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lenovo 联想

Lenovo Group Limited 联想集团有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 0992

CONTINUING CONNECTED TRANSACTIONS

SUMMARY

Since the Digital China Spin-off, the Group has entered into transactions under the DCHL Sales Arrangement and the DCHL Purchases Arrangement with Digital China Group and prior to the Digital China Spin-off, such transactions had been entered into as intra-group transactions. The Group will continue to enter into such transactions with Digital China Group. As Legend Holdings is the controlling shareholder of the Company and Digital China respectively, Digital China and its subsidiaries are connected persons of the Company and such transactions between the Group and Digital China Group constitute connected transactions of the Company under the Listing Rules. Since the DCHL Sales Arrangement and DCHL Purchases Arrangement involve transactions which are or will be carried out on a recurring basis and are and will be expected to extend over a period of time, such transactions constitute continuing connected transactions of the Company under the Listing Rules. The Existing Waiver from the requirement of disclosure by press announcement as stipulated in Chapter 14 of the Old Listing Rules in respect of transactions effected under the DCHL Sales Arrangement and the DCHL Purchases Arrangement on each occasion it arises was granted by the Stock Exchange on 22 May 2001.

Pursuant to Rule 14A.35 of the Listing Rules, the Company and Digital China on 17 May 2004 entered into the Master Agreements to govern the DCHL Sales Arrangement and the DCHL Purchases Arrangement respectively. The terms of the Master Agreements commence on 1 April 2004 and end on 31 March 2007. So long as the aggregate annual value of purchases by the Group effected under the DCHL Sales Arrangement for each of the three financial years ending 31 March 2007 does not exceed HK\$47 million, HK\$77 million and HK\$118 million respectively and the aggregate annual value of sales by the Group effected under the DCHL Purchases Arrangement for each of the three financial years ending 31 March 2007 does not exceed HK\$73 million, HK\$81 million and HK\$88 million respectively, transactions under the DCHL Sales Arrangement and the DCHL Purchases Arrangement will fall under Rule 14A.34 of the Listing Rules and will only be subject to the annual review, reporting and announcement requirements set out in Rules 14A.37 to 14A.41 and Rules 14A.45 to 14A.47 of the Listing Rules.

BACKGROUND

Reference is made to the circular of the Company dated 27 April 2001 in which the Company announced that the Group had entered into, and will continue to enter into, certain transactions with Digital China Group, including those under the DCHL Sales Arrangement and the DCHL Purchases Arrangement.

The Existing Waiver from the requirement of disclosure by press announcement as stipulated in Chapter 14 of the Old Listing Rules in respect of transactions effected under the DCHL Sales Arrangement and the DCHL Purchases Arrangement on each occasion it arises was granted by the Stock Exchange on 22 May 2001.

CHAPTER 14A OF THE LISTING RULES

(i) Master Agreements

Pursuant to Rule 14A.35 of the Listing Rules, the Company and Digital China on 17 May 2004 entered into the Master Agreements to govern the DCHL Sales Arrangement and the DCHL Purchases Arrangement. The terms of the Master Agreements commence on 1 April 2004 and end on 31 March 2007. In accordance with the Master Agreements, the prices to be offered under each of the DCHL Sales Arrangement and the DCHL Purchases Arrangement shall be competitive, on normal commercial terms and determined by the relevant contracting parties on arm's length negotiations based on market prices and having regard to the quantity, technical requirements and/or other conditions of the products/services to be offered. The payment terms of the individual transactions will be determined by the relevant contracting parties at the time of entering into the transactions with reference to factors such as the relevant transaction amount, nature and specification and services requirement for the particular transaction.

(ii) Aggregate Annual Value

For the three financial years ended 31 March 2004, the aggregate annual value of purchases and sales effected under the DCHL Sales Arrangement and DCHL Purchases Arrangement respectively are as follows:

	DCHL Sales Arrangement <i>HK\$'000</i>	DCHL Purchases Arrangement <i>HK\$'000</i>
For the financial year ended 31 March 2002	13,519	–
For the financial year ended 31 March 2003	5,414	1,132
For the financial year ended 31 March 2004	27,992	–

The audited total turnover for the Group's IT services business for the years ended 31 March 2003 and 31 March 2004 were approximately HK\$184 million and approximately HK\$548 million respectively. The proportion of aggregate value under the DCHL Sales Arrangement relative to total turnover for the Group's IT services business for the years ended 31 March 2003 and 31 March 2004 were 2.9% and 5.1% respectively (i.e. an increase of approximately 2%).

The Directors currently estimate that the aggregate annual value of purchases to be effected under the DCHL Sales Arrangement will not amount to more than HK\$47 million, HK\$77 million and HK\$118 million for each of the three financial years ending 31 March 2007 respectively. This estimate was determined based on the following factors:

- (i) the Group's projection that the proportion of total transaction value under the DCHL Sales Arrangement relative to total turnover for the Group's IT services business will grow 2% per annum over the three financial years ending 31 March 2007. This estimated growth rate was determined by reference to the above historical figures and also to the Group's expectation that total transaction value under the DCHL Sales Arrangement will grow faster than the Group's IT services business turnover given that the products offered by Digital China Group complement and meet the business or product requirements of the Group and the benefit to the Group of bulk-purchase; and

- (ii) the projected growth in turnover of the Group's IT services business over the three financial years ending 31 March 2007 (as based on the estimated overall growth of the PRC IT services business sector provided in an external survey report).

The Directors also estimate that the aggregate annual value of sales to be effected under the DCHL Purchases Arrangement will not amount to more than HK\$73 million, HK\$81 million and HK\$88 million for each of the three years ending 31 March 2007 respectively. So far as the Company is aware, purchases by Digital China Group under the DCHL Purchases Arrangement are for fulfillment of Digital China Group's project-oriented engagements. Therefore, historical figures may be irrelevant for projection of the annual cap amount under the DCHL Purchases Arrangement. The annual transaction value thereunder is affected by many factors, such as availability of hardware infrastructure, product specifications required, brand reputation of the Group's products and relevant project-oriented engagements available to Digital China Group. Therefore, the annual cap amounts for the DCHL Purchases Arrangement are estimated by reference to the following factors (which are based on information provided in an external survey report):

- (i) the estimated growth in demand for PRC hardware deployment and support services as a whole over the three years ending 31 March 2007;
- (ii) Digital China Group's estimated current share of the PRC hardware deployment and support services market; and
- (iii) lenovo brand computers' estimated market share in the PRC.

Digital China Group has acquired from the Group products under the DCHL Purchases Arrangement amounting to approximately HK\$0.52 million since 1 April 2004 and further purchases from Digital China Group are expected to sustain its customer-driven business requirement when required.

(iii) Directors' Confirmation

The Directors (including the independent non-executive Directors) confirm that the DCHL Sales Arrangement and the DCHL Purchases Arrangement have been and will be conducted in the ordinary course of business of the Group, on normal commercial terms, negotiated or will be negotiated on an arm's length basis and are and will be fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

As at the date of this announcement, Legend Holdings is the controlling shareholder of the Company and Digital China, thus Digital China and its subsidiaries are connected persons of the Company. Hence the transactions between the Group and Digital China Group constitute connected transactions of the Company under the Listing Rules. Since the DCHL Sales Arrangement and DCHL Purchases Arrangement involve transactions which are or will be carried out on a recurring basis and are and will be expected to extend over a period of time, such transactions constitute continuing connected transactions of the Company under the Listing Rules.

So long as the aggregate annual value of purchases effected under the DCHL Sales Arrangement for each of the three financial years ending 31 March 2007 does not exceed HK\$47 million, HK\$77 million and HK\$118 million respectively and the aggregate annual value of sales effected under the DCHL Purchases Arrangement for each of the three financial years ending 31 March 2007 does not exceed HK\$73 million, HK\$81 million and HK\$88 million respectively, transactions under the DCHL Sales Arrangement and the DCHL Purchases Arrangement will fall under Rule 14A.34 of the Listing Rules and will only be subject to the annual review, reporting and announcement requirements set out in Rules 14A.37 to 14A.41 and Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

REASONS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

Digital China Group is a distributor of various foreign brand IT products. The products provided under DCHL Sales Arrangement are mainly for resale to the Group's customers in the course of providing value-chain services covering consultation, implementation, integration and outsourcing. Digital China Group, on an irregular basis, places orders to the Group to purchase lenovo brand computers and related products. The Directors consider that it is in the interest of the Group to enter into transactions under the DCHL Purchases Arrangement which will allow the Group to take advantage of maximizing its economies of scale of production.

The Directors consider that the relevant products offered by each of the two groups complement the business or product requirements of the other and through the long business relationship established between the two groups, both parties are reasonably assured of the quality of the products provided by the other. Therefore, the Directors consider that the DCHL Sales Arrangement and the DCHL Purchases Arrangement are of beneficial interest to the Group and its shareholders as a whole.

GENERAL

The Group is principally engaged in the sale and manufacture of lenovo brand computers and related products, mobile devices and the provision of advanced IT products and services in the PRC.

Digital China Group is principally engaged in the distribution of IT products, provision of systems integration services, and development and distribution of networking products.

“Board”	the board of the Directors
“Company”	Lenovo Group Limited (聯想集團有限公司), a limited liability company incorporated in Hong Kong, with its shares listed on the Stock Exchange
“connected person(s)”	as such term is defined under the Listing Rules
“DCHL Purchases Arrangement”	the purchase of computers and other related IT products like printers under the brand name of “lenovo” (or where applicable, “Legend”), “聯想” and any other brands as used or owned by the Group from time to time and acquisition of related technical services from the Group by Digital China Group
“DCHL Sales Arrangement”	the sale of IT products such as computers, servers, networking products and computer software and provision of related technical services by Digital China Group to the Group

“Digital China”	Digital China Holdings Limited (神州數碼控股有限公司), a limited liability company incorporated in Bermuda, whose shares are listed on the Stock Exchange
“Digital China Group”	Digital China and its subsidiaries
“Digital China Spin-off”	the demerger from the Group of Digital China Group and separate listing of Digital China’s shares on the Stock Exchange in June 2001
“Director(s)”	the director(s) of the Company including the independent non-executive directors of the Company
“Existing Waiver”	the waiver granted by the Stock Exchange on 22 May 2001 in relation to the DCHL Sales Arrangement and DCHL Purchases Arrangement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IT”	information technology
“Legend Holdings”	聯想控股有限公司 (Legend Holdings Limited), a company incorporated in the PRC and the controlling shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreements”	the agreements made between the Company and Digital China to govern the DCHL Sales Arrangement and the DCHL Purchases Arrangement respectively
“Old Listing Rules”	the Listing Rules prior to 31 March 2004
“PRC”	the People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Liu Chuanzhi
Chairman

As at the date hereof, the Board is comprised of three executive Directors, namely Mr. Liu Chuanzhi, Mr. Yang Yuanqing and Ms. Ma Xuezheng, one non-executive Director, namely Mr. Zeng Maochao and three independent non-executive Directors, namely Mr. Wong Wai Ming, Professor Woo Chia-Wei and Mr. Ting Lee Sen.

Hong Kong, 2 June 2004

“Please also refer to the published version of this announcement in the South China Morning Post”