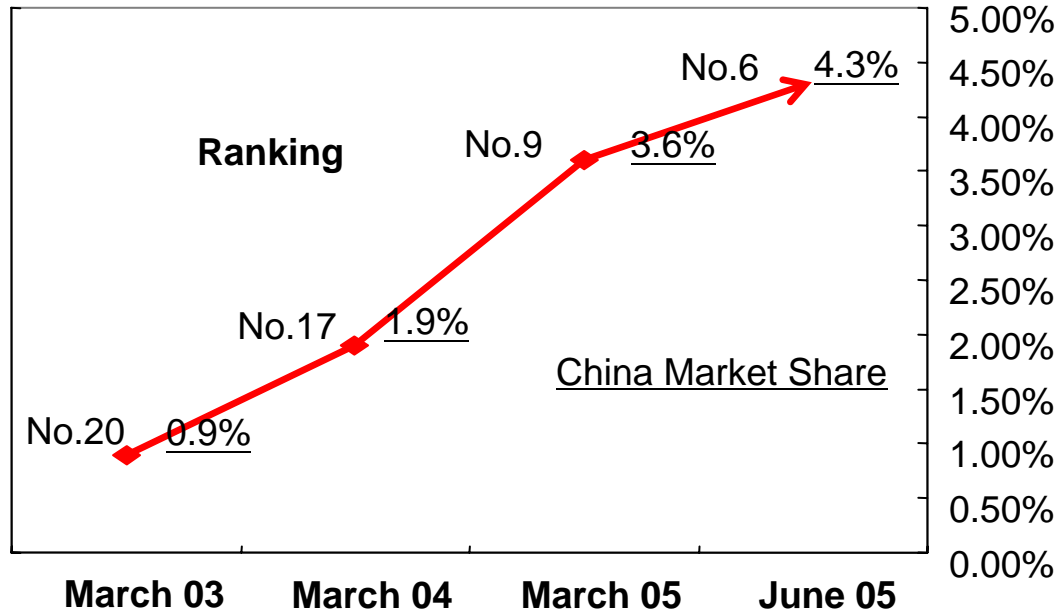
Lenovo Yangtian M

Source: Market performance is based on industry and company estimates



Mobile Handset: Breaking Through with Innovation

- HK\$25 million profit, >1 million shipped in Q1
- 4.3% share, up 70 bps from March
- ET960 Smartphone received *BusinessWeek* /IDSA Award
- Solid margin thanks to strong in-house design capability



Lenovo Smartphone ET960

Source: Market performance is based on industry and company estimates



Q1: Solid Results Building Road to Growth

- Acquired business profitable
- Integration and synergies
- China's model proved successful, transferable
- Emerging markets continue to lead the growth
- Leadership in notebook has strategic importance

Integration and 2006 Strategic Objectives

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New Lenovo's three-phase growth plan

Deliver on the promise of Lenovo and on our commitments

Phase 1

- Delight customers, retain their business =
- Maintain product leadership, sales momentum =+
- Ensure effective business operations +
- Positively introduce/position the company, brands +
- Develop employees, reward excellence +

Phase 2

Increase our competitiveness through operational excellence, innovation, and branding

- Become faster, more efficient
- Increase Think brand equity; grow Lenovo into WW brand
- Build global innovation, performance culture, and reputation
- Investment in targeted new products/markets

Phase 3

Drive aggressive, profitable growth

- Invest to lead in selected segments

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Strategies:

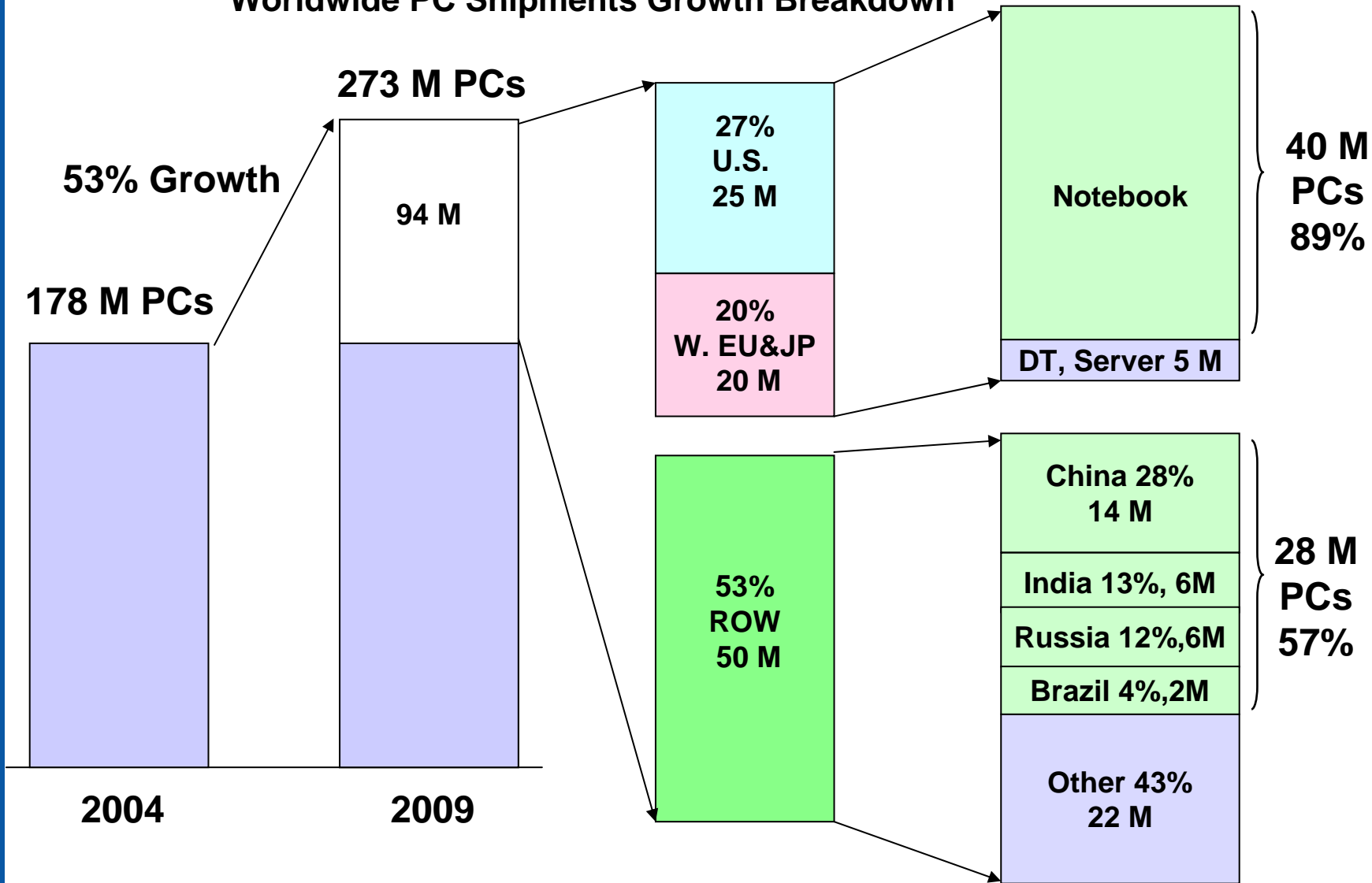
What You Should Expect from Lenovo in 2006

- Cost and expense competitiveness
- Product line expansion
- Brand development and demand generation
- Sales model and sales execution
- Investment in emerging markets
- Integration of businesses

Creating growth and a growth culture

Lenovo's Emerging Market Strategic Advantage:

Worldwide PC Shipments Growth Breakdown



*IDC March 2005 Forecast, Industry and Company Estimates



Integration: Building Operational Efficiency

- Synergy actions to date are on track to our targets
- Procurement contracts and execution consolidated worldwide
- Sales and country operations in place and integrated in all countries
- 8 of 16 major functions fully integrated
 - Procurement, Marketing, Finance, Accounting, Tax, Treasury, Legal, Communications
- Additional potential in four key areas
 - ISC, manufacturing operations
 - Product lines
 - IT
 - Services

Growth Will be Driven by Four Lenovo Advantages:

- Innovation model and design competence
- Lenovo model of operational excellence
- Business mix rich in fast growing notebook markets
- Geographic mix rich in fast growing emerging markets

Remarks

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Appendix

- Consolidated Profit and Loss Account
- Consolidated Balance Sheet
- Condensed Consolidated Cash Flow Statement
- Background Information on Lenovo Innovation Centers

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2005/06 Q1 Consolidated P&L Account

HK\$ Million	2005/06 Q1	2004/05 Q1	Y/Y Change
Turnover	\$ 19,613	\$ 5,878	233.7%
EBITDA	\$ 829	\$ 352	135.2%
Depreciation expenses and amortization of prepaid lease payments	\$ (103)	\$ (52)	
Amortization of intangible assets	\$ (161)	\$ (8)	
Amortization of deferred compensation	\$ (13)	\$ -	
Impairment of assets	\$ -	\$ (31)	
(Losses)/gains on disposal of investments and available-for-sale financial assets	\$ (3)	\$ 54	
Finance income	\$ 23	\$ 21	
Profit from operations	\$ 572	\$ 336	70.0%
Finance costs	\$ (53)	\$ (1)	
	\$ 519	\$ 335	
Share of profits/(losses) of jointly controlled entities	\$ 1	\$ (4)	
Share of (losses)/profits of associated companies	\$ (5)	\$ 2	
Profit before taxation	\$ 515	\$ 333	54.4%
Taxation	\$ (152)	\$ (11)	
Profit for the period	\$ 363	\$ 322	12.7%
Attributable to:			
Shareholder's equity of the Company	\$ 357	\$ 337	6.0%
Minority interests	\$ 6	\$ (15)	
	\$ 363	\$ 322	
Earnings per share (Basic)	4.12 HK cents	4.50 HK cents	
Earnings per share (Fully diluted)	4.07 HK cents	4.50 HK cents	



Consolidated Balance Sheet

HK\$ Million	As at 6/30/2005	As at 3/31/2005
Intangible assets	\$ 15,058	\$ 513
Property, plant and equipment	\$ 1,348	\$ 828
Prepaid lease payments	\$ 50	\$ 50
Construction-in-progress	\$ 269	\$ 257
Investments	\$ 229	\$ 307
Available-for-sale financial assets	\$ 66	\$ -
Deferred tax assets	\$ 56	\$ 53
Other non-current assets	\$ 78	\$ 570
Current assets	\$ 27,303	\$ 6,454
Current liabilities	\$ 27,012	\$ 3,473
Net current assets	\$ 291	\$ 2,981
Total assets less current liabilities	\$ 17,445	\$ 5,559
Shareholders' funds	\$ 9,997	\$ 5,204
Minority interests	\$ 30	\$ 24
Long-term liabilities	\$ 7,418	\$ 331
	\$ 17,445	\$ 5,559



Condensed Consolidated Cash Flow Statement

HK\$ Million	2005/06 Q1	2004/05 Q1
Net cash inflow from operating activities	\$ 4,338	\$ 292
Net cash outflow from investing activities	\$ (4,208)	\$ (101)
Net cash inflow from financing activities	<u>\$ 6,641</u>	<u>\$ 176</u>
Increase in cash and cash equivalents	\$ 6,771	\$ 367
Cash and cash equivalents at the beginning of the period	\$ 3,019	\$ 2,650
Effect of foreign exchange rate changes	<u>\$ (9)</u>	<u>\$ -</u>
Cash and cash equivalents at the end of the period	<u>\$ 9,781</u>	<u>\$ 3,017</u>

Lenovo Innovation Centers – Accelerating Innovation

RESEARCH TRIANGLE PARK, N.C., May 24, 2005 ...
Lenovo announced plans to establish new Innovation Centers

- Demonstrate Lenovo's Commitment to Purposeful Innovation
- Showcase Best in Class, Proven Solutions
- Collaboration venue for our Partners and Customers
- Access to Industry experts focused on delivery of proven solutions
- Incubation of new technologies driving business advantage for our Customers



Beijing Innovation Center Concept – Opening Sept 2005

Founding Partners



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