

## **Lenovo reports global profitability in first fiscal quarter 2005/06**

- **Revenue up 234% from organic growth in emerging markets, PC business acquisition**
- **EBITDA HK\$829 million, up 135%; Pre-tax profit increased 54% to HK\$515 million**
- **Profit attributable to shareholders up 6% to HK\$357 million**
- **Net Cash reserves increased to HK\$5.9 billion**
- **Cash conversion cycle: -35 days, improved from +10 days**
- **Global PC business profitable, record shipment levels**
- **Significant growth in key emerging markets -- China, India, Russia, Brazil -- ahead of industry**
- **Integration of the former IBM PC Division acquisition ahead of schedule**

**Hong Kong, August 10, 2005** – Lenovo results for the first fiscal quarter ended June 30, 2005 showed strong organic growth, outpacing the industry in key emerging markets, as well as growth from the acquisition of the former Personal Computing Division of IBM.

Lenovo's consolidated turnover increased 234 percent (year-to-year) to HK\$19.6 billion. Pre-tax profit increased 54 percent to HK\$515 million and profit attributable to shareholders was HK\$357 million, an increase of 6 percent compared to the prior year's comparable period. Basic earnings per share decreased 8 percent, to 4.12 Hong Kong cents, reflecting dilution related to the acquisition of the former IBM PC Division. Lenovo Group Limited (HKSE: 992; ADR: LNVGY) results include two months of contributions from the acquisition, which was completed on April 30, 2005.

Lenovo's PC operations in China, the Americas and Europe and its mobile handset business were profitable; Asia Pacific PC operations (excluding Greater China) showed a small loss. The Group reported HK\$18.3 billion in turnover in its global PC business. Lenovo's PC shipments were up 7 percent year-to-year and 14 percent quarter-to-quarter, the highest comparable quarter of PC shipments on record, based on industry reports.

"We are very pleased with new Lenovo Q1 performance. In our China PC business, we achieved rapid growth as a result of the business transformation initiated last year. Our mobile handset unit delivered strong and profitable growth, and, more importantly, the acquired PC business was profitable worldwide. Our results validate the expectations we had when we acquired the business and also reinforce our conviction that we have a model for ongoing profitability." said Yuanqing Yang, chairman of Lenovo. "I am optimistic about Lenovo's future as we move forward with important growth initiatives, such as transplanting our successful PC business template in China into other emerging markets."

"Lenovo made solid progress in our first 60 days. Lenovo's business model of product innovation combined with cost and expense competitiveness delivered profits in both our original and newly acquired businesses," said Steve Ward, Lenovo's chief executive officer. "Our innovative products – like the new ThinkPad X41 Tablet, the Lenovo Yangtian desktop with its one-key virus-kill feature and our award-winning ET960 Smartphone – combined with the commitment of our employees, business partners and suppliers, give us significant competitive advantages."

"We are generating the anticipated benefits of the acquisition quickly, ahead of schedule. Customers are embracing the new Lenovo. Lenovo outpaced the PC industry in

emerging markets, and we are focused on driving similar momentum in mature markets," said Mr. Ward.

### **Strong performance in China leads to leadership in AP; Emerging markets performance ahead of industry**

In Greater China, Lenovo's consolidated turnover was HK\$7.9 billion and the segment reported HK\$463 million in operating profit. Lenovo's PC leadership in the China market and in Asia increased, with the company maintaining its number-one market share position in China with share gains year-to-year and sequentially, and regaining its PC market share leadership in Asia Pacific overall (excluding Japan), according to industry reports.

Globally, Lenovo outperformed the industry in key emerging markets. According to industry reports, Lenovo delivered year-to-year shipment growth of 35 percent in India, 58 percent in Brazil, 50 percent in Russia, and 24 percent in Greater China.

In May and June, Lenovo's turnover in the Americas was HK\$5.5 billion and the segment reported HK\$249 million in operating profit. In the Europe, Middle East and Africa (EMEA) region, turnover was HK\$3.7 billion, with HK\$40 million in operating profit. The company noted that quarter-to-quarter, shipments increased in both regions, citing industry reports of sequential shipment growth of 4 percent in the Americas and 10 percent in EMEA. In both regions, despite competitive pricing pressure, Lenovo's margins showed strength.

Lenovo's turnover in Asia Pacific (excluding Greater China) was HK\$2.5 billion for May and June, with the unit reporting an operating loss of HK\$29 million. Industry reports indicated that quarter-to-quarter shipments were up slightly. Lenovo noted that its performance was strong in India with some weakness in Japan.

### **Gross profit margin increased 158 bps, to 15.3 percent**

Lenovo's overall gross margin increased 158 bps, to 15.3 percent, from the prior year. Lenovo said that it was generating faster-than-expected benefits from the synergies anticipated from the acquisition, and was ahead of track regarding significant procurement and supply-chain efficiencies. The company reiterated its prior statements that integration activities are on track to deliver synergies.

### **Notebook PC Business: Enterprise notebook sales gain momentum**

Total turnover for Lenovo's notebook PC business was HK\$9.3 billion. Globally, Lenovo's commercial notebook market share increased quarter-to-quarter, as enterprise buying for ThinkPads gained momentum. The company noted that response to the new x41 Tablet PC has been excellent. In China, strong performance came from notebook adoptions by high-end consumers.

### **Desktop PC Business: Customer segmentation in China drives desktop sales**

Lenovo's turnover in its global desktop business was HK\$9.1 billion. In China, Lenovo's customer segmentation strategy is capturing the growth potential in the township markets with its Jiayue desktop series, and resulted in an estimated 5 percent share increase. Lenovo also enjoyed good growth in its commercial PC shipments, benefiting from the relationship customer model it set up in the previous year and from response to the introduction of the Yangtian desktop for the SMB market.

### **Mobile Handset Business: Domestic volumes increase significantly**

Turnover in Lenovo's mobile handset business, conducted primarily in China, increased by 27 percent to HK\$820 million. Lenovo's mobile handset unit shipments jumped 51 percent, increasing its share and moving the brand to sixth place in China. With shipments of more than one million mobile handsets for the quarter and good expense

controls, Lenovo's mobile handset business delivered HK\$25 million operating profit this quarter.

**Lenovo: a worldwide technology leader**

Lenovo is an innovative, international technology company formed as a result of the acquisition by the Lenovo Group of the former IBM Personal Computing Division. As a global leader in the PC market, Lenovo develops, manufactures and markets cutting-edge, reliable, high-quality PC products and value-added professional services that provide customers around the world with smarter ways to be productive and competitive. Lenovo bases its success on our customers achieving their goals: productivity in business and enhancement of personal life. For more information, see [www.lenovo.com](http://www.lenovo.com).

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