

Innovation **that** Matters

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Lenovo Group Limited

2005/06 Interim Results

November 1, 2005

2Q 2005/06 Financial Highlights

- Turnover: HK\$28.5 billion, up 404%
- Gross margin: 14.0%, up 2.0 points
- EBITDA: HK\$948 million, up 271%
- Profit before tax: HK\$507 million, up 70%
- Cash flow from operations: HK\$4.3 billion, up 1320% from HK\$0.3 billion
- Net cash reserves: HK\$7.8 billion, up 159% from HK\$3.0 billion
- Cash conversion cycle: -31 days, improved from +8 days
- Interim dividend: 2.4 HK cents, equal to prior year

Note: All comparisons Y/Y;
All results comparisons are between new Lenovo and legacy Lenovo,
Gross Margin: Total Manufacturing Cost adopted to include both BMC and NBMC

2Q 2005/06 Business Highlights

- Initial objectives:
 - Customer retention
 - Profitability
 - Strong cash position
- Results continue ahead of initial objectives
 - Record shipments
 - EPS +1% Y/Y
 - HK\$7.8 billion net cash reserve
- Integration on track
 - New organization in September
 - 2Q synergy savings HK\$156 million
- New products for growing markets
 - ThinkPad Z60, Lenovo Xuri 125 notebook, ThinkCentre E Desktop

Lenovo Financial Summary

	1Q 2005/06		2Q 2005/06		YTD 2005/06	
	HK\$ mn	Y/Y	HK\$ mn	Y/Y	HK\$ mn	Y/Y
Turnover	19,613	234%	28,494	404%	48,107	317%
GP %	15.3%	+1.6 pts	14.0%	+2.0 pts	14.5%	+1.6 pts
Operating Expenses	2,455	376%	3,438	611%	5,893	490%
E/R %	12.5%	+3.8 pts	12.1%	+3.6 pts	12.2%	+3.6 pts
Other Exp/(Income)	36	NA	45	NA	81	NA
Pre-tax Income	515	54%	507	70%	1,022	62%
PTI %	2.6%	-3.1 pts	1.8%	-3.5 pts	2.1%	-3.4 pts
Profit Attributable to Shareholders	357	6%	354	22%	711	13%
EPS (HK cents)						
- Basic	4.12	-8%	3.95	2%	8.07	-4%
- Diluted	4.07	-10%	3.92	1%	8.04	-4%

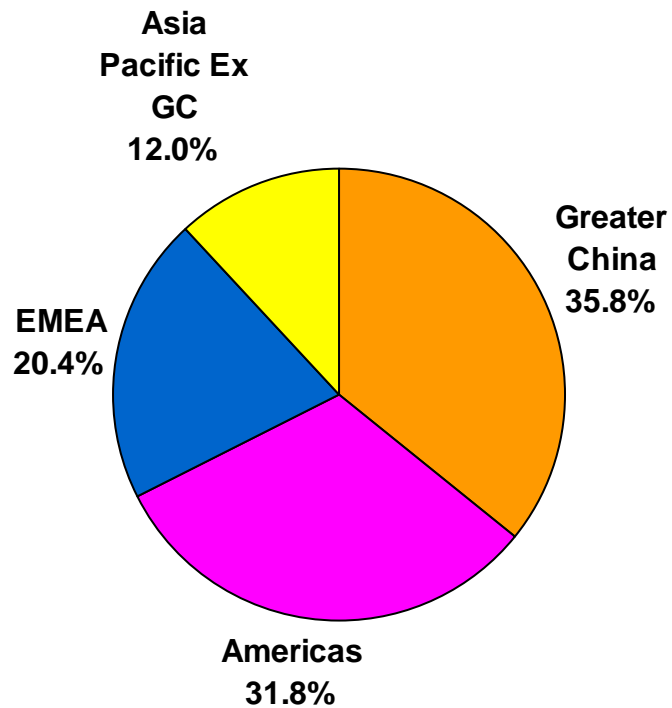
Cash and Working Capital

	<u>HK\$ mn</u>	<u>1Q 2005/06</u>	<u>2Q 2005/06</u>	<u>2Q 2004/05</u>
Cash Earnings*		532	613	205
Cash Reserves		9,781	11,672	3,126
Total Bank Borrowings		3,900	3,900	125
Net Cash Reserves		5,881	7,772	3,001
Days Inventory		8 days	8 days	19 days
Days Receivable		18 days	22 days	33 days
Days Payable		61 days	61 days	44 days
Cash Conversion Cycle		-35 days	-31 days	8 days

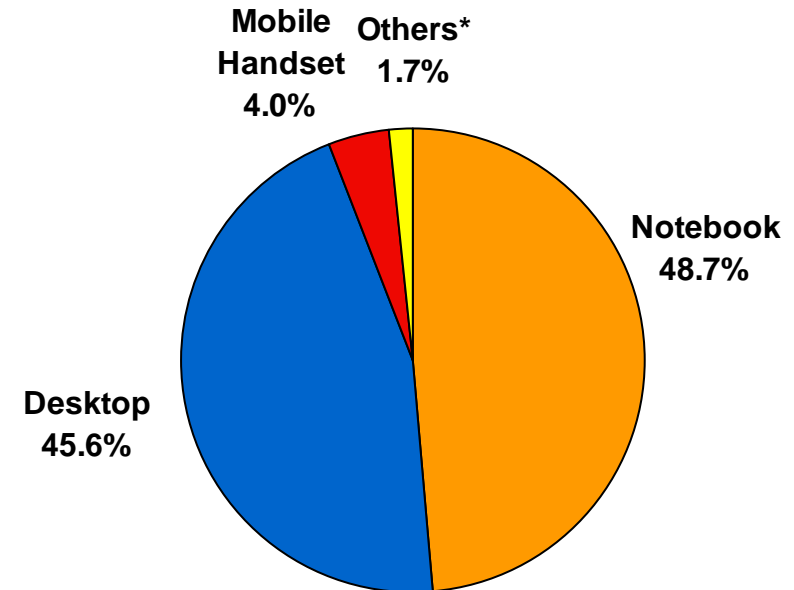
* Cash Earnings is defined as net income before amortization of goodwill and acquired intangible assets, other acquisition related charges, disposal gain/loss on investments, and impairment loss of goodwill and assets.

Revenue Breakdown (2Q 2005/06)

Strong Geographic Mix



Strong Notebook Mix



•*Others includes servers, printers, digital products, IT services, etc.

•2Q total revenue includes 3 months of acquired IBM PCD business

Geography Summary

	Turnover HK\$ mn			Segment Operating Profit HK\$ mn			Segment Operating Profit Margin		
	1Q	2Q	YTD	1Q	2Q	YTD	1Q	2Q	YTD
GC	7,935	10,198	18,133	463	567	1,030	5.8%	5.6%	5.7%
Americas	5,530	9,061	14,591	249	215	464	4.5%	2.4%	3.2%
EMEA	3,663	5,813	9,476	40	(68)	(28)	1.1%	(1.2%)	(0.3%)
AP (ex GC)	2,485	3,422	5,907	(29)	99	70	(1.2%)	2.9%	1.2%
Total	19,613	28,494	48,107	723	813	1,536	3.7%	2.9%	3.2%

Geography Highlights

Greater China - Successful Model

- Continued strong results from fastest growing geography, units up 29% Y/Y
- Mobile Handset doubled revenue with improved profitability
- Integration of sales forces

EMEA - Profit Focus

- Record shipments but lost share
- # 1 in top-end products in W.EU.
- Low penetration in fast growing SMB
- Added focus on efficiency

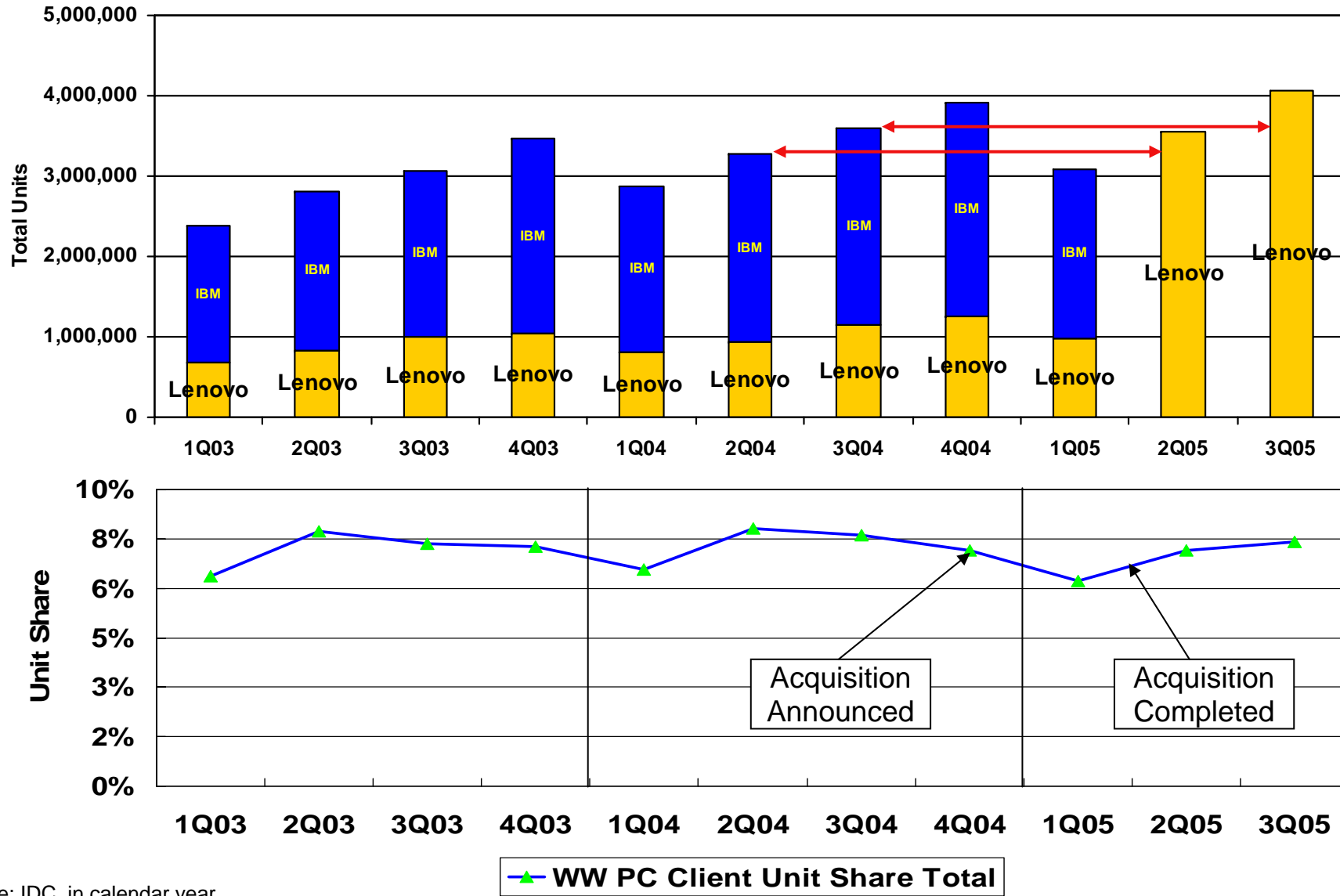
Americas - Steady Performance

- Record shipments for the region
- Strong customer retention
- Product line expansion targeted at SMB

AP ex. GC - Expanding Business

- Share loss in Japan
- Relationship/transactional model
- India – Growth 2x market
 - Leveraging Lenovo China model

Shipments and Share Trends



Source: IDC, in calendar year

Notebook 2Q 2005/06

- Revenue HK\$ 13,876 million; 48.7% of total Lenovo revenue
- Over 1.4 million units shipped, up 13% Y/Y

Notebook Market by Price – Lenovo Price

		<u>US</u>	<u>China</u>	<u>Japan</u>	<u>Rest AP</u>	<u>Western EU</u>
Price Segment	Higher 40%	#1	#1	#4	#1	#1
	Lower 60%	#4	#1	#4	#1	#8

- 2Q Product launches targeted at SMB
 - ThinkPad Z60: Wide screen multi-media
 - Lenovo Xuri 125: Entry product at RMB6,999



ThinkPad Z60



Lenovo Xuri 125

Source: Market performance is based on industry and company estimates

Desktop 2Q 2005/06

- Revenue HK\$ 12,988 million; 45.6% of total Lenovo revenue
- Over 2.6 million units shipped, up 13% Y/Y
- Strengths in emerging markets:
 - Over 1.4 million shipped in mainland China, up 29% Y/Y
 - Unit shipments up 50% Y/Y in India
- 2Q Product launches targeted at SMB and consumer
 - ThinkCentre M52
 - Announced new YangTian & JiaYue in China
 - ThinkCentre E Series (Oct)



New JiaYue



YangTian E Series



ThinkCentre E Series

Source: Market performance is based on industry and company estimates

Mobile Handset 2Q 2005/06: Breakthrough with Innovation

- Over 1.4 million shipped, up 139% Y/Y
- Revenue doubled Y/Y with improved profit
- Key Success Factors:
 - Understand customers' needs and fast response to market changes
 - In-house R&D capability



ET980



i717S

Source: Market performance is based on industry and company estimates

Continue to Build the Foundation for Growth

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

Innovation, Operational Efficiency, Customer Satisfaction

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Lenovo's Three-Phase Growth Plan

Deliver on the promise of Lenovo and on our commitments

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

Increase our competitiveness through operational efficiency, 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

Drive aggressive, profitable growth

- Invest to lead in selected segments

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 Business +

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Appendix

- Income Statement
- Balance Sheet
- Cash Flow Statement

2005/06 Interim Condensed Consolidated Income Statement

HK\$ Million	2005/06 2Q	2005/06 Interim	2004/05 2Q	2004/05 Interim
Turnover	28,494	48,107	5,655	11,533
EBITDA	948	1,777	256	608
Depreciation expenses and amortization of prepaid lease payments	(134)	(237)	(51)	(102)
Amortization of intangible assets	(206)	(367)	(7)	(16)
Amortization of share-based compensation	(57)	(70)	-	-
Impairment of assets	-	-	(20)	(51)
Gain/(loss) on disposal of investments and available-for-sale financial assets	2	(1)	110	164
Finance income	44	67	21	42
Profit from operations	597	1,169	309	645
Finance costs	(94)	(147)	(3)	(4)
	503	1,022	306	641
Share of profits/(losses) of jointly controlled entities	-	1	(6)	(10)
Share of profits/(losses) of associated companies	4	(1)	(2)	(0)
Profit before taxation	507	1,022	298	631
Taxation	(133)	(285)	(14)	(25)
Profit for the period	374	737	284	606
Profit attributable to:				
Shareholders of the Company	354	711	290	627
Minority interests	20	26	(6)	(21)
	374	737	284	606
Dividend	-	212	-	179
Earnings per share				
- basic	3.95 HK cents	8.07 HK cents	3.89 HK cents	8.39 HK cents
- fully diluted	3.92 HK cents	8.04 HK cents	3.88 HK cents	8.38 HK cents

Condensed Consolidated Balance Sheet

HK\$ Million	As at 9/30/2005	As at 3/31/2005
Intangible assets	14,823	513
Property, plant and equipment	1,431	828
Prepaid lease payments	51	50
Construction-in-progress	249	257
Investments	233	244
Available-for-sale financial assets	230	63
Deferred tax assets	256	53
Other non-current assets	9	570
Current assets	26,048	6,454
Current liabilities	26,246	3,473
Net current assets	(198)	2,981
Total assets less current liabilities	17,084	5,559
Shareholders' funds	9,229	5,204
Minority interests	51	24
Long-term liabilities	7,804	331
	17,084	5,559

Condensed Consolidated Cash Flow Statement

HK\$ Million	2005/06 Interim	2004/05 Interim
Net cash inflow from operating activities	8,683	598
Net cash outflow from investing activities	(5,295)	(18)
<u>Net cash inflow/(outflow) from financing activities</u>	<u>5,281</u>	<u>(104)</u>
Increase in cash and cash equivalents	8,669	476
Effect of foreign exchange rate changes	(16)	0
<u>Cash and cash equivalents at the beginning of the period</u>	<u>3,019</u>	<u>2,650</u>
<u>Cash and cash equivalents at the end of the period</u>	<u>11,672</u>	<u>3,126</u>