



[For Immediate Release]

## LENOVO REPORTS THIRD QUARTER FY2005/06 RESULTS

- Revenue of HK\$31.1 billion, up 392% in 3Q FY2005/06, from continued strength in China, IBM PCD business acquisition
- EBITDA HK\$949 million, up 156%
- Pre-tax income of HK\$498 million, up 46%
- Profit attributable to shareholders of HK\$365 million, up 12%
- Basic EPS of 4.12 HK cents versus 4.37 HK cents in 3Q FY2004/05
- Net cash reserves of HK\$9.6 billion

**HONG KONG, January 26, 2006** – Lenovo's consolidated revenue for the third fiscal quarter ended December 31, 2005, increased 392 percent year over year to HK\$31.1 billion, driven by particularly strong performance in China and the May 2005 acquisition of IBM's PCD business. Lenovo's PC shipments grew 12 percent year over year.

In the same period, pre-tax income grew 46 percent to HK\$498 million, while profit attributable to shareholders rose 12 percent to HK\$365 million. Basic earnings per share for the third quarter 2005/06 totaled 4.12 Hong Kong cents versus 4.37 Hong Kong cents in the third quarter of 2004/05. Operating cash flow continued to be strong, and net cash reserves as of December 31, 2005, totaled HK\$9.6 billion.

"The acquired business has now been profitable for three consecutive quarters, in line with the Board's expectations, although regional performance has varied," said Yang Yuanqing, Lenovo's chairman. "Now we must meet even higher expectations. We believe our proven business model, an enhanced product portfolio, and a heightened focus on operational efficiency will enable us to optimize profitability across the globe. We are moving quickly to address these issues and to take advantage of the strong demand that exists for our products."

William Amelio, who joined Lenovo in December as president and chief executive officer, said, "Around the world, the Lenovo and Think brands stand for the highest standards of innovation, performance, and service. Excellent progress in recognizing the potential of this company has been made, but our path going forward is very clear.

"We must first keep a laser sharp focus on our cost and expense structure to continue to drive operating efficiency. Second, we must drive product competitiveness with innovative, high quality, appropriately priced products that address key growth areas. Third, we must leverage our success in China and the success of the dual transaction/relationship model in support of our products. I'm looking forward to building on the strong momentum Lenovo has delivered to date."

### GEOGRAPHIC OVERVIEW

- In **Greater China**, Lenovo successfully executed its transaction/relationship dual model – which targets both the large enterprise market and key growth markets such as the education, small- and medium-sized businesses (SMB), and home consumer markets. Consolidated revenue totaled HK\$11.5 billion, or 37 percent of the Company's total revenue, while operating profit was HK\$744 million. Shipments to mainland China were up 39 percent, exceeding market growth and resulting in a record share of the PC client market of approximately 37 percent. Customers responded positively to Lenovo's strong brand, broad range of products, and superior customer service.

Excluding Greater China, Lenovo's overall international business was profitable, an improvement over recent history, highlighted by solid performance in the Americas. The Company is focused on generating more profitable growth and enhancing its competitive position in global markets outside of China by addressing high-growth market opportunities in the SMB and emerging markets while making adjustments to its product mix for optimal results and improving its expense structure.

- Lenovo PC shipments in the **Americas** remained steady. Consolidated revenue in the Americas totaled HK\$8.9 billion, or 29 percent of total revenue, and the segment reported HK\$196 million in operating profit.
- In the Europe, Middle East and Africa region (**EMEA**), profitability improved. EMEA delivered consolidated revenue of HK\$7.0 billion, or 22 percent of total revenue, and an operating profit of HK\$14 million, reversing last quarter's loss.
- The **Asia Pacific** business (excluding Greater China) achieved sequential volume growth. Consolidated revenue in Asia Pacific was HK\$3.7 billion, or 12 percent of total revenue, with an operating loss of HK\$140 million.

## PRODUCT OVERVIEW

Lenovo's PC business showed strong growth in China where the Company has the #1 brands with both Lenovo and Think. For the second quarter in a row, Lenovo's ThinkPad was ranked #1 in customer satisfaction by third-party sources, indicating the highest levels of quality, innovation and reliability.

In order to take full advantage of the opportunity in key growth areas without margin pressure, Lenovo is pursuing a broader PC product line that can competitively address key growth areas and strengthening its transaction model and supply chain in support of these products. Last quarter, the Company introduced products for several new segments, including the fast-growing SMB market and China's consumer/small office customers, which are expected to improve its longer-term performance.

- Lenovo's **Notebook** shipments in the December quarter were up 18 percent year over year, reaching record high levels, driven by the Company's leading share of the China market and its leadership position in the commercial segment of the market and the high-end segment of mature PC markets. The segment's consolidated revenue was HK\$15.1 billion, or 49 percent, of the Company's total revenue.
- Lenovo's **Desktop** business also posted its highest shipments in the December quarter, with growth of 10 percent year over year in line with the industry. Demand was particularly strong in China, where customers showed enthusiasm for both the Lenovo- and Think-branded products, and in India. Consolidated revenue for the desktop PC segment was HK\$14.0 billion, or 45 percent of the overall total revenue.
- Lenovo's **Mobile Handset** business (conducted primarily in China, the world's largest cell phone market) made even greater strides in the December quarter. Shipments of mobile handsets more than doubled year over year to over 1.9 million, driving segment revenue of HK\$1.4 billion up 238 percent. Innovative, customer-responsive product launches and sales channel expansion helped propel Lenovo's mobile handset brand to fourth place.

**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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**For more information:****Lenovo Group Limited**

Ms. Feon Lee Tel: (852) 2516 4843

Web site: [www.lenovo.com](http://www.lenovo.com)

E-mail: [cmk@lenovo.com](mailto:cmk@lenovo.com)