

# CEO'S INTERVIEW

## Can you summarise the performance of Lenovo in the past year?

In 2003, the IT industry of China rebounded. Measuring against the overall performance of the market, our core business – PC business – performed rather well last year. We managed to triumph over the adverse impacts of the SARS outbreak and maintained our 27% share in the China PC market despite fierce competition. Our turnover grew 14.5%.

As for our consumer IT business, we executed our customer segmentation strategies successfully last year, and hence effectively expanded our market share and improved our gross margins. The business achieved double digit growth in both turnover and profit. Our consumer notebook computers did exceptionally well, successfully capturing the growing

demand for mobile computing capability among individual consumers in China.

Leading the market in introducing consumer notebooks, Lenovo defined the market in China. We now have over 30% share of the country's consumer notebook market.

Unit shipment of our mobile handset business also made a giant leap. We reached unit shipment target set for the business at the beginning of the year despite fierce competition. More importantly, we have been making a critical shift from OEM model to a self-developed model. Our proprietary handsets contributed 64.2% of the total unit shipment of all handsets we sold during the past year, improving the gross margin of our handset business and enhancing the Group's competitiveness.



**Yang Yuanqing** *President and Chief Executive Officer*

## What kind of technological achievement has Lenovo made last year?

2003 was a rewarding year for us in the area of technological achievement. First and foremost, we launched the supercomputer “Deepcomp 6800” which is essentially the main grid node computer of the China’s National Grid. The supercomputer is ranked 14th among the world’s top supercomputers, the highest ranking ever attained by a Chinese supercomputer.

The Collaborating Applications protocol, which we have been promoting since 2002, is set to become the national standard. Last year, we developed and launched a range of products embedded with the technology, including collaborating consumer desktop computer, commercial desktop computer, notebook computer, printer and projector. Furthermore, Lenovo’s Collaborating Applications strategy is widely endorsed by the market. Last year, we partnered with China Telecom to jointly develop the next generation digital information terminals and services. It is apparent that the technology not only allows us to boost the competitiveness of our products, but will also drive further growth of market demand.

We secured 110 patent rights in the 2003/04 fiscal year and for the first time made the top ten list of the most competitive intellectual property owners in China.

## What are the critical factors affecting the development and growth of the China PC market?

We think the favourable macroeconomic environment in China will further promote IT demand. We expect the economic environment to remain sound in the foreseeable future with foreign-invested enterprises and growth SMEs as the fastest growing customer segments. The macroeconomic control measures recently introduced by the Chinese government to curb excessive investment in certain industries will not seriously affect the IT industry.

The IT market in China is expected to experience steady growth in 2004 with notebook computer making market limelight. As for the desktop computer, demand will peak as customers seek to replace equipment bought between 1999 and 2000 amidst the Internet craze and for “Y2K” transition. This growth trend in consumer computer market will be further fueled by the expanding applications and usage of the broadband network. The continuous evolution of the different sectors, such as the government, education and manufacturing will also enhance the stable advancement of the corporate market.



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### What do you think about the competitive environment in the China PC market today? How does Lenovo compete with its overseas counterparts?



China is now the world's fastest growing IT market with greatest potential. As the China market grows, domestic IT enterprises are bound to face more diverse and international competitions.

Striving to capture opportunity in market segments other than the government and education sectors, domestic brands are increasing their investment in developing high-end products. International players, on the other hand, are focused on launching low price products to establish footholds in the low-end education and SME markets dominated traditionally by domestic brands. The PC market in China has started to experience competition in every aspect. More and more PC vendors are accentuating services and applications as the key differentials of products to combat homogeneous price competition.

To compete effectively with international players, Lenovo will continue to capitalise on the strengths in our sales and distribution network and our full spectrum product lines. Applying a combined sales model, we will be able to cover more effectively the extensive requirements of our customers, making up for the limitations of the pure channel distribution model. We will strengthen coverage of the demands of retail customers and SMEs and at the same time meet the diverse needs of large-scale corporations. On the other hand, through initiatives such as technological innovation and the commercialisation of Collaborating Applications technology, we will continue to launch differentiated products to maintain our gross margin.

Having the ability to integrate our services is critical to the further strengthening of our market leadership position. Our customers have always been appreciative of the quality of our services. We will continue to step up integration of internal and external resources to fulfill customers' diverse needs and add value to our business with integrated services.

### What are the objectives of Lenovo's recent strategic adjustments?

After assessing the strategy adopted and implemented in the last three years, the management decided adjustments were required. We believed that PC business is the base for developing our company and supporting our further diversification and internationalisation. Hence, PC business will be our strategic focus so that all management resources will be directed to enhance its competitiveness. We will aggressively adjust our business model to gear up for

further expansion of our PC business. At the same time, we need to heighten the overall efficiency of the Group. Hence, focusing on PC business, and enhancing our business model and efficiencies will be our primary emphases.

Since February 2004 when we started the adjustments, everything has been on track and management is satisfied with the results achieved. Our implementation so far has proven that the adjustments and reforms are in line with the environment of the growing China market. We are determined and confident that these efforts will enable us to respond and meet customers' needs quickly and effectively. With competitive products and services, we will be able to boost our competitiveness and operational efficiency while improving returns to shareholders. The adjustments will also pave the way for our long-term diversification.

### Lenovo recently became the first Chinese enterprise to join The Olympic Partner (TOP) programme. What does it mean to the Group?

Firstly, I think it is a golden opportunity for us to realise our goal of becoming an international enterprise. We will be able to grow our international market, to build an international team and inject new passion and energy into our brand and our corporate culture.

We feel proud to represent Chinese enterprises in helping to promote the Olympic Movement. As a partner of the International Olympic Committee (IOC), we are responsible for providing the computing technology equipment, services and funds to support the events with all provisions in place in five years.

From the business perspective, we believe that this TOP partnership will provide us with plenty of opportunities to expand our business both within China and internationally. The TOP partnership stands for recognition of the IOC for the quality of our products and technologies. The IOC has a high standard for its worldwide partners. After vigorous evaluation of our technologies, products and services, and our overall strength, they are fully convinced of our capabilities as their sole supplier of computing equipment. Our products were tested and approved by the IOC and are currently serving the Turin Organising Committee of the Olympic Winter Games.



## Lenovo is the first Chinese enterprise to join The Olympic Partner programme

Lenovo announced in March 2004 it became a worldwide partner of the IOC. Over the next five years, Lenovo will provide computing technology equipment such as desktop computers, notebooks, servers, desktop printers as well as funding and technology support to the 2006 Turin Olympic Winter Games and 2008 Beijing Olympic Games, and over 200 national Olympic committees around the world.





## What is TOP?

- The Olympic Partner (TOP) programme was established in 1985. It is the highest level of worldwide sponsorship for the International Olympic Committee (IOC). The term from 2005 to 2008 is the sixth generation of the TOP programme which is based on a quadrennial operation structure.

“The International Olympic Committee welcomes Lenovo to the Olympic Family and acknowledges your support and commitment. Your reputation for quality and excellence gives us great confidence in you.”

— Mr. Jacques Rogge, President of the IOC

“TOP partners like Lenovo have excellent product quality and corporate images, and they are the leaders in their respective fields. What they have achieved through their own efforts has not only won the trust of the IOC and Olympic host cities, but also that of Olympic teams and sports fans all over the world.”

— Mr. Gerhard Heiberg, Chairman of the IOC Marketing Commission

“Lenovo’s computing equipment for the Turin Olympic Winter Games passed the tests of the IOC and are up and running smoothly in Turin. Our staff is completely satisfied with Lenovo’s world-class products and services and technical support. They have certainly won our hearts.”

— Mrs. Evelina Christillin, Deputy President of 2006 Turin Olympic Winter Games Organising Committee

“Lenovo Group is an outstanding representative of China’s hi-tech industry. Its products and services enjoy extensive appreciation and high reputation in China. Lenovo’s partnership with the IOC will further enhance its corporate image and help further expand its markets.”

— Mr. Liu Jingmin, Deputy Mayor of Beijing and Executive Vice President of BOCOG

- Companies selected to join the programme will be designated as the worldwide Olympic partners. The partnership also extends to cover the organising committees hosting the Olympic Games as well as over 200 national and regional Olympic committees and participating delegations.
- TOP partners will benefit from using Olympic intellectual property rights for marketing and promotions. At the same time, they are granted exclusive worldwide marketing opportunities in their product, technology and service categories.
- Apart from Lenovo, other partners in the sixth generation of the TOP programme include Coca-Cola, Atos Origin, GE, John Hancock, Kodak, McDonald’s, Panasonic, Samsung, Swatch and Visa.



Lenovo sponsored Beijing’s bid in 2001 to host the 2008 Olympic Games



Lenovo joined The Olympic Partner programme



CEO Yang Yuanqing carried the Olympic Flame of Athens 2004



Lenovo engineers at Turin, Italy

# Strengthen Ties with Customers

## Capturing Business Opportunities





Creating reliable computing environment to help corporate customers enhance their competitiveness.

