

Lenovo Group Limited

2004/05 Q1 Results Announcement

August 11, 2004

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Market and Business Review

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Market Review

- During April to June 2004, the China's IT industry maintained stable growth.
- With the government and SME sectors leading the way, China PC market unit shipment maintained steady growth.
- During the quarter, mobile handset market achieved a 27% year-on-year shipment growth, mainly benefited from the growing demand of mid-end segment for color-screen handsets and camera-embedded phones.

Results Overview

HK\$	2004/05 Q1	2003/04 Q1	Change
Turnover	5.878 bil	5.342 bil	10.0%
Gross margin	15.7%	15.6%	Up 0.1%
EBITDA	352 mil	307 mil	14.7%
Profit attributable to shareholders	337 mil	278 mil	21.1%
Earnings per share (Basic)	4.50 cents	3.73 cents	20.6%
Net margin	5.7%	5.2%	Up 0.5%
ROE	7.3%	6.5%	Up 0.8%

Business Review

- Business performance in line with expectation during the first quarter of FY2004/05, which is also the first quarter following the implementation of the Group's new initiatives
- Group's overall turnover grew steadily at 10.0% year on year
 - Lenovo PC shipment increased 14.3%
 - Mobile handset shipment grew considerably at 145.9%. Handheld device business contributed profit with continuous gross margin surge
- Improved control of operating expenses with operating expense rate reduced to 10.7% from 10.9% of the same period last year



↑ Commercial DT
Q1: 17.5%



↑ Consumer DT
Q1: 5.3%



↑ Notebook
Q1: 44.2%



↑ Server
Q1: 1.0%

Updates on Reform Implementation

#1: Focus on core business and strategic new business, adopting a new approach for the development of other businesses

- **PC business maintained steady growth**
 - Corporate IT business turnover increased 15.8% yoy
 - Launched “Qitian IV” and “Kaitian S” computer series and four new models of notebook computers, showcased the Group’s R&D expertise and substantiated product lines
 - Rolled out “Yuanmeng” series to further penetrate the township market which poses immense volume growth potentials in PC consumption
- **Mobile handset business achieved good growth and contributed profit**
 - Shipment grew considerably at 145.9% yoy. Gross margin increased continuously and reached 25.06% in the first quarter
 - Contributing factors: efforts in building sales channel began to bear fruit; successful launch of a number of self-developed handsets with unique features; and major brand promotional efforts riding on sports related themes
- **New approach to develop IT service business**
 - Transfer IT service business to AsiaInfo in a stock transaction valued at RMB 300 million, and become a major shareholder of AsiaInfo upon completion to jointly develop IT service market

Updates on Reform Implementation

#2: Build a more customer-oriented sales model and organization structure

- Construction of a more customer-oriented market system completed
 - Further penetrating tier 4 to 6 cities with 18 sub-regions and 108 grids
 - Better use of market resources and respond to customer needs more quickly
- Satisfactory execution results of the integrated distribution strategy
 - Combining retail, channel distribution and direct-to-customer models, covers various types of customers comprehensively
 - Retail sales network comprising more than 4,000 retail shops to penetrate tier 4 to 6 cities
 - Large client sales team has grown to compose of 100 members
 - Actively setting up the telesales model
 - Achieved mutual understanding with channels, resulting in a better division of labor and complementary advantages

Updates on Reform Implementation

#3: Enhance overall operating efficiency

- Improvement on operating expense rate as a result of improved control
 - 0.2 percent lower year on year
- R&D expense increased 19.4%. Excluding R&D expense, operating expenses only increased 6.0%

HK\$ Million	2004/05 Q1	2003/04 Q1	Increase/ (Decrease)	%
Total operating expenses	\$ 630	\$ 582	\$ 48	8.3%
<i>Operating expense rate</i>	<i>10.7%</i>	<i>10.9%</i>	<i>-0.2%</i>	
Less: R&D expense	\$ 117	\$ 98	\$ 19	19.4%
Subtotal	\$ 513	\$ 484	\$ 29	6.0%

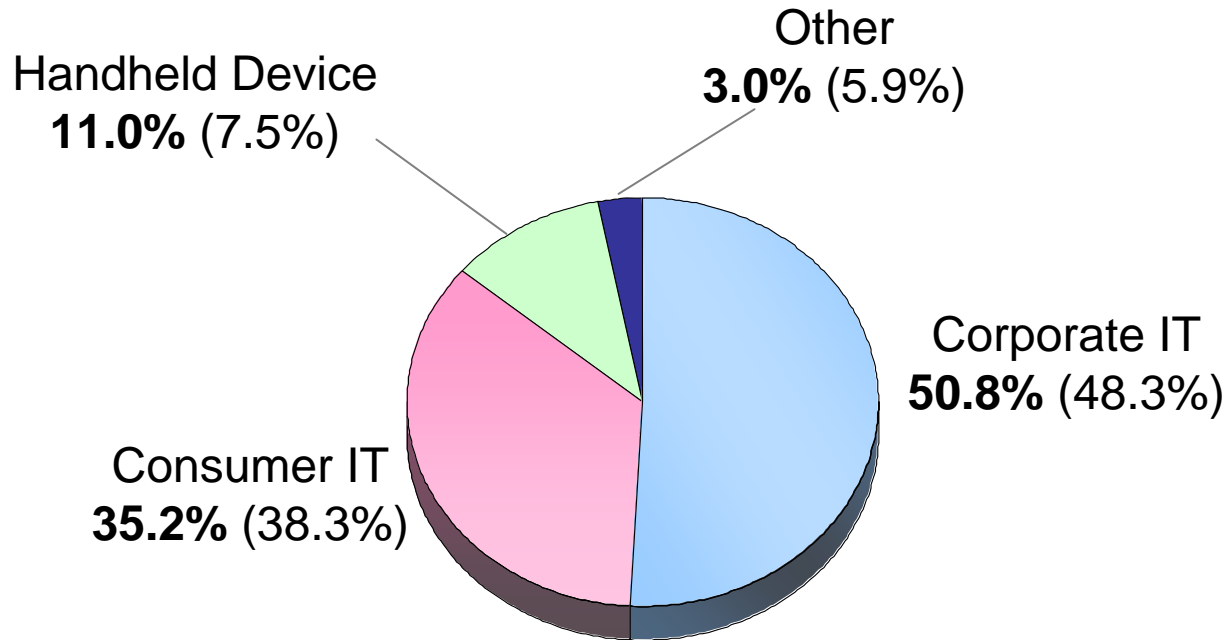
Financial Information

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2004/05 Q1 Consolidated P&L Account

HK\$'000	2004/05 Q1	% of Turnover	2003/04 Q1	% of Turnover
Turnover	\$ 5,877,910		\$ 5,341,739	
EBITDA	\$ 352,452	6.00%	\$ 307,328	5.75%
Depreciation expenses	\$ (51,425)		\$ (48,197)	
Amortisation of intangible assets	\$ (8,430)		\$ (6,793)	
Impairment of assets	\$ (31,001)		\$ -	
Gains on disposal of investments	\$ 54,088		\$ -	
Finance income	\$ 20,751		\$ 21,045	
Profit from operations	\$ 336,435	5.72%	\$ 273,383	5.12%
Finance costs	\$ (724)		\$ -	
	\$ 335,711		\$ 273,383	
Share of losses of jointly controlled entities	\$ (4,020)		\$ (8,629)	
Share of profits of associated companies	\$ 1,805		\$ 5,109	
Profit before taxation	\$ 333,496	5.67%	\$ 269,863	5.05%
Taxation	\$ (11,312)		\$ 3,405	
Profit after taxation	\$ 322,184		\$ 273,268	
Minority interests	\$ 14,641		\$ 4,988	
Profit attributable to shareholders	\$ 336,825	5.73%	\$ 278,256	5.21%
Earnings per share (Basic)	4.50 cents		3.73 cents	
Earnings per share (Fully diluted)	4.50 cents		3.72 cents	

2004/05 Q1 Turnover Breakdown



Note 1: Other businesses includes IT service and contract manufacturing which account for 1.6% and 1.4% of total turnover in FY2004/05 Q1 and 2.0% and 3.9% in FY2003/04 Q1 respectively. Contract manufacturing business has been deconsolidated since June 1, 2004.

Note 2: FY2003/04 Q1 figures are in brackets.

Changes in Turnover Breakdown

HK\$Million	2004/05 Q1	2003/04 Q1	Change
Corporate IT	\$ 2,985	\$ 2,578	15.8%
Consumer IT	\$ 2,070	\$ 2,045	1.2%
<i>Sub-total:</i>	<i>\$ 5,055</i>	<i>\$ 4,623</i>	<i>9.3%</i>
Handheld Device	\$ 646	\$ 401	61.3%
Other	\$ 177	\$ 318	-44.3%
Total	\$ 5,878	\$ 5,342	10.0%

Note 3: Turnover of IT service decreased 14.4%, amounting to HK\$93.65 million while turnover of contract manufacturing decreased 60.0%, amounting to HK\$83.34 million in FY2004/05 Q1.

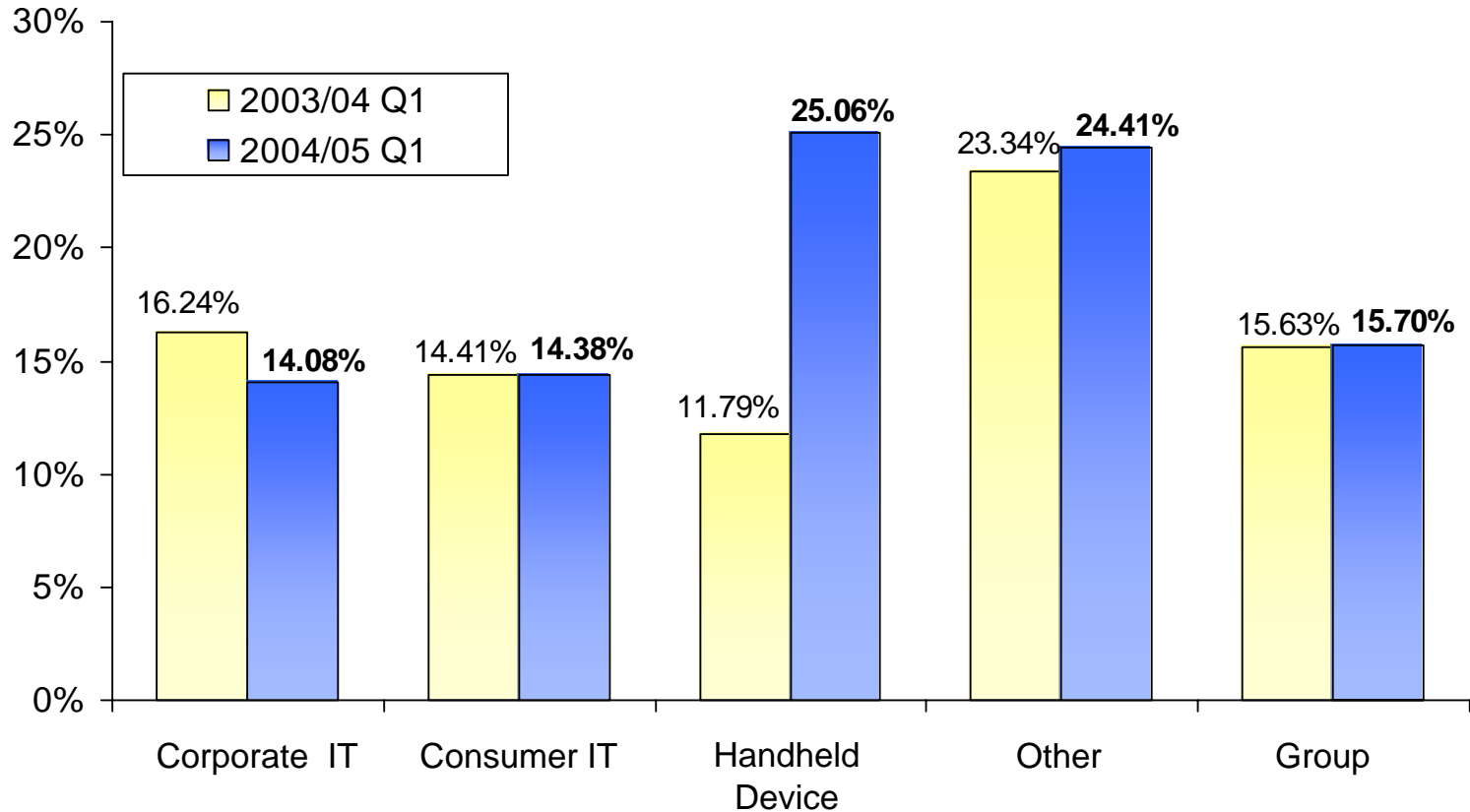
Changes in Segment Operating Profit

HK\$'000	2004/05 Q1	2003/04 Q1	Change
Corporate IT	\$ 170,617	\$ 167,073	2.1%
Consumer IT	\$ 147,020	\$ 146,334	0.5%
<i>Sub-total:</i>	<i>\$ 317,637</i>	<i>\$ 313,407</i>	<i>1.4%</i>
Handheld Device	\$ 900	\$ (24,785)	N/A
Other	\$ (19,879)	\$ (31,614)	N/A
Total (Note 5)	\$ 298,658	\$ 257,008	16.2%

Note 4: Operating loss of IT service reduced to HK\$7.33 million in FY2004/05 Q1 from HK\$10.24 million of the same period last year. Operating loss of contract manufacturing reduced to HK\$12.55 million in FY2004/05 Q1 from HK\$21.38 million of the same period last year.

Note 5: Segment operating profit before amortization of goodwill, impairment of assets and gains on disposal of investments.

Gross Margin Analysis



Consolidated Balance Sheet

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

Key Financial Figures

HK\$Million	2004/05 Q1	2003/04 Full Year	2003/04 Q1
Cash reserves	\$ 3,017	\$ 2,650	\$ 2,936
Total borrowings	\$ 181	\$ -	\$ -
Net cash reserves	\$ 2,836	\$ 2,650	\$ 2,936
Net tangible assets	\$ 4,247	\$ 3,842	\$ 4,343
Capital expenditure	\$ 56	\$ 466	\$ 72
Current ratio	1.9 x	1.9 x	2.0 x
Days inventory	25.0 days	24.9 days	25.6 days
Days receivable	30.7 days	28.0 days	23.4 days
Days payable	46.1 days	39.9 days	37.2 days

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Remarks

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