

# Lenovo Group Limited

## Company Profile

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[www.datamonitor.com](http://www.datamonitor.com)

**Datamonitor Europe**  
Charles House  
108-110 Finchley Road  
London NW3 5JJ  
United Kingdom

t: +44 20 7675 7000  
f: +44 20 7675 7500  
e: [eurinfo@datamonitor.com](mailto:eurinfo@datamonitor.com)

**Datamonitor Americas**  
245 Fifth Avenue  
4th Floor  
New York, NY 10016  
USA

t: +1 212 686 7400  
f: +1 212 686 2626  
e: [usinfo@datamonitor.com](mailto:usinfo@datamonitor.com)

**Datamonitor Germany**  
Kastor & Pollux  
Platz der Einheit 1  
60327 Frankfurt  
Deutschland

t: +49 69 97503 119  
f: +49 69 97503 320  
e: [deinfo@datamonitor.com](mailto:deinfo@datamonitor.com)

**Datamonitor Asia-Pacific**  
Room 2413-18, 24/F  
Shui On Centre  
6-8 Harbour Road  
Hong Kong

t: +852 2520 1177  
f: +852 2520 1165  
e: [hkinfo@datamonitor.com](mailto:hkinfo@datamonitor.com)

**Datamonitor Japan**  
Aoyama Palacio Tower 11F  
3-6-7 Kita Aoyama  
Minato-ku  
Tokyo 107 0061  
Japan

t: +813 5778 7532  
f: +813 5778 7537  
e: [jpinfo@datamonitor.com](mailto:jpinfo@datamonitor.com)

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## COMPANY OVERVIEW

Lenovo Group is engaged in manufacturing of personal computers (PCs) related IT products and services. The group also provides a range of notebook computers, desktop computers and mobile handsets. The group also provides computer accessories and upgrades, computer software and services which includes services for small, medium and large businesses. The group primarily operates in North America and China. It is headquartered in Raleigh, North Carolina and employs about 25,100 people.

The group recorded revenues of \$14,590.2 million during the fiscal year ended March 2007, an increase of 9.9% over 2006. The operating profit of the group was \$194.7 million during fiscal year 2007, an increase of 74.3% over 2006. The net profit was \$161.1 million in fiscal year 2007, as compared to the net income of \$22.2 million in the fiscal year 2006.

## KEY FACTS

<b>Head Office</b>	1009 Think Place Morrisville Raleigh North Carolina 27560 USA
<b>Phone</b>	1 866 458 4465
<b>Web Address</b>	<a href="http://www.lenovo.com">http://www.lenovo.com</a>
<b>Ticker</b>	Pinksheets (NASDAQ Bulletin Board): LNGVY
<b># Employees</b>	25,100
<b>Turnover (US\$ Mn)</b>	14,590.2
<b>Financial Year End</b>	March

## **BUSINESS DESCRIPTION**

Lenovo is one of the leading providers of personal computers. Lenovo is one of the largest PC manufacturers in the world especially in the Asia-Pacific region. The group also provides a range of notebook computers, desktop computers and mobile handsets. The group also provides computer accessories and upgrades, computer software and services which includes services for small, medium and large businesses.

The group has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Research Triangle Park, North Carolina, the US; and primary operational hubs in Beijing, Paris, Research Triangle Park and Singapore. The group has its presence in North America, Latin America, Europe, Middle East, Africa, and Asia Pacific. The group has organized its business operations under four geographic divisions: greater China; Americas; Europe, Middle East and Africa; and Asia Pacific (excluding greater China). The group has adopted geographical segments as the primary reporting format and business segments as the secondary reporting format. The company's secondary divisions include personal computer, mobile handset and others.

The group's greater China division provides notebook computers, desktop computers and mobile handsets. The groups' market share in China reached 34.6% in the 2007 fiscal year, representing a gain of 0.7 percentage points over the group's share in 2006.

The group's Americas segment concentrates primarily on the small and medium business (SMB) segment. The group's distribution channel network in Americas consist 2,600 partners focusing on SMB market.

The group's Europe, Middle East, and Africa (EMEA) provide Lenovo 3000 family of desktop and notebook models in EMEA countries.

The group's Asia Pacific also provides Lenovo 3000 consumer products in India and ASEAN countries. During the 2007, the group's Asia Pacific division's retail network consist over 1,000 outlets and recruited approximately 4,500 tier-two channel partners in Asia Pacific.

The group's notebook computers sales were ranked third in the worldwide commercial notebook market. In China, Lenovo continued to be the leading brand and commanded a share of 32.4% of the notebook computer market. The notebook computer known brands includes ThinkPad, ThinkPad X60, Tianyi, and Tianyi F30.

The group has various partnership agreements for example the launch of Lenovo notebook computers co-branded with Disney's Winnie the Pooh and Coca-Cola.

Lenovo's share of the worldwide desktop computer market increased by 0.3 percentage points (year-on year) to reach approximately 7.5% in 2006. The group also accounted for 36.3% of the desktop computer market in China. The group's 'desktop computers' known brand includes - ThinkCentre A52/ A60.

The group also sells mobile handsets. The group's one of the known mobile handset brand includes Lenovo i717. The group holds a number four ranking in China's mobile handset market, accounting for approximately 6.5% of that market.

## HISTORY

Lenovo was incorporated as Legend Group in Hong Kong in 1988. Its parent company, Legend Holdings, was established in China in 1984.

In 1988, a branch of Legend was established in Hong Kong, to distribute foreign brand computer products and peripherals for Legend (Beijing) and other distributors in China. The company distributed products manufactured by organizations such as IBM, AST and Hewlett-Packard.

At the beginning of the 1990s, Legend began to design, manufacture and distribute its own line of PC's. Shortly after, Legend (Hong Kong) invested in the Huiyang and Guangdong provinces in order to construct the Legend Science and Technology Park. The technology park served as Legend's manufacturing base.

Legend (Hong Kong) was listed on the Hong Kong Stock Exchange in 1994. The group also started to manufacture printed circuit boards during 1994.

Legend successfully spun off its foreign brand distribution arm, Digital China Holdings in 2001.

In 2002, the company announced that it would become the first China-based partner of Brocade Communications Systems, a provider of infrastructure solutions for storage area networks (SANs). Legend and Brocade agreed to enter a strategic relationship in which Legend would sell and support the company's intelligent fabric products.

In partnership with Intel, the company announced the establishment of the Intel-Lenovo Technology Advancement Center in Beijing during August 2003.

Lenovo sold 50% of its motherboard business to Ramaxel Technology by the end of 2003.

The company established a strategic alliance with China Telecom in January 2004. In April 2004, the company changed its name to Lenovo Group.

Lenovo moved its executive headquarters from Hong Kong to Purchase, New York in 2005.

IBM and Lenovo together launched ThinkPad T43, one of the fastest performing, thin and light notebook computers, with a new version of Antidote, a virus protection software, in January 2005.

Lenovo acquired IBM's PC hardware division in 2005. The acquisition made Lenovo one of the biggest PC vendors in the world.

Lenovo announced plans to establish a new innovation center in the state of North Carolina in May 2005 with Intel, IBM, LANDesk, Microsoft and Symnatec as founding partners. Lenovo introduced ThinkVision L171p, a 17-inch Liquid Crystal Display (LCD) monitor that can rotate into portrait mode (1) to offer a vertically oriented screen that enabled viewing of an entire document page, boosting productivity in July 2005.

The company launched a new centralized management hub for its PC productivity tools, creating a 'mission control' to consolidate and simplify ThinkVantage Technologies under one view called the LANDesk Management Suite in August 2005. Lenovo launched the ThinkPad Z-Series, a widescreen multimedia ThinkPad notebook with integrated Verizon Wireless Broadband Access (WWAN), in September 2005. Verizon Wireless and Lenovo announced plans to integrate wireless technology using Verizon Wireless' Evolution Data Optimized (EV-DO) network in upcoming versions of ThinkPad notebooks, beginning with the new ThinkPad Z60m, in September 2005.

In 2006, Lenovo introduced the first dual-core ThinkPad notebook PCs, improving productivity and extending battery life for up to 11 hours. Lenovo technology supported the 2006 Olympic Winter Games in Torino, Italy, supplying 5,000 desktop PCs, 350 servers and 1,000 notebook computers. In the same year, Lenovo also hosted seven internet i.lounges for use by Olympic athletes and visitors.

The group launched its Lenovo 3000 product line, which featured new desktop and notebook models specifically designed to provide worry-free computing to the small business market segment, in 2006.

In February 2006, American Airlines signed a strategic technology agreement with Lenovo to provide Admirals Club members with access to new Lenovo PCs to further enhance the overall travel experience with the world's largest airline. In the following month, Lenovo unveiled Lenovo-branded dual-core notebook computer, a widescreen, system designed for small business customers.

Senior executives from Lenovo and Microsoft Corp entered into a global agreement that expanded the strategic cooperation between the two companies in April 2006. Lenovo unveiled its ultra portable widescreen notebook PC, the Lenovo V100, designed for on-the-go small business customers seeking powerful performance in a modern design, in May 2006. In August 2006, Lenovo unveiled its ThinkCentre A60, ThinkCentre desktop personal computer featuring an AMD processor. In the same month, the group started Lenovo Services business unit, which united all aspects of customer service.



In October 2006, the National Basketball Association and Lenovo entered into a multi-year global marketing partnership to expand Lenovo's brand recognition internationally and to enhance the NBA game through the use of new technology and statistics, including the launch of the innovative Lenovo Stat. Lenovo and Avaya announced their plans to collaborate on IP and unified communications solutions in March 2007. In the same month, Microsoft Corporation and Lenovo entered into a global agreement to pre-load Windows Live services on Lenovo PCs sold worldwide including ThinkPad notebooks, ThinkCentre desktops and Lenovo-branded PCs.

In May 2007, Lenovo and IBM expanded their global alliance to develop and deliver industry specific, integrated technology solutions for enterprises, small and mid-market (SMB) businesses and individuals. Lenovo introduced its ultra portable toolkit of ultra performance-based PCs featuring the new ThinkPad X61 and X61s notebooks and the X61 Tablet PC, in the same month.

Lenovo announced to develop the US fulfillment center in the town of Whitsett in Guilford County, North Carolina, in June 2007. The fulfillment center would support regional customer requirements including product configuration, distribution services, returns management and some light assembly.

In July 2007, Lenovo unveiled its highest performing notebook PC, the new ThinkPad T61p 15.4-inch widescreen mobile workstation notebook.

## **MAJOR PRODUCTS & SERVICES**

Lenovo is a manufacturer and marketer of PCs and related IT products and services. The company's products can be categorized in the following segment divisions:

**Business products:**

- Commercial desktop PCs
- Lenovo 3000 consumer products
- Notebook PCs
- Server
- Peripherals (Laserjet printer, scanner, etc.)

**Home products:**

- Consumer desktop PC
- Notebook computer
- Mobile handset
- Inkjet printer

**Others:**

- Digital product
- High-end server
- Information safety product
- Sun (customer service)

**Brands:**

- Fengxing
- Lenovo i717
- ThinkCentre series
- ThinkPad
- ThinkPad X60
- Tianjiao
- Tianyi series

## REVENUE ANALYSIS

The group recorded revenues of \$14,590.2 million during the fiscal year ended March 2007, an increase of 9.9% over 2006. For the fiscal year 2007, Greater China, the company's largest geographic market, accounted for 38.3% of the total revenues.

The group has adopted geographical segments as the primary reporting format and business segments as the secondary reporting format.

Lenovo Group generates revenues through four geographic divisions: Greater China (38.3% of the total revenues during fiscal year 2007), Americas (28.2%), Europe, Middle East and Africa (21%) and Asia Pacific (excluding Greater China) (12.6%).

### Revenues by Division

During the fiscal year 2007, the personal computer division recorded revenues of \$13,768.3 million, an increase of 10.7% over 2006.

The mobile handset division recorded revenues of \$611.9 million in fiscal year 2007, an increase of 3.7% over 2006.

The others division recorded revenues of \$210 million in fiscal year 2007, a decrease of 15.3% as compare to 2006.

### Revenues by Geography

Greater China, Lenovo Group's largest geographical market, accounted for 38.3% of the total revenues in the fiscal year 2007. Revenues from Greater China reached \$5,580.8 million in 2007, an increase of 14.6% over 2006.

Americas accounted for 28.2% of the total revenues in the fiscal year 2007. Revenues from Americas reached \$4,119.5 million in 2007, an increase of 4% over 2006.

Europe, Middle East and Africa accounted for 21% of the total revenues in the fiscal year 2007. Revenues from Europe, Middle East and Africa reached \$3,056.7 million in 2007, an increase of 10.3% over 2006.

Asia Pacific (excluding Greater China) accounted for 12.6% of the total revenues in the fiscal year 2007. Revenues from Asia Pacific (excluding Greater China) reached \$1,833.2 million in 2007, an increase of 9.7% over 2006.

## KEY EMPLOYEES

Name	Job Title	Board	Total Annual Comp.
Yang Yuanqing	Chairman	Executive Board	-
William J Amelio	Director, President and Chief Executive Officer (Since: 2005)	Executive Board	-
Chuanzhi Liu	Director (Since: 2005)	Non Executive Board	-
Ma Xuezheng	Director (Since: 2007)	Non Executive Board	-
Zhu Linan	Director (Since: 2005)	Non Executive Board	-
James G Coulter	Director (Since: 2005)	Non Executive Board	-
William O Grabe	Director (Since: 2005)	Non Executive Board	-
Shan Weijian	Director (Since: 2005)	Non Executive Board	-
Justin T Chang	Alternate Director (Since: 2005)	Non Executive Board	-
Vince Feng	Alternate Director (Since: 2005)	Non Executive Board	-
Daniel A Carroll	Alternate Director (Since: 2005)	Non Executive Board	-
Woo Chia-Wei	Alternate Director (Since: 1999)	Non Executive Board	-
Ting Lee Sen	Independent Director (Since: 2003)	Non Executive Board	-
John W Barter	Independent Director (Since: 2005)	Non Executive Board	-
Fran O'Sullivan	Senior Vice President, Product Group	Senior Management	-
Rory Read	Senior Vice President, Operations, and President, The Americas (Since: 2007)	Senior Management	-
Chen Shaopeng	Senior Vice President and President, Greater China	Senior Management	-
David Miller	Senior Vice President and President, Asia Pacific	Senior Management	-
Peter D Hortensius	Senior Vice President, Worldwide Product Development and Notebook Business Unit	Senior Management	-
Liu Zhijun	Senior Vice President, Mobile Handset Business Unit	Senior Management	-
Milko van Duijl	Senior Vice President and President, EMEA	Senior Management	-
Christopher J Askew	Senior Vice President, Worldwide Services	Senior Management	-

Lu Yan	Senior Vice President and General Manager, Desktop Business Unit	Senior Management	-
Deepak Advani	Senior Vice President and Chief Marketing Officer	Senior Management	-
He Zhiqiang	Senior Vice President and Chief Technology Officer	Senior Management	-
Cuong Viet Do	Senior Vice President and Chief Strategy Officer	Senior Management	-
David Schmoock	Senior Vice President, Center of Excellence	Senior Management	-
Kenneth DiPietro	Senior Vice President, Human Resources	Senior Management	-
Steven J Bandrowczak	Senior Vice President and Chief Information Officer	Senior Management	-
James P Shaughnessy	Senior Vice President and General Counsel	Senior Management	-
Gerry Smith	Senior Vice President, Global Supply Chain	Senior Management	-
Steve V Petracca	Vice President and General Manager, Software & Peripherals Business Unit	Senior Management	-
Wang Xiaoyan	Senior Vice President, Information Services	Senior Management	-
Robert Cones	Controller and Senior Vice President, Finance	Senior Management	-
Qiao Song	Senior Vice President and Chief Procurement Officer	Senior Management	-

## KEY EMPLOYEE BIOGRAPHIES

### Yang Yuanqing

Board: Executive Board

Job Title: Chairman

Age: 42

Mr. Yuanqing is the Chairman of Lenovo. He is a former Chief Executive Officer of the Company and has been an Executive Director since 1997. He has more than 16 years of experience in the field of computer, graduating from the Department of Computer Science at the University of Science and Technology of China with a Master's degree in 1989. Mr. Yuanqing is also an Independent Non-Executive Director of UFIDA Software Co.

### William J Amelio

Board: Executive Board

Job Title: Director, President and Chief Executive Officer

Since: 2005

Age: 49

SMr. Amelio has been a Director, President and Chief Executive Officer of Lenovo since 2005. Prior to joining the company, he was the Senior Vice President for the Asia-Pacific and Japan regions of Dell. Prior to joining Dell in 2001, he was Executive Vice President and Chief Operating Officer of the retail and financial group of NCR Corporation from 2000 to 2001. From 1997 until 2000, he was President of AlliedSignal's turbo charging systems business and President and Chief Executive Officer of Honeywell International's transportation and power-systems divisions after the merger of AlliedSignal and Honeywell. He also spent 18 years from 1979 to 1997 with IBM and held a variety of senior management positions, including as General Manager of Worldwide Operations for IBM's personal computing business. He holds a Bachelor's Degree in Chemical Engineering from Lehigh University and a Master's degree in Management from Stanford University.

### Chuanzhi Liu

Board: Non Executive Board

Job Title: Director

Since: 2005

Age: 63

Mr. Chuanzhi has been a Director of Lenovo since 2005. Mr. Chuanzhi is the leading founder of Lenovo Group. He had been the Chairman of the Board and an Executive Director of the company from 1994 and 1993 respectively. He has more than 36 years of experience in the computer industry. He graduated from the Department of Radar Communications at Xian Military Communications Engineering College of China in 1966. Mr. Chuanzhi is also a Director of Legend Holdings, the controlling shareholder of the company.

## **Ma Xuezheng**

Board: Non Executive Board  
Job Title: Director  
Since: 2007  
Age: 54

Ms. Xuezheng has been a Director of Lenovo since 2007. She had been an Executive Director and the Chief Financial Officer of the Company since 1997 and 2000 respectively and held directorship in various subsidiaries of the company. She has been re-designated as a Non-Executive Vice Chairman and also retired as the Chief Financial Officer and Senior Vice President of the company in 2007. She has more than 28 years of experience in financial and executive management. She graduated from Capital Normal University in 1976 with a Bachelor of Arts degree. She is also an independent Non-Executive Director of Standard Chartered Bank (Hong Kong).

## **Zhu Linan**

Board: Non Executive Board  
Job Title: Director  
Since: 2005  
Age: 44

Mr. Linan has been a Director of Lenovo since 2005. He has more than 19 years of management experience. He graduated with a Master's degree in Electronic Engineering from Shanghai Jiao Tong University in 1987. He was a Senior Vice President of the Group. He is also a Director of Legend Holdings, the controlling shareholder of the company.

## **James G Coulter**

Board: Non Executive Board  
Job Title: Director  
Since: 2005  
Age: 47

Mr. Coulter has been a Director of Lenovo since 2005. He is a founding partner of TPG Capital. Prior to forming TPG Capital, he was a Vice President of Keystone and a financial analyst with Lehman Brothers Kuhn Leob. Mr. Coulter also serves on the Board of Zhong Technologies.

### **William O Grabe**

Board: Non Executive Board

Job Title: Director

Since: 2005

Age: 69

Mr. Grabe has been a Director of Lenovo since 2005. He is a Managing Director of General Atlantic and has been with the General Atlantic Group since 1992. Prior to that, he served as the Vice President and Corporate Officer of IBM. He is also a Director of the following listed companies: Digital China Holdings, LHS, Patni Computer Systems, Gartner and Compuware Corporation.

### **Shan Weijian**

Board: Non Executive Board

Job Title: Director

Since: 2005

Age: 53

Mr. Weijian has been a Director of Lenovo since 2005. He was a partner of Newbridge Capital and is currently a partner of TPG Capital following the integration of the two organizations. He serves on the Boards of Directors at BOC Hong Kong (Holdings), China Unicom, TCC International Holdings, Shenzhen Development Bank, Taishin Financial Holdings and Taiwan Cement Corporation. Mr. Weijian holds a PhD from the University of California Berkeley.

### **Justin T Chang**

Board: Non Executive Board

Job Title: Alternate Director

Since: 2005

Age: 40

Mr. Chang has been an Alternate Director of Lenovo since 2005. He has been an Alternate Director to Mr. James G Coulter. He is a partner of TPG Capital. He received his MBA from Harvard Business School and his Bachelor degree, cum laude, in Economics and Political Science from Yale University. He is also a Director of ON Semiconductor Corporation and Shenzhen Development Bank.



## **Vince Feng**

Board: Non Executive Board  
Job Title: Alternate Director  
Since: 2005  
Age: 34

Mr. Feng has been an Alternate Director of Lenovo since 2005. He has been an Alternate Director to Mr. William O Grabe. He is a Managing Director of General Atlantic. He has overall responsibility for the East Asia investment activities of General Atlantic. He has been with the General Atlantic Group since 1998. Prior to that, he worked at Goldman Sachs (Asia). He is also a Director of Vimicro International Corporation, A-Max Technology Limited and Oak Pacific Interactive.

## **Daniel A Carroll**

Board: Non Executive Board  
Job Title: Alternate Director  
Since: 2005  
Age: 46

Mr. Carroll has been an Alternate Director of Lenovo since 2005. He has been an Alternate Director to Mr. Shan Weijian. He was a partner of Newbridge Capital and is currently a partner of TPG Capital following the integration of the two organizations. He joined the firm in 1995 and has been responsible for raising and investing the firm's three investment funds and building the firm's Asia-based investment teams. Mr. Carroll runs TPG Capital's investment committee and, together with Mr. Weijian, oversees the firm's investment strategy and operations. Prior to that, he spent 9 years with Hambrecht & Quist Group. He holds a Bachelor degree in Economics from Harvard University and an MBA from the Stanford University Graduate School of Business. He is currently a Director of Advanced Interconnect Technologies, Shenzhen Development Bank and China Grand Auto.

## **Woo Chia-Wei**

Board: Non Executive Board  
Job Title: Alternate Director  
Since: 1999  
Age: 69

Mr. Chia-Wei has been an Independent Director of Lenovo since 1999. He is Senior Advisor to The Shui On Group, and is also President Emeritus and University Professor Emeritus of Hong Kong University of Science and Technology. He serves on the Hong Kong Special Administrative Region's Commission on Strategic

Development and the Chinese People's Political Consultative Conferences. In addition, he is an Independent Non-Executive Director of First Shanghai Investments, Shanghai Industrial Holdings, IDT International and Synergis Holdings.

## **Ting Lee Sen**

Board: Non Executive Board  
Job Title: Independent Director  
Since: 2003  
Age: 64

Mr. Sen has been an Independent Director of Lenovo since 2003. He has extensive knowledge and experience in IT industry and is the Managing Director of W.R. Hambrecht Co and Board Director of Microelectronics Technology. He is also a former Corporate Vice President of Hewlett-Packard Company, where he worked for more than 30 years. He obtained a Bachelor of Science degree in Electrical Engineering from the Oregon State University in 1965. He attended graduate studies in the same field at Stanford University and is a graduate of the Stanford Executive Program.

## **John W Barter**

Board: Non Executive Board  
Job Title: Independent Director  
Since: 2005  
Age: 60

Mr. Barter has been an Independent Director of Lenovo since 2005. Mr. Barter holds a Bachelor of Science degree in Physics from Spring Hill College and an MBA in Finance from Tulane University. He has acquired extensive knowledge and experience in finance and accounting from senior management positions held in both the industrial and technology sectors. Between 1977 and 1997 he held a number of senior management positions with AlliedSignal a then NYSE listed company engaged in the development, and manufacturing of aerospace, automotive and advanced materials products and was the Chief Financial Officer of this company from 1988 to 1994. Between 1998 and 2001 he was a Director and from 2000 to 2001, the Chief Financial Officer of Kestrel Solutions, a US company engaged in the development of communications equipment. Mr. Barter is currently also a Non-Executive Director of each of BMC Software and SRA International.

## **Fran O'Sullivan**

Board: Senior Management  
Job Title: Senior Vice President, Product Group  
Age: 48

Ms. O'Sullivan is a Senior Vice President, Product Group of Lenovo. She joined the group in 2005 and is currently the Senior Vice President of the Product Group. She was the General Manager of the PC Division of IBM before joining the Group and has extensive experience in the Personal Computer industry. She graduated from the University of Virginia with a Bachelor of Science degree in Electrical Engineering.

## **Rory Read**

Board: Senior Management

Job Title: Senior Vice President, Operations, and President, The Americas

Since: 2007

Age: 45

Mr. Read has been a President, The Americas of Lenovo since 2007. He joined the group as Senior Vice President, Operations in 2006. He is responsible for the Group's management system and the day-to-day operation of the business processes and also oversees the business in America. He held numerous key executive positions in IBM prior to joining the Group and holds a Bachelor's degree in Information Systems from Hartwick College.

## **Chen Shaopeng**

Board: Senior Management

Job Title: Senior Vice President and President, Greater China

Age: 38

Mr. Shaopeng is a Senior Vice President and President, Greater China of Lenovo. He joined the group in 1993. He has expertise in the sales and marketing of IT products and held various senior positions in regional sales, the commercial desktop PC business, and sales and marketing. Mr. Shaopeng obtained his EMBA degree in Business and Administration from Tsinghua University in 2004.

## **David Miller**

Board: Senior Management

Job Title: Senior Vice President and President, Asia Pacific

Age: 43

Mr. Miller is a Senior Vice President and President, Asia Pacific of Lenovo. He joined the group in 2006. He was President of Dell China / Hong Kong prior to joining the Group and has expertise in customer-facing business in the Asia Pacific region. He holds a Bachelor of Science degree in agriculture business from California Polytechnic State University.

## **Peter D Hortensius**

Board: Senior Management

Job Title: Senior Vice President, Worldwide Product Development and Notebook Business Unit

Age: 45

Mr. Hortensius is a Senior Vice President, Worldwide Product Development and Notebook Business Unit of Lenovo. He joined the group in 2005 and was appointed Senior Vice President for the Notebook Business Unit in 2005. He was the Vice President, Products and Offerings, for IBM's Personal Computing Division prior to joining the Group and has extensive expertise in product and technology R&D. He holds a Doctorate degree in Electrical Engineering from the University of Manitoba.

## **Liu Zhijun**

Board: Senior Management

Job Title: Senior Vice President, Mobile Handset Business Unit

Age: 42

Mr. Zhijun is a Senior Vice President, Mobile Handset Business Unit of Lenovo. He joined the group in 1989. He has extensive experience in the R&D, manufacture, marketing and sales, and corporate operation and management in mobile handset industry. He graduated in 1989 with a Master's degree in Engineering Mechanics from Dalian University of Technology.

## **Milko van Duijl**

Board: Senior Management

Job Title: Senior Vice President and President, EMEA

Age: 44

Mr. Duijl is a Senior Vice President and President, EMEA of Lenovo. He joined the group in 2005. He was the Vice President, EMEA, of IBM's PC Division before joining the Group and has extensive knowledge and expertise of the IT industry, and international business management. He holds a doctorandus title/MBA from the University of Rotterdam.

## **Christopher J Askew**

Board: Senior Management

Job Title: Senior Vice President, Worldwide Services

Age: 45

Mr. Askew is a Senior Vice President, Worldwide Services of Lenovo. He joined the group in 2006. He was the Vice President of Dell Services, Asia-Pacific and Japan before joining the group and has extensive experience in the services business. A UK National, Mr. Askew was educated at George Green Grammar School in London.

## **Lu Yan**

Board: Senior Management

Job Title: Senior Vice President and General Manager, Desktop Business Unit

Age: 42

Mr. Yan is a Senior Vice President and General Manager, Desktop Business Unit of Lenovo. He joined the group in 1992 and is currently the Senior Vice President and General Manager of the Desktop Business Unit. He has expertise in project R&D, operations and marketing, and held various senior positions for the R&D of desktops, motherboard business, handheld device business and information product business. He obtained an EMBA degree from China Europe International Business School in 2005.

## **Deepak Advani**

Board: Senior Management

Job Title: Senior Vice President and Chief Marketing Officer

Age: 43

Mr. Advani is a Senior Vice President and Chief Marketing Officer of Lenovo. He joined the group in 2005. He is also responsible for the group's global eCommerce business. He was the Vice President, Marketing and Strategy, of IBM's PC Division prior to joining the group and has expertise in business strategy and brand management. He holds a Master's degree in Computer Engineering and an MBA from The Wharton School.

## LOCATIONS & SUBSIDIARIES

<p><i>Lenovo Group Beijing</i> No. 6 Chuang Ye Road Shangdi Information Industry Base Haidian District Beijing CHN T: 86 10 5886 8888</p>	<p><i>Lenovo Group Singapore</i> 151 Lorong Chuan #02-01 New Tech Park 556741 SGP T: : 6827 1000 F: 6827 1100</p>
<p><i>Lenovo Group Shenzhen</i> International Information Products Shenzhen Co 1st Floor #1 Building Great Wall Technology Building Science &amp; Industry Park, Nanshan District Shenzhen CHN</p>	<p><i>Lenovo Group Shenzhen</i> Lenovo R&amp;D Building Hi Tech Industrial Park Shennan Road Shenzhen 518057 CHN T: 86 755 269 55888</p>
<p><i>Lenovo Group Shanghai</i> Floor 8/9 No.696 Song Tao Road Pudong District Shanghai CHN</p>	<p><i>Lenovo Group</i> Xiamen Tower C Xiamen Overseas Chinese Electric Science Park HuoJu High Technology Development Department Zone Xiamen CHN</p>

## COMPANY VIEW

A statement by Yang Yuanqing, Chairman of Lenovo Group is given below. The statement has been taken from the group's 2007 annual report.

It has been two years since Lenovo completed its acquisition of IBM's PC Division. In the past 2006/07 fiscal year, Lenovo started to implement a global action plan to improve efficiency through restructuring and further integration. During the year, Lenovo had a number of accomplishments against its goal to drive profitable growth. In the China PC market, Lenovo reported a record high market share again. We also successfully rolled out our transaction business model in many regions of the world. At the same time, Lenovo strengthened its relationship model for further development. Lenovo's performance in the fourth quarter of the fiscal year clearly demonstrated the effectiveness of our measures to improve our business outside of China.

Lenovo's achievements in the past year have also strengthened our confidence in the successful execution of our strategies in the future. In the coming years, the key growth drivers in the worldwide PC market remain notebook, small- and medium-sized business (SMB), consumer and emerging markets.

Lenovo will utilize its proven competitive strengths to forge ahead, based on its two existing strategic directions. We will continue to strengthen our PC business in China and the relationship business that mainly services large enterprises outside of China. At the same time, we will accelerate the roll-out of the transaction model across the globe, focusing on capturing growth opportunities in the SMB, consumer and emerging markets.

Lenovo's outstanding performance in China last year truly reflected the strengths of the dual business model which enables us to effectively address every customer segment. Together with seamless end-to end integration of product development, marketing, sales, manufacturing and customer service, Lenovo is able to respond promptly to the dynamic market. Lenovo was able to achieve higher-than-market growth for a number of consecutive quarters even under intense market competition, reporting record high market share while maintaining strong profitability. Lenovo's strong advantages the dual business model, branding and operational efficiency will ensure our continuous remarkable development in the fast-growing China market, providing support for building our PC business with core competence in every market of the world. In the last year, although Lenovo's mobile handset business faced some challenges in further development, it showed improvement in every operational indicator while maintaining strong profitability.

The slowdown in the large enterprise market outside China limited Lenovo's progress in that area last year. Meanwhile, our sales team smoothly completed the transition of sales support from IBM's sales team, and adopted a more efficient approach which will help us better grow our business with large enterprise customers. At the same time, our expansion into SMB and emerging markets saw encouraging results in the pilot roll-out of the transaction model in India, Hong Kong and Germany. Lenovo will take advantage of these initial successes and leverage our accumulated experience to accelerate the roll-out of the transaction model in other regions of the world to generate more growth. In the past year, Lenovo also introduced consumer PC products in several pilot regions with good market response. We have set up a dedicated consumer team which will actively map out plans to launch PC products and a targeted sales approach that addresses the consumer segment in more regions to capture the opportunities in this growing segment.

In addition to its achievements in business expansion, Lenovo also gained ground in building a worldwide team last year. I am pleased with the quick assimilation of the management team and expect the increasingly integrated Lenovo culture to be the driving force that will help us win in the marketplace.

In the past year, the management team's significant efforts to enhance competitiveness and operational excellence began to bear fruit. However, we will constantly face challenges in many ways in the competitive PC market. Looking forward, Lenovo has to actively grow the business under our defined core strategies; at the same time, we must ensure more efficient use of our resources and lower our expense-to-revenue ratio. That will help Lenovo strengthen its market competitiveness, achieve sustainable profitable growth, and ultimately become an outstanding company with sustained high performance.

My expectation for Lenovo's management in the next few years is to focus on expanding the PC business, achieve profitable growth ahead of the market, and explore new growth opportunities in order to lay a solid foundation for our long-term development. Lenovo will endeavor to realize all strategic objectives, and bring sustainable long-term returns to shareholders. Last but not least, I would like to take this opportunity to thank our shareholders, fellow board members, customers and employees for their continuous support of Lenovo.



## SWOT ANALYSIS

Lenovo is one of the leading providers of personal computers. Lenovo is one of the largest PC manufacturers in the world especially in the Asia-Pacific region. The group also provides a range of notebook computers, desktop computers and mobile handsets. The group also provides computer accessories and upgrades, computer software and services which includes services for small, medium and large businesses. The group is the largest PC maker in China. The leading market position in China creates a competitive advantage for the group in PC market. However, intense competition put a negative pressure on the group's margins

<b>Strengths</b>	<b>Weaknesses</b>
Largest player in the Chinese market	Strong concentration in low margin business
Strong brand portfolio	Inability to compete in the handset business
Superior PC distribution network and manufacturing capability	Low returns
<b>Opportunities</b>	<b>Threats</b>
Strategic alliances	Intense competition
Increasing demand for mobility products	Decreasing PC and handset prices
Asian mobile phones market	Economic slowdown in the US and Eurozone

### Strengths

#### Largest player in the Chinese market

Lenovo is the largest PC marketer in China with a market share of 25.7%. The group has maintained its position in the market as the dominant player, despite the entry of larger multinationals like IBM, Dell and HP. The growth in the group's turnover has exceeded the overall growth of the Chinese PC market. In China, Lenovo continued to be the leading brand and commanded a share of 32.4% of the notebook computer market. The group's greater China division strengthened its leading position in China by achieving 24% year-on-year growth in PC shipments. The groups' overall PC market share in China reached a new height of 34.6% in the 2007 fiscal year, representing a gain of 0.7% points over the group's record in 2006. The leading market position in China creates a competitive advantage for the group in PC market.

#### Strong brand portfolio

Lenovo has strong brand portfolio. The group's name achieves greater recognition amongst consumers than many of its competitors. The group is selling the ThinkPad brand of IBM's notebook PCs. Lenovo also sells laptops under its QDI brand name in

Spain, Germany, Italy and Greece. QDI motherboards have also become a leading brand in Europe. The group's notebook computer known brands includes ThinkPad, ThinkPad X60, Tianyi, Tianyi F30. The notebook computer known brands includes ThinkPad, ThinkPad X60, Tianyi, Tianyi F30. The group's one of the known mobile handset brand includes Lenovo i717. The group's strong brand portfolio and recent acquisition of the IBM PC business, has propelled the group to occupy a strong position in the market.

#### Superior PC distribution network and manufacturing capability

The group has a strong position in the Chinese and Asia Pacific market due to its distribution network and manufacturing capabilities. Lenovo runs PC assembly lines in Beijing, Shanghai and Huiyang (Guangdong province) with a total annual production capacity of about five million. Lenovo has divided the Chinese market into 18 sales sub-regions with more than 4000 retail shops serving customers across the country. Lenovo offers 24-hour customer hotline services and an extensive network of maintenance centers in China. As most of the PC manufacturing companies of the world, are outsourcing their manufacturing operations to China, Lenovo's self owned manufacturing plants in the low cost destination gives it a unique competitive advantage. Also, the group's manufacturing capabilities enable it to provide contract manufacturing services to other PC manufacturers worldwide. The group's superior distribution network across China gives it an unparalleled competitive advantage over multinational PC makers like HP and Dell as it garners a local brand image of the group. The group's superior PC distribution network and manufacturing capability enhances its top line growth.

## Weaknesses

#### Strong concentration in low margin business

Although Lenovo is the largest player in the Chinese PC market, its business is heavily dependent on IT hardware manufacturing and marketing. The IT hardware business is a low margin business and PC prices are consistently decreasing globally. Large PC manufacturers in the US are increasingly diverting their resources towards high margin IT services business which is more profitable. The latest example in this context is that of IBM, which has sold off its PC manufacturing business to Lenovo, as the business was yielding lower margins than the IT services segment of the business. Although Lenovo has tried to increase its market reach in the IT services segment, the group has failed to compete with multinational IT consulting companies in this field. IBM's PC business has only been marginally profitable through the years and the group's acquisition of the same would further increase the group's concentration in low margin business.

#### Inability to compete in the handset business

The group is a late entrant in the handheld devices market and is now competing against players which are more established than Lenovo, in the handset market. Lenovo's late entrance into the mobile handsets market can definitely be classified as a missed opportunity. The group had developed plans to move into the market in 1999 but a lack of investor confidence in the idea led to these plans being shelved. Lenovo made a belated entrance in 2002 and as a result it is trying to catch up with those companies who were confident enough to jump into the market early. With a market share of less than 7%, Lenovo holds less of the market than local brands such as Bird, TCL and Konka. The inability to compete in the handset business reflects a weakness in the group's business strategy.

#### Low returns

The group has recorded weak returns in recent years. The group recorded average return on assets of 5.2% during 2002-2006, which is lower than the industry average of 6.2%. For the same period, the group's average return on investment, at 11.9%, is lower than the industry average of 13.7%. The group's returns on equity, at 16.3% during the period 2002-2006, were lower than the industry average of 17.6% in the same period. Although not drastically lower than the industry averages, weak returns can reduce investor confidence in the group.

## **Opportunities**

#### Strategic alliances

The group has entered into significant number of strategic alliances with branded companies in the recent years. In 2006, American Airlines signed a strategic technology agreement with Lenovo to provide Admirals Club members with access to new Lenovo PCs to further enhance the overall travel experience with the world's largest airline. During the same year senior executives from Lenovo and Microsoft Corp entered into a global agreement that expands and deepens the strategic cooperation between the two companies in April 2006. Lenovo unveiled its ultra portable widescreen notebook PC, the Lenovo V100, designed for on-the-go small business customers seeking powerful performance in a modern design. During the same span the National Basketball Association and Lenovo entered into a multi-year global marketing partnership to expand Lenovo's brand recognition internationally and to enhance the NBA game through the use of new technology and statistics, including the launch of the innovative Lenovo Stat. Recently in 2007, Lenovo and Avaya announced their plans to collaborate on IP and unified communications solutions. In the same year Microsoft Corp and Lenovo entered into a global agreement to pre-load Windows Live services on Lenovo PCs sold worldwide including ThinkPad notebooks,

ThinkCentre desktops and Lenovo-branded PCs. During the same span Lenovo and IBM today expanded their global alliance to develop and deliver industry specific, integrated technology solutions for enterprises, small and mid-market (SMB) businesses and individuals. These strategic alliances provide the group to establish itself a strong brand image in the market to boost its future revenues.

#### Increasing demand for mobility products

Global demand for notebook computers, mp3 music players and handhelds is increasing. Notebook unit sales increased 48% worldwide in 2006 as compared previous year's 26%. Demand for mobility products is expected to increase further in 2007 as notebooks become more affordable and wireless products become ubiquitous. Lenovo being one of the leading players in this market is likely to benefit from increasing demand for mobility products.

#### Asian mobile phones market

Mobile phone sales per year are expected to reach one billion in 2009. The Asia Pacific region accounted for one in four mobile phones owned in fiscal 2005. This count is expected to go up to one in three in fiscal 2009. China and India between them should account for nearly 200 million units in 2007, with the Indian market surpassing China in 2009 to reach 139 million units. A positive regulatory environment, affordable services and increased geographic penetration of networks will drive mobile penetration in India. Lenovo established a strong presence in the mobile market through its mobile handset division and would be benefited from this positive outlook of mobile market in Asia.

## Threats

#### Intense competition

Lenovo is facing intense competition in the computer hardware market. The PC industry is dominated by a few large branded and several smaller branded and generic competitors. Irrespective of being the leading player in the PC industry, it is facing tough competition from larger and new companies include Hewlett-Packard, Toshiba, Dell and Sony. In addition, many of the group's partners, including original design manufacturers, often market their products under their own brand names. The group also faces significant competition from generic PC manufacturers. In recent years, the industry has faced severe pricing pressures. Intense competition threatens to further erode the group's margins and reduce its market share.

#### Decreasing PC and handset prices

According to market trends, selling price of PCs and mobile are likely to decrease to even lower levels in the coming years due to product mix changes, falling component costs and keen competition. The largest PC maker in the world, Dell cut prices on a number of computing hardware by as much as 17% in 2006. The world's number-two PC maker Hewlett-Packard is lowering its PC prices in China, as a response to the recent Lenovo IBM deal. Other Chinese PC makers like Founder and ASUS are also cutting their computer prices. The ongoing price war in China and globally, along with the fast decreasing component prices, would put a negative pressure on the group's margins.

#### Economic slowdown in the US and Eurozone

The US and Eurozone are the two key markets for Lenovo. According to the IMF world economy outlook report, real GDP growth in the US and Eurozone is expected to slowdown in 2007. While the GDP growth of the US economy is forecast to slow down from 3.3% in 2006 to 2.2% in 2007, the GDP growth in the Eurozone is forecast to decline from 2.6% in 2006 to 2.3% in 2007. More importantly, the US has seen successive interest rate hikes over the past few years leading to the current high of 5.25%. In 2006, the European Central Bank (ECB) raised interest rates by a quarter of a percentage point to 4% to deal with inflationary pressures. The interest rate in Eurozone is currently at a high of 4%. A weak economic outlook for Eurozone and the US would put pressure on the revenues of the group.

## TOP COMPETITORS

[AB Electrolux](#)  
[Acer Inc.](#)  
[Apple Computer, Inc.](#)  
[Arrow Electronics, Inc.](#)  
[Computer Sciences Corporation](#)  
[DSG International plc.](#)  
[Dell Inc.](#)  
[Eastern Communications Co., Ltd.](#)  
[Founder Holdings Ltd.](#)  
[Fujitsu Limited](#)  
[GES International Limited](#)  
[Gateway, Inc.](#)  
[Hewlett-Packard Company](#)  
[International Business Machines Corporation](#)  
[Maxwell Technologies Inc](#)  
[Qiao Xing Universal Telephone Inc.](#)  
[Quanta Computer Inc.](#)  
[Siemens Business Services](#)  
[Sun Microsystems, Inc.](#)  
[Tatung Co.](#)  
[Technology Venture Holdings Ltd.](#)  
[Texas Instruments Incorporated](#)  
[Web.com, Inc.](#)  
[Wipro Limited](#)  
[Xerox Corporation](#)