

Lenovo Group Limited

2004/05 Annual Results Announcement

Financial Review

June 8, 2005

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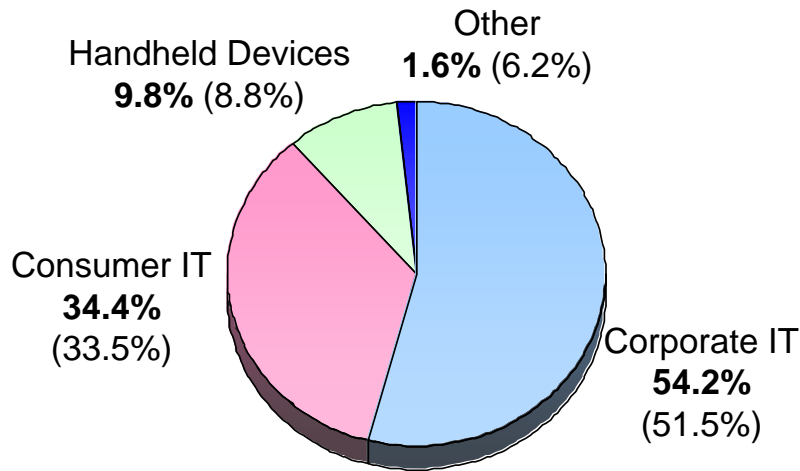
Overview

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.



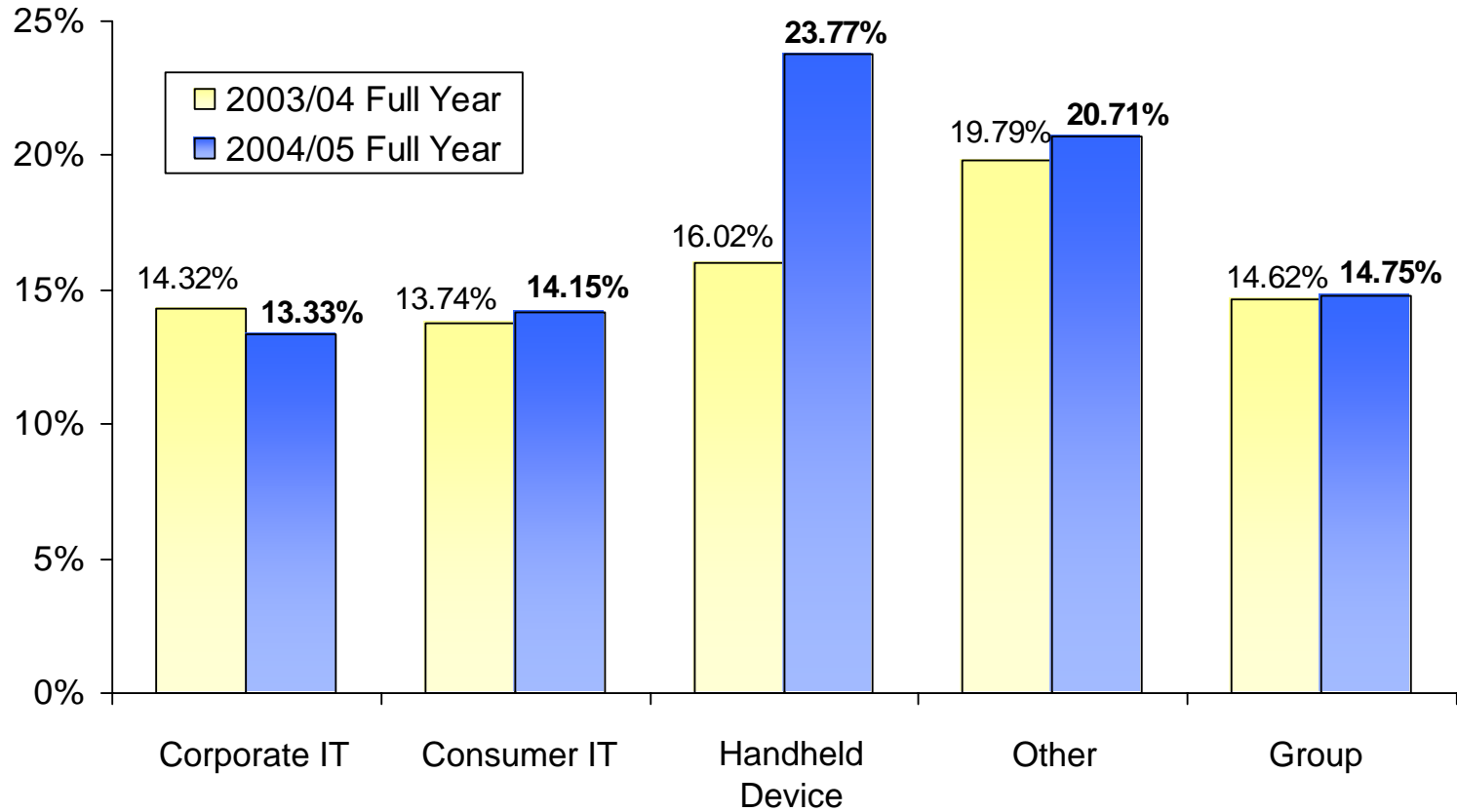
Changes in Segment Operating Profit (Q4)

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	\$ (24,917)	\$ (64,618)	N/A
Total	\$ 153,520	\$ 169,523	-9.4%

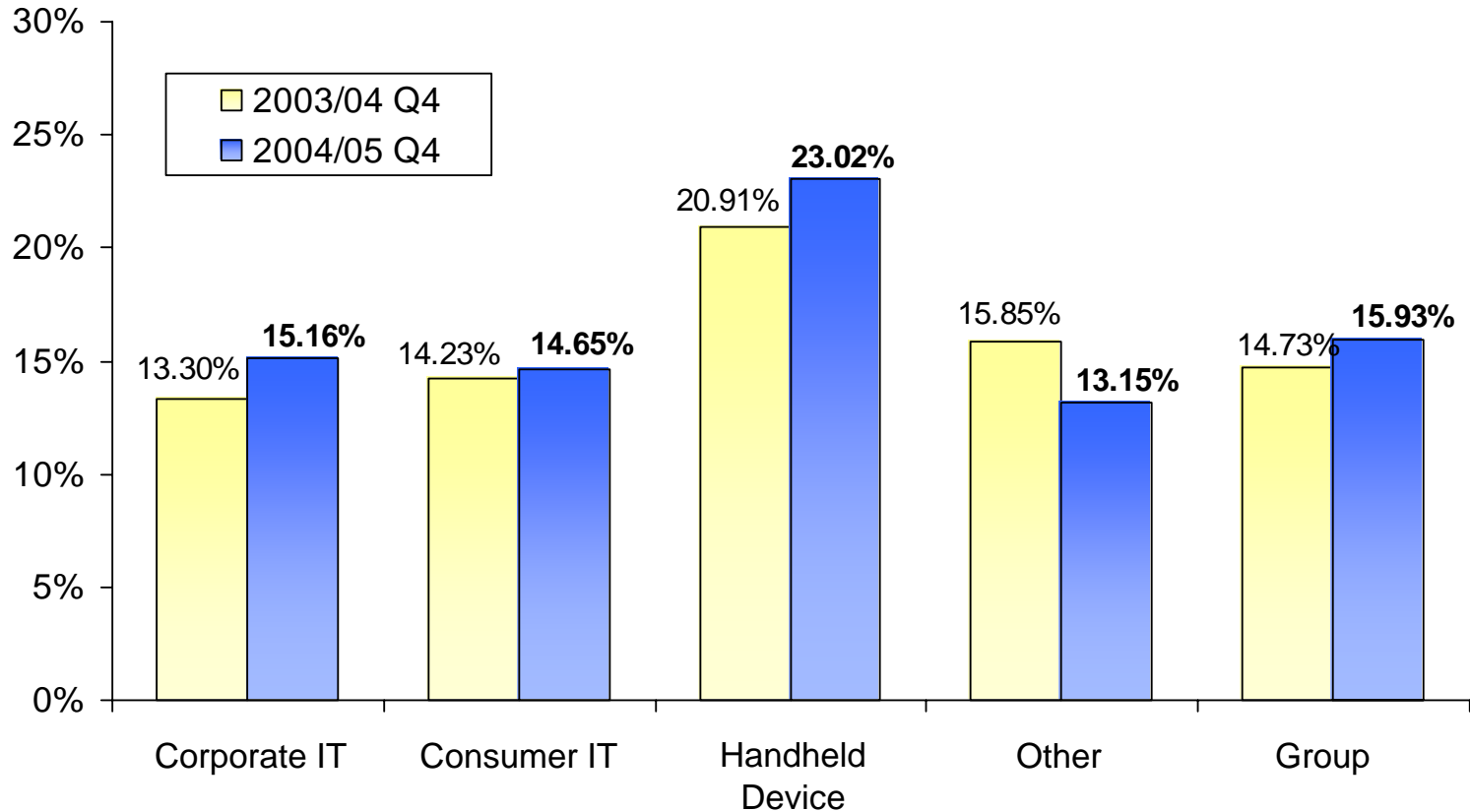
Note 3: Segment operating profit before amortization of goodwill and marketing rights, impairment of assets, finance income and costs, and gains on disposal of investments.



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

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2004/05 Annual Results Announcement

Market and Business Review

June 8, 2005

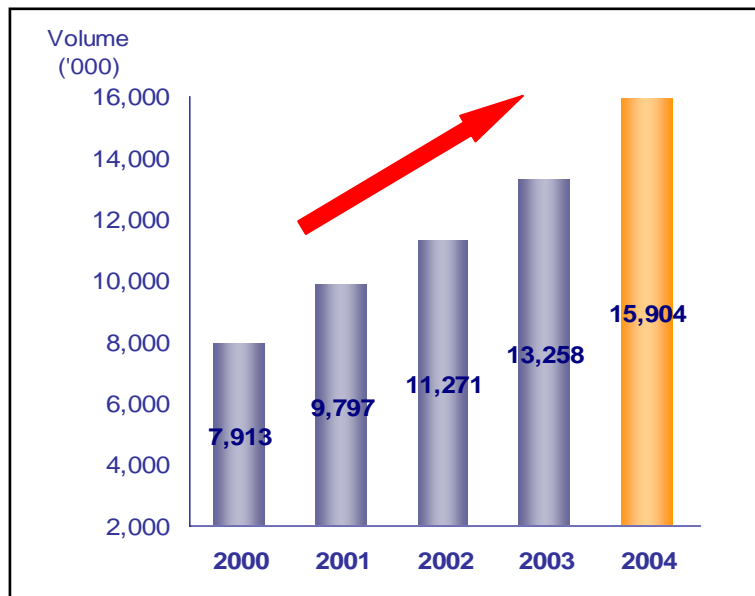
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Market Review

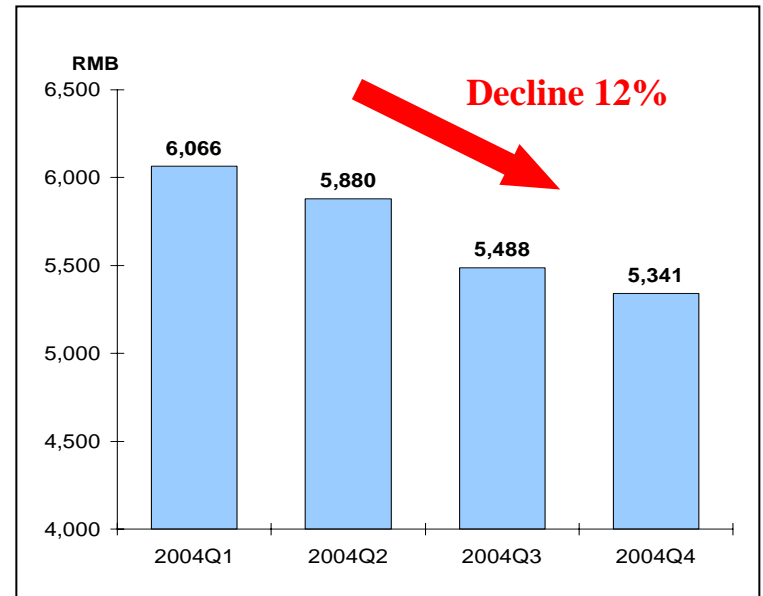
■ China PC Market

- 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

China Handset Market Size (2000 - 2004)

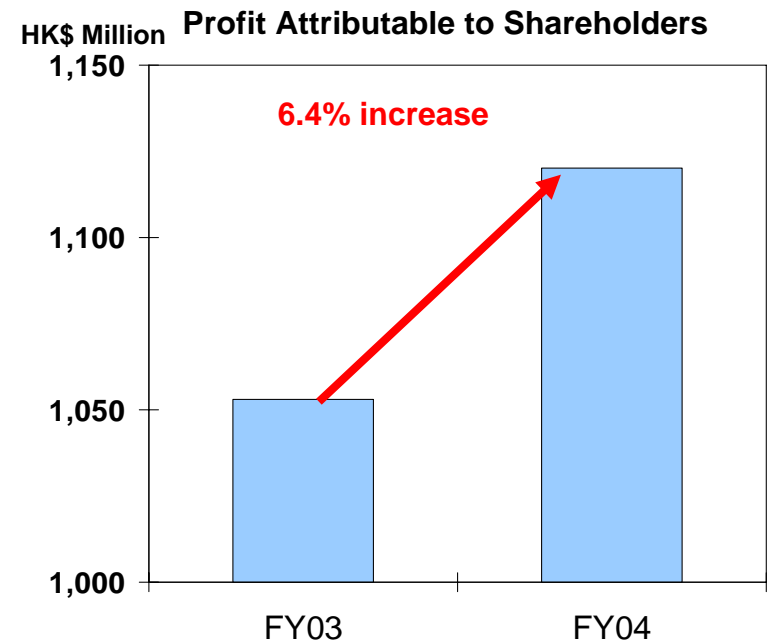
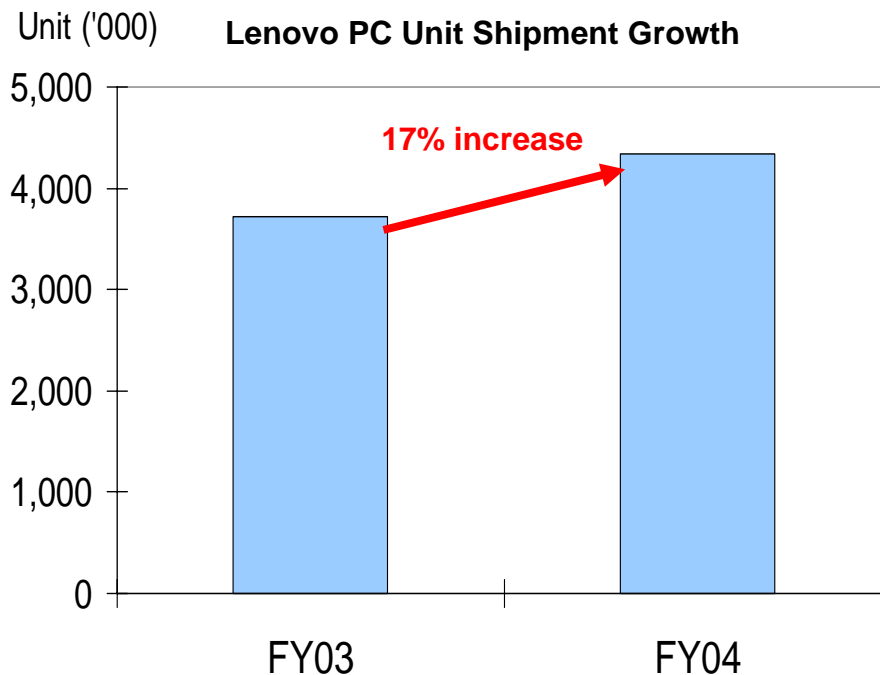


Source: SINO



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	Siemen	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%



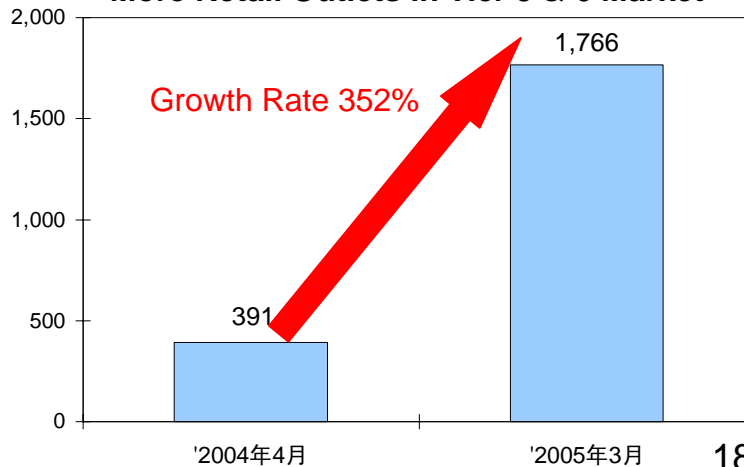
Customer-oriented: Strengthening Sales Model

- 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

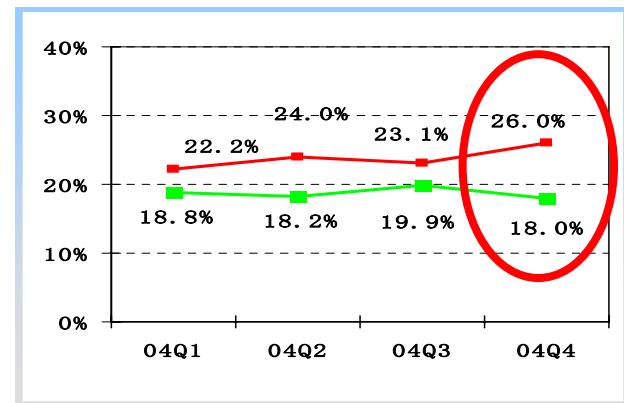
18 regions on China



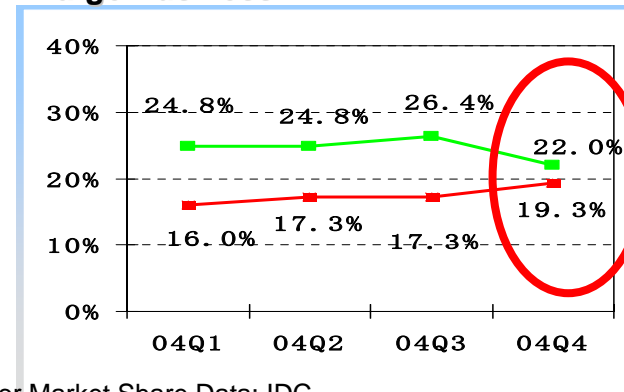
More Retail Outlets in Tier 5 & 6 Market



Median Business
 Legend: Lenovo (Red line), Major Competitors (Green line)



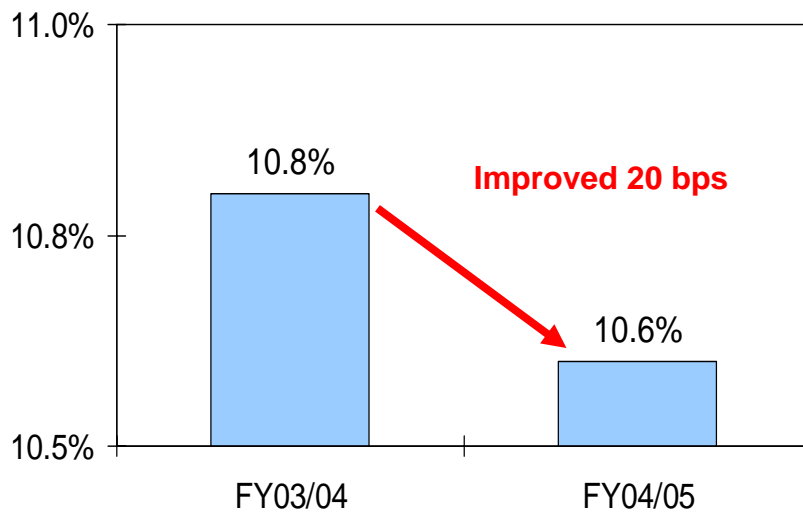
Large Business



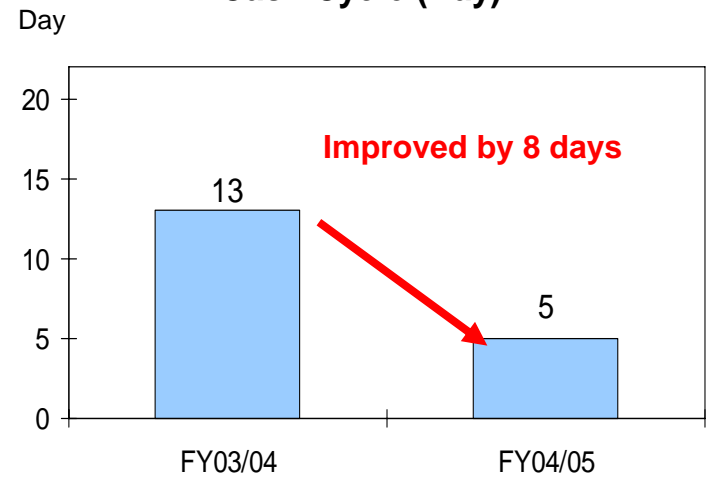
Enhance Efficiency: A Solid Foundation for Further Growth

- 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**

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Integration and Transition

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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

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