

[For Immediate Release]

## **LENOVO REPORTS SECOND QUARTER FY2005/06 RESULTS**

- Revenue of HK\$28.5 billion, up 404% in 2Q06, from organic growth in emerging markets, PCD business acquisition
- EBITDA HK\$948 million, up 270%
- Pre-tax income of HK\$507 million, up 70%
- Profit attributable to shareholders of HK\$354 million, up 22%
- Basic EPS of 3.95 HK cents versus 3.89 HK cents in 2Q05
- Net Cash reserves HK\$7.8 billion, up 159%
- Cash conversion cycle: -31 days from +8 days in 2Q05
- Global PC business profitable; integration of former IBM PC business moves forward with new organization matching corporate strategy of innovation, operational efficiency and customer satisfaction

**HONG KONG, November 1, 2005** – Lenovo results for the second fiscal quarter ended September 30, 2005, showed continued overall revenue and profit growth, reflecting positive customer response to innovative products and growth in emerging markets. The quarter is the first reflecting a full three months' contribution from Lenovo's acquisition of IBM's former Personal Computing Division (PCD), which closed on April 30, 2005.

Lenovo's consolidated revenue for the second fiscal quarter ended September 30, 2005, increased 404 percent year over year to HK\$28.5 billion. In the same period, pre-tax income increased 70 percent to HK\$507 million, and profit attributable to shareholders grew 22 percent to HK\$354 million. Basic earnings per share for the second quarter grew 2 percent year over year to 3.95 Hong Kong cents from 3.89 Hong Kong cents. Lenovo's board of directors declared an interim dividend of 2.4 HK cents per share.

Lenovo's performance in the second quarter was positive as PC shipments grew 13 percent year over year (according to industry reports). The results were driven by shipments of PC systems introduced after the PCD acquisition, such as the ThinkPad X41 Tablet PC and the model refresh of the ThinkCentre desktop PC line. Lenovo's PC operations in China, the Americas and Asia Pacific all showed profitability, although the PC operations in EMEA (Europe/Middle East/Africa) reported a loss.

"The new Lenovo is already showing signs of achieving its potential, although we have much yet to do," said Mary Ma, chief financial officer of Lenovo. "In financial terms, we have delivered another quarter of profit growth and our cash position is very good. Most importantly, the response of our customers has been very positive as they begin to see evidence of the complementary strengths of the two organizations."

### **China, other emerging markets, drive growth**

Lenovo said revenue and volume in its key emerging markets were strong, based on the company's proven template for successfully operating in emerging markets. Revenue and volume in China and India both outpaced the overall PC industry in which the company competes. In Greater China, Lenovo's consolidated revenue was HK\$10.2 billion and the segment reported HK\$567 million in operating profit.

Lenovo's revenue in Asia Pacific (excluding Greater China) was HK\$3.4 billion, with operating profit of HK\$99 million, reversing last quarter's loss. Lenovo's revenue in the Americas was HK\$9.1 billion and the segment reported HK\$215 million in operating profit. In the Americas, Lenovo grew shipments to record levels, although year-to-year growth was slower than the industry. In the Europe, Middle East and Africa (EMEA) region, revenue was HK\$5.8 billion, with an operating loss of HK\$68 million, because prior to its launch of the new ThinkCentre E Series desktop PC line, the company did not

participate in the fast-growing sectors of the small/medium business market (SMB) market.

**Gross profit margin increased 2 percentage points to 14.0 percent**

Lenovo's overall gross margin increased 2 percentage points to 14.0 percent, from the prior year, although the second quarter's gross margin showed a sequential decline, reflecting the impact of three full months of the PCD acquisition (versus only two months' impact in the first quarter). Lenovo said that it continues to generate the anticipated benefits from the acquisition synergies.

**Notebook PC Business: Shipments grow on rising customer satisfaction**

Lenovo's notebook business achieved record shipments in the second quarter, evidence of its leadership position in the commercial segment of the market and its focus on the high-end segment of mature PC markets. The company said that its growth, while good, indicates a need to expand its product offerings into the SMB market.

Customer response to a steady stream of innovative new notebooks has been positive, including the recent launch of the ThinkPad Z60, the first wide-screen multimedia ThinkPad notebook, which is targeted at the fast-growing SMB market, and the Lenovo Xuri 125, an entry-priced notebook aimed at China's consumer and small office customers. The company's notebook products have also increased their lead as first in customer satisfaction, as measured by third-party sources.

**Desktop PC Business: Winning in emerging markets**

Lenovo's performance in desktops reflects strength in emerging markets like China and India, where desktops constitute the majority of PCs sold, and the company gained share worldwide. Previously, the company announced its intent to expand its product line into the very small/small business desktop market and, in October, the company announced its first line of desktop PCs designed specifically to meet the technology needs of small businesses – the ThinkCentre E Series. The new desktop line is the first truly joint introduction from the new Lenovo, with shared technology from both sides of the global combination. In China, Lenovo-branded innovation is shown by products like the Yangtian and Jiayue PCs.

**Mobile Handset Business: Innovation drives doubling of sales**

Revenue in Lenovo's mobile handset business, conducted primarily in China, more than doubled year over year to HK\$1.1 billion. The results were driven by the company's ability to respond quickly to the fast-changing market with a stream of highly differentiated, innovative products made possible through its in-house R&D capabilities. Lenovo's unit shipments of more than 1.4 million mobile handsets jumped 139 percent, increasing the company's share and moving the brand up to fifth place in China, the largest cell phone market in the world.

**About Lenovo Group Ltd.**

Lenovo (HKSE: 992) (ADR: LNVGY) is dedicated to building the world's most innovative personal computers. Lenovo's business model is built on innovation, operational efficiency and customer satisfaction as well as a focus on investment in emerging markets. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets reliable high-quality, secure, and easy-to-use technology products and services worldwide. Lenovo has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina. For more information, see [www.lenovo.com](http://www.lenovo.com).

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