



Chairman's Statement

In its first year as a global company, Lenovo not only smoothly incorporated the IBM PC Division into its operations, but also successfully competed in IT markets worldwide. Thanks to a carefully planned and executed strategy, Lenovo maintained its business stability, completed the initial acquisition integration and entered the next phase of its profitable growth strategy ahead of schedule.

Our strategic direction for the next few years is based on the proven competitive strengths of our dual business model and on the next wave of growth opportunities in PCs: small- and medium-sized businesses (SMBs) and emerging markets. On one hand, Lenovo will continue to strengthen our China business and the relationship business that mainly services large enterprises outside of China. On the other hand, Lenovo will expand its successful dual "transaction and relationship" business model in China into the worldwide SMB and emerging markets.

Lenovo's dual business model approach was developed and refined in China, where, based on different customer needs and preferences in products, service, and buying channels, Lenovo first segmented customers into two types – relationship and transaction – and built complementary business models accordingly. The success of Lenovo's dual model in China lies in the end-to-end integration of product development, marketing, sales, manufacturing and customer service, allowing fast, yet disciplined, response to market shifts, allowing Lenovo to operate efficiently on an optimized cost structure.

The success of our relationship/transaction model also allows Lenovo to achieve faster-than-market growth and strong profitability, even though our share of the PC market in China has already been more than 30 percent in the last fiscal year.

Yang Yuanqing
Chairman of the Board

It made the China PC business the core of the new Lenovo. At the same time, Lenovo's mobile handset business in China improved its market position and established its own core competence in a short period of time by leveraging Lenovo's strengths in business model, branding, operating platform and corporate culture.

In our worldwide relationship business, the Think-brand business has established strong competitive advantages addressing the needs of large enterprise customers. ThinkPad has a leadership position in the high-end notebook market. And, Think-brand products successfully address the large enterprises' requirement on total cost of ownership with its industry-leading service and support capability.

We believe that if we can combine these complementary strengths by quickly expanding the transaction business outside of China and building the relationship business inside China, we can build our PC business with core competence in every market of the world.

In the past year, Lenovo took significant steps to build on these strengths. We launched the Lenovo brand globally during the Turin Olympic Winter Games, rolled out Lenovo 3000 PC products – the first Lenovo-brand launch outside of China – and introduced new business partner programs to address the SMB and emerging markets. We implemented a global action plan to reduce cost and improve efficiency.

Going forward, Lenovo will launch more initiatives to further enhance its competitive strengths, operational efficiency and dual model worldwide. I believe that under the leadership of our experienced management team, Lenovo is well positioned to capture growth opportunities in the worldwide SMB and emerging markets, and to continue to build on its existing strengths, making Lenovo the best company in the PC industry with a strong presence in all major markets.

Lenovo's ultimate goal has always been to become an outstanding company with sustained high performance. In the next few years, my expectation for Lenovo's management is to continue focusing on PC business, pursue above-average growth, increase market share, achieve sustainable, profitable growth, and explore new growth opportunities beyond the PC industry. I believe Lenovo as a global company will strongly endeavor to bring sustainable long-term returns to investors.



Yang Yuanqing

Chairman of the Board

Hong Kong, May 25, 2006



more innovation in the

Since 1984, Lenovo has been committed to putting more innovation in the hands of more people so they can do more amazing things.

Lenovo is the number-one brand in the world's fastest-growing PC market: China. We have spent the last 20 years developing a strong consumer and small-business market for a wide range of products – from desktops to notebook computers, mobile phones to MP3 players, etc.

IBM's PC Division, meanwhile, spent 20 years selling to large enterprises. And perfecting its flagship product, ThinkPad, which leads the industry in design awards and productivity.

The new Lenovo has a combined expertise across both product and customer segments. It also marries a world-class sales and support network to a cost-efficient supply chain and distribution system. It's the best of both worlds.



hands of more people.

One year on. When Lenovo bought IBM's PC division, we expected some attention. So far, we've given the world plenty to watch.

We've launched new products and introduced entire product lines. We have won design awards, major new contracts and kudos from international IT experts. We have built a better, stronger partner program. In short, we've been busy.

Today, it's a new world, where technology has brought down barriers of time and distance, creating truly global companies. Where collaboration is a key component for business success.

Continuous innovation is necessary. Lenovo lives and breathes innovation in every product, every business process. It's a new world. And it needs **new thinking**.



new world. new thin



king.

People are living their lives differently. They're inventing new products and creating new companies every day. They're communicating more broadly, doing business in real time, and finding new ways to entertain themselves. Technology and innovation are the key drivers enabling this new world.

Lenovo is the first truly global company of the new world. We have award-winning design teams on three continents, and sales and support networks around the world. They are all working to give every person, at every price point, options beyond the average, beyond the commodity.

Because we believe in innovation. We believe there is value in innovation for everyone. And we believe that real innovation should be accessible to everyone.

In this new world, where our lives are on our PCs, commodities just won't do.



new customers

The new Lenovo is putting more emphasis on the unique needs of small business owners. We listened. Then we created the 3000 series, a line of hassle-free desktops and notebooks just for them. Our ability to deliver targeted products quickly helps us grow our business while expanding important markets.





new  choices





Innovative new products, hundreds of design awards. This year we introduced the Lenovo brand outside of China for the first time with the Lenovo 3000. We also launched the ThinkPad tablet – the thinnest and lightest convertible laptop in the market. The ThinkPad widescreen – the first notebook to offer integrated, high-speed wireless connectivity. In select markets, we continue to provide innovative new choices in consumer PCs, mobile phones, etc.





new

A man with dark hair, wearing a grey suit jacket, a light purple shirt, and a striped tie, looking slightly to the left. The background is white.

network

In March of 2006, we launched the Lenovo Partner Network, our new business partner program. The Network positions our partners as the primary route to market for Lenovo for small- to medium-sized businesses worldwide. And provides them with new tools and solutions to address the unique requirements of the SMB market. In the US, in addition to close relationships with business partners, Lenovo is reaching out to the SMB audience at select Office Depot and Best Buy stores.