lenovo联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 992)

VERY SUBSTANTIAL ACQUISITION RELATING TO THE PERSONAL COMPUTER BUSINESS OF IBM

Financial Adviser to the Company

Goldman Sachs (Asia) L.L.C.

VERY SUBSTANTIAL ACQUISITION

On 7 December 2004, the Company and IBM entered into the Asset Purchase Agreement, pursuant to which the Company agreed to acquire from IBM certain assets and assume certain liabilities in connection with the Business. The consideration to be paid by the Company is US$1.25 billion (approximately HK$9.73 billion), subject to certain adjustments (details of which are contained in the sub-section entitled "consideration" under the section entitled "Asset Purchase Agreement" below). The Company will be required to pay a cash consideration of US$650 million (approximately HK$5,070 million) (subject to adjustments) and issue up to 821,234,569 new Shares and 921,636,459 new Non-voting Shares credited as fully paid, in each case, to IBM at the issue price of HK$2.675 each.

As a result of such issuance of new Shares and Non-voting Shares, IBM will hold approximately 9.9% (comprising Shares only) of the enlarged issued share capital and approximately 18.9% (comprising Shares and Non-voting Shares) of the total enlarged issued share capital, in each case, of the Company immediately following the Initial Closing. This will not result in any change of control of the Company. Notwithstanding this, the Stock Exchange has deemed IBM as a connected person under the Listing Rules.

Upon the Initial Closing, the Company and IBM will enter into the Company Agreement, which relates to IBM's shareholding in the Company.

Pursuant to the Asset Purchase Agreement, the Company and IBM entered into various Ancillary Agreements pursuant to which IBM will, among other things, provide a broad range of transition services to the Lenovo Group to assist the Lenovo Group in conducting the Business following the Initial Closing. The Ancillary Agreements will become effective from the Initial Closing.

The Asset Acquisition and certain transactions under Ancillary Agreements are subject to the approval of the Independent Shareholders.

A circular containing, among other things, a notice convening the EGM to approve the Asset Acquisition and the relevant transactions under the Ancillary Agreements and further details of both the Asset Purchase Agreement and the Ancillary Agreements, will be dispatched to Shareholders as soon as practicable.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued to IBM.

Goldman Sachs have been appointed as the financial adviser to advise the Company in relation to the Asset Acquisition.

Shareholders and potential investors should note that the Asset Acquisition, which is subject to a number of Conditions Precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

Dealing in the Shares on the Stock Exchange was suspended at the request of the Company from 9:30 a.m. on 6 December 2004. Application has been made by the Company for the resumption in the dealings in the Shares on the Stock Exchange with effect from 9:30 a.m. on 9 December 2004.

ASSET PURCHASE AGREEMENT

Date

7 December 2004

Parties

IBM as the seller and the Company as the purchaser

Assets to be acquired and liabilities to be assumed by the Company

The Acquired Assets include, among others, the following:

(a) certain tangible property that is shared by the Business and another retained business of IBM only to the extent provided in the Asset Purchase Agreement, the personal equipment primarily used or held for use by covered employees of the Business in the conduct of the Business as well as all computer hardware, machinery, tools, equipment, fixtures, vehicles, spare parts and other tangible personal property, which are now, or at the time of the applicable Closing will be, used or held for use exclusively in the Business;

(b) all inventory of Products and work in process for the Products used or held for use by the Business;

(c) all accounts receivable constituting the right to receive payments in respect of goods delivered or services provided by the Business, but excluding all receivables sold to IGF;

(d) the Acquired Intellectual Property;

(e) certain real property leases, certain customer contracts, and other agreements, leases, purchase orders or other commitments exclusively related to the Business;

(f) goodwill relating to or arising from the Business;

(g) books and records used or held for use exclusively in the conduct of the Business and copies of records that are not exclusively related to the Business but are required to operate it;

(h) all permits used exclusively in the conduct of the Business; and

(i) all rights of IBM or its affiliates to the extent such rights relate to warranties, enhanced warranties and maintenance obligations relating to Products sold and shipped by the Business from and after the Initial Closing.

In relation to the Chinese Business Unit, IBM proposes to effect a restructuring of the shareholding and a restructuring of the business of such unit. It is currently contemplated that, upon completion of such restructurings, IBM will then sell its interest in the Chinese Business Unit to the Company.

The Acquired Assets shall exclude, among others, the following as more specifically set forth in the Asset Purchase Agreement:

(i) cash and cash equivalents held by the Business as at the applicable Closing, other than assets of an employee benefits plan being transferred to the Company and all sale and insurance proceeds for assets of the Business to the extent provided in the Asset Purchase Agreement;

(ii) intercompany receivables due from IBM or its affiliates;

(iii) except for the rights granted pursuant to the Trademark License Agreement, rights to the "IBM" name or logo or any derivation thereof or any rights to use "Think";

(iv) assets used or held for use in the Business relating to or arising from financing services, maintenance and warranty services, any other Global Services, disposal services or the retail stores solutions businesses;

(v) all rights to tax refunds, offsets, deductions and other tax attributes or credits to the extent attributable to a taxable period or portion before the Initial Closing or to a transfer tax for which IBM is responsible and rights to refunds of custom duties and fees to the extent relating to or arising from customs entries made before the Initial Closing in each case subject to the Asset Purchase Agreement;

(vi) all products other than the Products and all assets related to the business of designing, developing, manufacturing, marketing or selling any products other than the Products;

(vii) all assets related to research and development performed by IBM, including its research division, other than tangible property used exclusively in the research and development projects that are exclusively related to the Business; and

(viii) assets related to the Korean Joint Venture, including IBM's equity interest in the Korean Joint Venture and all the assets of the Korean Joint Venture.

The Company will assume, among others, the following Assumed Liabilities as of the applicable Closing as more specifically set forth in the Asset Purchase Agreement:

(a) all liabilities, including environmental liabilities, arising from the conduct or operation of the Business and the ownership of the Acquired Assets from and after the applicable Closing;

(b) the liabilities under the contracts assigned to the Company;

(c) the assumed accounts payable constituting the obligation to make payments in respect of goods and services received by the Business and all accounts payable that are solely among IBM and its subsidiaries (i.e., subsidiaries being formed by IBM pursuant to a restructuring which will own the Acquired Assets and the Assumed Liabilities that will be transferred to the Company upon the Initial Closing); and

(d) all liabilities based on any defect in the design, manufacture, quality, conformity to specification or fitness for purpose of any Product sold and shipped by the Business from and after the Initial Closing.

The following liabilities, among others, shall be excluded from the Assumed Liabilities as more specifically set forth in the Asset Purchase Agreement:

(i) the liabilities to the extent relating to or arising from the Excluded Assets;

(ii) all warranty, enhanced warranty and maintenance obligations relating to or arising from the Products sold or shipped by the Business prior to the Initial Closing;

(iii) all liabilities to the extent relating to or arising from any defect in the design, manufacture, quality, conformity to specification or fitness for purpose of any Product sold and shipped by the Business prior to the Initial Closing;

(iv) all liabilities under the contracts that are being assigned to the Company to the extent relating to or arising from the conduct or operation of the Business or the ownership of the Acquired Assets prior to the applicable Closing, including all such liabilities to the extent actually relating to or arising from any breach, default or failure to perform, or any overcharge or underpayment;

(v) all liabilities relating to environmental conditions existing prior to the Initial Closing;

(vi) all liabilities, to the extent relating to or arising from the conduct or operation of the Business or the ownership of the Acquired Assets prior to the applicable Closing that the Company is not required to assume; and

(vii) all inter-company liabilities owed to IBM or its affiliates.

As of 30 June 2004, the unaudited net book value of the Acquired Assets and Assumed Liabilities under US GAAP was approximately negative US$680.2 million, which comprises Acquired Assets of US$934.9 million and Assumed Liabilities of US$1,615.1 million. The statement that reconciles the audited net book value of the total assets and total liabilities of the Business as at 30 June 2004 to the unaudited net book value of the Acquired Assets and Assumed Liabilities under US GAAP as of 30 June 2004 will be disclosed in the circular. The negative net book value of the Acquired Assets and Assumed Liabilities reflects the working capital deficit on which the Business has been operating in the three financial years ended on 31 December 2003 and the six months ended on 30 June 2004 as a result of the effective use of channel financing and leasing arrangements through IGF. The Business has been able to realize cash from a large portion of its revenue expeditiously, compared with the average turnover of accounts payable.

The unaudited net book value of the Acquired Assets and Assumed Liabilities under US GAAP is arrived at using the net book value of the Business as at 30 June 2004 as per the audited US GAAP combined financial statements of US$975.9 million (which comprises total assets of US$1,533.5 million and total liabilities of US$2,509.4 million), and adjusted by certain assets and liabilities not to be acquired or assumed by the Group pursuant to the Asset Purchase Agreement as if the Asset Purchase Agreement was completed as at 30 June 2004.

The results of the Business for the two preceding financial years under US GAAP, extracted from the audited financial statements of the Business, are as follows:

	Year ended 31 December	
	2003	**2002**
	US$ million	*US$ million*
Loss before taxation and minority interest	117	68
Provision for income taxes	115	86
Minority interests	26	17
Net loss	258	171

Recent financial performance of the Business has been adversely affected by exceptionally high warranty expenses for the financial year ended 31 December 2003 and the six months ended 30 June 2004, due to certain Personal Computer products with problem components produced and sold previously. The warranty costs charged to the cost of sales of the Business for the three years ended 31 December 2003 and six months ended 30 June 2004 amounted to approximately US$452 million, US$430 million, US$586 million and US$365 million, respectively. The Business estimated the warranty costs based on historical warranty claim experience for eligible products under warranty. The relevant percentages of the warranty cost to the net revenue of the Business for the three years ended 31 December 2003 and six months ended 30 June 2004 were approximately 4.5%, 4.7%, 6.1% and 7.0%, respectively. IBM has agreed to reimburse the Company, subject to a maximum of US$100 million in aggregate, for the costs incurred by the Company or its subsidiaries in performing standard warranty obligations in respect of desktop and notebook computers shipped by the Company or its subsidiaries in the first two years after the Initial Closing, to the extent the level of defects requiring warranty services exceeds specified target levels and the product design and components of such Products were qualified by IBM or its affiliates before the Initial Closing and have not been modified by the Company.

There was no extraordinary gain or loss recorded by the Business for the two financial years ended 31 December 2003.

Consideration

The Asset Purchase Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The consideration to be paid by the Company under the Asset Purchase Agreement is US$1.25 billion (approximately HK$9.73 billion), subject to certain adjustments, and will be satisfied at the Initial Closing by the payment by the Company of the Cash Consideration, and the balance of the consideration of US$600 million to be satisfied by the allotment and issuance of Consideration Shares credited as fully paid and free and clear of encumbrances, by the Company to IBM at the Issue Price.

The amount of the adjustment to the consideration will be determined by subtracting target net working capital from actual net working capital pursuant to the terms of the Asset Purchase Agreement. It is not possible to deduce the "target net working capital" at this time. It will be determined based on the historical patterns of the relationship between (a) accounts receivable, inventory and accounts payable, and (b) revenue, in each case, of the Business. A further public announcement will be made by the Company in relation to the "target net working capital" amount and the amount of the adjustment to the consideration once these amounts are determined.

If the adjustment amount is less than zero by an amount in excess of US$25 million, IBM will pay the Company (by wire transfer in immediately available funds) an amount equal to the adjustment amount minus US$15 million. If the adjustment amount is greater than zero by an amount in excess of US$25 million, the Company will pay IBM (by wire transfer in immediately available funds) an amount equal to the adjustment amount minus US$15 million.

The consideration has been determined based on various factors, including the historical revenue contribution of the Business to the Enlarged Group, the scope and the quality of the Acquired Assets, the growth prospects of the Business, earnings potential and synergy opportunity with the Company, the scope and nature of the Assumed Liabilities, terms of various commercial agreements being entered into and other relevant valuation benchmarks. The Directors consider that the terms of the Asset Purchase Agreement and the Ancillary Agreements are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in the Shares to be issued to IBM.

The Issue Price is equal to HK$2.675, being the closing price of the Shares on the last trading day prior to the date of this announcement and represents:

(a) a premium of approximately 1.04% over HK$2.6475, the average closing price of the Shares on the Stock Exchange for the last 10 full trading days prior to the suspension of trading in the Shares prior to the date of the Announcement;

(b) a discount of approximately 2.64% to HK$2.7475, the average closing price of the Shares on the Stock Exchange for the last 30 full trading days prior to the suspension of trading in the Shares prior to the date of the Announcement; and

(c) a premium of approximately 361% over the latest unaudited consolidated net tangible assets of the Lenovo Group of approximately HK$0.58 per Share as at 30 September 2004.

The Consideration Shares will represent: (a) approximately 23.3% of the total issued share capital of the Company immediately prior to the Initial Closing; and (b) approximately 18.9% of the total issued share capital of the Company upon the Initial Closing.

Bridge loan

The Asset Acquisition will be financed by internal resources and by third party borrowings. The Company has received a bridge financing commitment letter from Goldman Sachs Credit Partners L.P. for up to US$500,000,000. Additionally, the Company is in discussions with other financial institutions regarding permanent financing facilities which the Company is attempting to have available by the time of the Initial Closing and which it would utilize in lieu of drawing down the bridge loan.

Conditions Precedent for the Closings

The Closings are subject to the satisfaction of certain Conditions Precedent.

The respective obligations of each of the Company and IBM to effect the Initial Closing are subject to the satisfaction of the following Conditions Precedent:

(a) the Asset Acquisition and the Ancillary Agreements having been approved by the Independent Shareholders at the EGM;

(b) the Listing Committee having granted the listing of, and the permission to deal in, the Shares to be issued to IBM upon Initial Closing;

(c) clearance with respect to the transactions contemplated under the Asset Purchase Agreement having been obtained from the Committee on Foreign Investment in the United States, the waiting periods under the HSR Act and Japanese anti-monopoly law having expired or been terminated and all material consents and approvals of the relevant government authorities having been obtained; and

(d) no statute, rule, regulation, order, decree or injunction that would prohibit or render unlawful consummation of the transfer of the Business in the Initial Closing Countries shall be in effect and there shall be no proceedings brought (and still pending) by any government authority that is reasonably likely to prohibit or render unlawful the consummation of the Initial Closing.

The obligations of the Company to effect the Initial Closing are further subject to the satisfaction of the following Conditions Precedent:

(a) each of the representations and warranties made by IBM that is qualified by reference to materiality or a material adverse effect on the Business is true and correct and all other representations and warranties are true and correct in all material respects;

(b) IBM has performed and complied in all material respects with each agreement, covenant and obligation required by the Asset Purchase Agreement and the Employee Matters Agreement to be so performed at or before the Initial Closing;

(c) no change, event, circumstance or effect which has had, or is reasonably likely to have, a material adverse effect on the Business has occurred;

(d) all covered permits material to the Business and required in connection with the operation of the Business in the Initial Closing Countries have been obtained; and

(e) an officer's certificate from IBM has been delivered to the Company confirming that the conditions set forth in clauses (a) and (b) above have been satisfied.

The obligations of IBM to effect the Initial Closing are further subject to the satisfaction of the following Conditions Precedent:

(a) each of the representations and warranties made by the Company that is qualified by reference to materiality or material adverse effect on IBM is true and correct and all other representations and warranties are true and correct in all material respects;

(b) the Company has performed and complied in all material respects with each agreement, covenant and obligation required by the Asset Purchase Agreement and the Employee Matters Agreement to be performed at or before the Closing;

(c) no change, event, circumstance or effect which has had, or is reasonably likely to have, a material adverse effect on the Company has occurred; and

(d) an officer's certificate from the Company has been delivered to IBM confirming that the conditions set forth in clauses (a) and (b) above have been satisfied.

Multiple Closing Arrangements

The Initial Closing will take place on the first day that is both (i) at least five Business Days following the satisfaction or waiver of all the Conditions Precedent and (ii) the first Business Day on or following the last calendar day of the month in which such Conditions Precedent are satisfied or waived (or at such other time as the Company and IBM may mutually agree). In the event that the Initial Closing does not occur on or before the first anniversary of the signing of the Asset Purchase Agreement, either party may terminate the Asset Purchase Agreement.

With respect to the Remaining Assets which have not been transferred to the Company at the Initial Closing because the required authorisations, consents or approvals have not been obtained from the relevant government authorities, subject to applicable law, IBM shall run that part of the Business and administer the Remaining Assets at the direction of and for the sole benefit of the Company until such time as the required authorisations, consents or approvals have been obtained from the relevant government authorities. From the Initial Closing to the applicable Closing, IBM and the Company agree to make appropriate adjustments or arrangements to transfer from IBM any net profits or net losses attributable to such Remaining Assets to be taken up by the Company, which adjustment shall be undertaken using retrospective profit and loss data. Nothing in such adjustment process shall entitle IBM to directly or indirectly influence determination of its sales pricing for product distribution in the countries where such Remaining Assets are located.

The Company and IBM will effect the transfer of the Remaining Assets from time to time at one or more Subsequent Closings as agreed between them provided that:

(a) no statue, rule, regulation, order, decree or injunction that would prohibit or render unlawful the consummation of the transfer of the Remaining Assets shall be in effect and there is no proceeding brought by any governmental authority that is reasonably likely to prohibit or render unlawful the consummation of the applicable Closing;

(b) all material consents and approvals of the relevant government authorities necessary for such subsequent Closing have been obtained; and

(c) all permits material to the Business and that are required in connection with the operation of the Business by the business unit to which such applicable Closing relates have been obtained.

The Asset Purchase Agreement further provides that if the arrangements described above are prohibited by law or impracticable, the parties will agree a good faith allocation of the consideration to the assets transferred at the Initial Closing and the remaining consideration will be payable when the Remaining Assets in relation to a particular business unit are transferred. The Company's tax advisers have confirmed that the details of how the relevant assets will be transferred at Subsequent Closings have not yet been finalised by the Company and IBM's tax teams and the amount, currency and settlement method used would likely be influenced by future discussions on that issue, and such discussions will be completed prior to the applicable Closing. A public announcement will be made by the Company in the event that the relevant amount, currency and settlement method have a material impact on the consideration to be paid by the Company to IBM or the financial position of the Enlarged Group.

Undertakings

Non-competition

From the Initial Closing until the fifth anniversary of the Initial Closing:

IBM agrees and undertakes with the Company, subject to certain limitations and exceptions, that it will not, and will cause its existing and future subsidiaries not to, directly or indirectly anywhere in the world engage in: (A) the manufacture of Personal Computers; (B) sale of Personal Computers;

or (C) the licence, sub-licence or other grant to any third party of the right to use the IBM logo on Personal Computers as a primary or shared product name; provided that on and after the third anniversary of the Closing, the term "Personal Computers" shall not include "thin clients".

Goodwill Deposit

Upon signing of the Asset Purchase Agreement, the Company paid IBM the Goodwill Deposit. The Goodwill Deposit accrues interest at the rate of 2.56% per annum from the date it is received by IBM. At the Initial Closing, the Goodwill Deposit, together with accrued interest thereon, will be credited towards the payment of the Cash Consideration.

IBM shall retain the Goodwill Deposit in the event that certain agreed PRC authorities take any affirmative action prohibiting the consummation of the transactions contemplated by the Asset Purchase Agreement or implement any laws that will render the transactions contemplated by the Asset Purchase Agreement unlawful. If the Initial Closing does not occur for any other reason, IBM shall refund the Goodwill Deposit, together with accrued interest, to the Company.

COMPANY AGREEMENT

Date

7 December 2004

Parties

The Company and IBM

Undertakings

IBM undertakes not to, without the prior written consent of the Board, transfer any of the Excess Shares for a period of six months following the date of the Initial Closing or transfer any of the Base Consideration Shares for a period of up to three years following the date of the Initial Closing, except to the extent permitted by the Company Agreement. IBM may transfer up to such percentage of the Base Consideration Shares equal to the greater of:

(a) the percentage determined by dividing the number of Shares disposed of by the Major Shareholder during the period between the EGM and up to the date of the relevant transfer by the total number of Shares held by the Major Shareholder on the date of the EGM; and

(b) the following applicable percentage or fraction of the Base Consideration Shares as at the relevant time:

Period	Percentage/ fraction
Until the first anniversary of the Initial Closing	0%
From the day after the first anniversary of the Initial Closing	One-third (1/3)
From the day after the second anniversary of the Initial Closing	Two-thirds (2/3)
After the third anniversary of the Initial Closing	100%

These transfer restrictions do not apply to a transfer by IBM of the Consideration Shares to any of its affiliates or a transfer of such number of the Consideration Shares necessary to enable IBM to qualify for the cost method of accounting under US GAAP with respect to its holding of the Consideration Shares. The Excess Shares represent the additional Shares that IBM has agreed to take up as part of the consideration for the Asset Acquisition. However, the Company may pay cash to IBM instead of issuing all of the Excess Shares at the Initial Closing.

IBM undertakes to the Company not to purchase any additional Shares that would result in the holdings of the Shares by the "public" for the purposes of the Listing Rules falling below 25% of the total outstanding Shares (or such other percentage as is required of the Company under the Listing Rules to maintain the minimum public float).

Until IBM has sold all of the Excess Shares, the Company may not issue any new shares except for the purpose of repaying the bridge loan arranged by Goldman Sachs Credit Partners L.P.. The Company agrees to use its reasonable best efforts to arrange for the sale of the Excess Shares to one or more third parties at a price per Excess Share not less than the higher of (i) the then prevailing market price per Share, and (ii) the issue price per share at which the Excess Shares were issued under the Asset Purchase Agreement (the "**Offer Price**"). Subject to any applicable laws and regulations, the Company may offer to repurchase (provided that any outstanding amount under the bridge loan arranged by Goldman Sachs Credit Partners L.P. has been repaid in full), or offer IBM the opportunity to sell to a third party, any of the Excess Shares at the Offer Price. If IBM does not accept such an offer, the Company may issue new shares to the extent that IBM has declined the offer at a price not higher than the Offer Price, and in that event, IBM will be deemed to have sold the equivalent number of Excess Shares equal to the number of new shares issued by the Company. When all Excess Shares are sold or deemed to be sold, the restriction on the Company to issue new shares cease to apply.

In order to enable IBM to maintain its percentage level of shareholding in the Company, subject to applicable laws and regulations, IBM has the right of first refusal in any subsequent new issue of shares by the Company. IBM will have the right (subject to certain exceptions) to subscribe for such number of additional Shares, upon the same terms and conditions as the Company issues Shares to a third party, so that following the issue, IBM's percentage shareholding in the Company will remain the same as its percentage shareholding in the Company immediately before such issue. If IBM elects to subscribe for additional shares, IBM will be subscribing for Shares and Non-voting Shares in the same proportion to its holdings of the Shares and Non-voting Shares immediately prior to the issue. Alternatively, in a new issue of shares by the Company, IBM may participate in such new issue by tagging-along and requiring the Company to sell a pro-rated number of the Consideration Shares to the same transferee at the same price and on the same terms as the Company issues any new Shares.

Until the later of the date that the Trademark License Agreement is terminated pursuant to its terms and the date that IBM ceases to hold 5% or more of the outstanding issued share capital of the Company, IBM may designate an observer to be present at all meetings of the Board and any committee of the Board. The observer will not be a Director and accordingly will have no right to vote and may not exercise any other rights of a Director at such meetings, and the reason for appointing an observer is to ensure co-ordination of the strategic relationship between IBM and the Company. IBM will not appoint any Director.

The Company Agreement provides that the board observer shall maintain all information obtained from the Board confidential and shall observe all internal guidelines of the Company applicable to the Directors and insider dealing rules including the Securities and Futures Ordinance and the

Model Code for Securities Transactions by Directors of Listed Issuers. The Board may withhold information from the board observer if there is a potential conflict of interests situation. In the event of a breach of confidentiality by the board observer, the Company may bring legal action against IBM including seeking a court order of specific performance to prevent the board observer from any unauthorised disclosure of confidential material. With the confidentiality protection afforded by the provisions of the Company Agreement, the Board believes that the participation of a board observer from IBM should be beneficial to the Company as the board observer would bring valuable expertise and management experience in the global information technology industry to the Company.

Rights and Restrictions attached to the Non-voting Shares

Ranking

The Non-voting Shares shall rank *pari passu* in all respects with the Shares, except for voting rights.

Voting Rights

The Non-voting Shares will not have any voting rights at all general meetings of the Company.

Transferability

The Non-voting Shares are subject to the lock-up provisions set out in the Company Agreement and upon the expiry of such lock-ups, the Non-voting Shares are transferable. Save as otherwise disclosed, there are no restrictions on the transfer of the Non-voting Shares.

Subject to the relevant lock-up restrictions, if IBM intends to transfer its Non-voting Shares other than to its affiliates, it shall be a condition for such transfer that the transferee will convert the Non-voting Shares into Shares immediately following the transfer.

Conversion

The Non-voting Shares are convertible, by the holder thereof giving written notice to the Company, into Shares on a one for one basis, subject to any adjustments as a result of any consolidation or sub-division of the Shares. There is not a defined period during which the Non-voting Shares must be converted.

No conversion of the Non-voting Shares shall be permitted if following such conversion the holder of the Non-voting Shares would become a substantial shareholder (as defined in the Listing Rules) of the Company immediately following such conversion.

IBM may not convert any Non-voting Shares if such conversion would reduce the holdings of Shares of persons who count as members of the public for the purposes of the Listing Rules falling below 25% of the total outstanding Shares (or such other percentage as is required of the Company under the Listing Rules to maintain the minimum public float).

Listing

The Non-voting Shares will not be listed.

Others

With respect to any bonus, capitalisation, rights or similar issues of additional securities of the Company which all the shareholders, including holders of Shares and Non-voting Shares, are entitled to participate in or benefit from (by virtue of their being Shareholders in the Company) in proportion to their shareholding, whether for any consideration or for no consideration payable by such Shareholders, any additional securities to be issued to the holder of Non-voting Shares under such issues shall be Non-voting Shares.

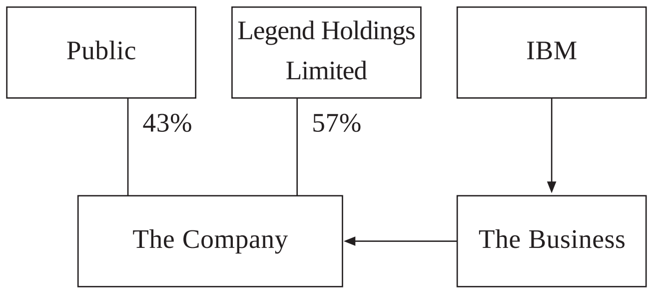
Term

Save as otherwise provided in the Company Agreement, the Company Agreement terminates upon all the Consideration Shares being free from the lock up restrictions under the Company Agreement or such time as IBM and its affiliates hold less than 3% of the outstanding issued share capital of the Company, whichever is the later.

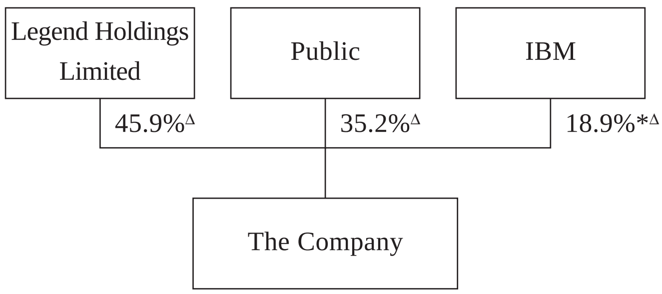
CORPORATE STRUCTURE BEFORE AND AFTER INITIAL CLOSING

The corporate structures of the Company immediately before and after the Initial Closing are as follows:

Immediately before Initial Closing



Immediately after Initial Closing



Δ represents percentage of total issued capital only

* out of this 18.9%, 8.9% represents Shares with voting rights and 10.0% represents Non-voting Shares

The shareholding position of the Company immediately after the Initial Closing will be as follows:

Shareholder	% of Shares held	% of Non-voting Shares held	% of total issued capital held
Legend Holdings Limited	51.0%	0%	45.9%
Public	39.1%	0%	35.2%
IBM	9.9%	100%	18.9%
Total	100%	100%	100%

Despite the fact that IBM will hold only 9.8% of the Shares upon the Initial Closing, the Stock Exchange has deemed IBM as a connected person under the Listing Rules.

ANCILLARY AGREEMENTS

Pursuant to the Asset Purchase Agreement, on 7 December 2004, the Company entered into the following ancillary agreements and arrangements with IBM, pursuant to which IBM will provide a broad range of services to the Lenovo Group and certain transitional matters will be dealt with. The Ancillary Agreements will take effect upon the Initial Closing and will essentially be conditional upon the Initial Closing taking place.

Transition Services Agreement

Date

7 December 2004

Parties

The Company and IBM

Services to be provided

IBM and its affiliates will provide the Enlarged Group with the Transition Services which will include:

(a) certain finance and account function support services;

(b) certain marketing and sales support services;

(c) general procurement services, such as engineering and office products, building and facilities and information technology;

(d) development services (i.e. translation services for product-related information and publications, product certification services, research and development support services and general engineering services);

(e) services to assist in facilitating certain procurement and sales activities for electronic components and commodities, which are supported from Singapore;

(f) human resource services; and

(g) real estate facilities services.

Each of the Transition Services is documented in a separate TSA Service Description Attachment.

Term and termination

The provision of Transition Services will commence on the Initial Closing and range in duration from 12 to 36 months. The Transition Services will terminate upon the earlier to occur of: (i) the date on which all of the Transition Services are terminated; or (ii) the last date indicated for the termination of a Transition Service in the TSA Service Description Attachments. The Company may cancel any Transition Service or reduce the amount of any separately priced portion of a Transition Service at any time upon 60 days' prior written notice.

Charges for Transition Services

The amount of charges which the Enlarged Group expects to pay to IBM under the Transition Services Agreement for the first 12 months after the Initial Closing is approximately US$250 million. This amount has been determined by reference to the historical costs paid by the Business as part of its budgeted expense.

Strategic Financing and Asset Disposition Services Agreement

Date

7 December 2004

Parties

The Company and IBM

Services to be provided

IBM will provide the Company with Customer Financing Services, Distribution Channel Financing Services and Excess Surplus Disposition Services.

Term

The term of the Strategic Financing and Asset Disposition Services Agreement is for a period of five years from the effective date of the agreement.

Fees and commissions

Customer Financing Services

For the first calendar year of the term of the Strategic Financing and Asset Disposition Services Agreement, the Company will receive from IBM a commission based on the total invoice price of the customer financing and lease transactions that are facilitated by the Company.

The commission payable to the Company by IBM will be adjusted either upwards or downwards depending on total invoice prices of the transaction which take place during the relevant calendar year, with reference to a certain pre-agreed target volume.

IBM has agreed that the commission arrangements and other terms and conditions in the agreement are to be on terms no less favourable than that which IBM offered internally to its business units and externally to its other manufacturers of personal computing products prior to the date of the Asset Purchase Agreement.

Distribution Channel Financing Services

Whenever IBM finances a reseller purchase of inventory from the Company, the Company will be required to pay IBM a fee, being a percentage of the total invoice price, which is determined with reference to, inter alia, interest rates, credit risk of the reseller and administration costs. Either party may initiate a benchmarking exercise to determine the competitiveness of the fees paid to IBM by the Company.

Excess Surplus Distribution Services

The consideration payable by IBM to the Company in connection with IBM's purchase of any used personal computing products returned to resellers will be set forth in a price list submitted by IBM to the Company in response to a request for quotation from the Company.

IGS Services Agreement

Date

7 December 2004

Parties

The Company and IBM

Maintenance and Warranty Services

To the extent base warranty services are made available by the Company for its products, the Company has agreed to engage IBM as its preferred service provider to perform such services. In addition, the Company has agreed to engage IBM as its preferred service provider to perform the Company's post-warranty and warranty upgrade services for commercial customers outside of the PRC.

Promptly following the Initial Closing, IBM and the Company will negotiate in good faith an agreement pursuant to which the Company will provide maintenance and warranty services in the PRC on IBM products sold prior to the Initial Closing.

Consideration

The service fees for the first year will be the "best" fees, by each geography, that IBM offers for substantially similar services in the same geography (including products and delivery terms) in respect to any service provider customer contracts with volumes, in each such geography, that are the top 3 closest in volume. Service fees are subject to adjustment pursuant to certain benchmarking procedures specified in the agreement.

In addition, the Company and IBM have agreed certain mutual revenue sharing arrangements generated from the sale of the Company post-warranty and warranty upgrade services as well as IBM's technology deployment services.

Term

The term of the agreement is five years from the Initial Closing, and will automatically extend for additional one year periods each unless either party gives written notice of termination at least six months prior to the expiration of the then-scheduled expiration of the term.

Marketing Support Agreement

Date

7 December 2004

Parties

The Company and IBM

Services to be provided

IBM will provide client team support to the Company to assist the Company in its post-Initial Closing sales coverage of the Company's customers by providing various MSA Services, each of which is documented in a MSA Service Description Attachment. The MSA Services include, inter alia, marketing support services, information technology services, fixed assets accounting and property control administration services (for EMEA and Asia Pacific), customer fulfillment services, sales center services, ledger support services (for EMEA and Asia Pacific), incentives and commissions services, treasury services (EMEA and Asia Pacific) and transitional tax services (in EMEA and Asia Pacific).

Term and termination

The term of the Marketing Support Agreement is for a period of five years from the Initial Closing.

The provision of MSA Services will commence on the Initial Closing for each business unit covered by the Initial Closing and will terminate one year from the Initial Closing, except that customer fulfilment, fixed assets accounting and property control administration, ledger support and services will terminate two years from the Initial Closing, information technology services will terminate three years from the Initial Closing and the marketing support services will terminate five years from the Initial Closing. Starting in 2007, the Company may in the future elect to reduce the number of countries in which the Company requires MSA Services from IBM.

Fees payable

The Company will pay IBM a fee of no more than 2.53% of the specified reported revenue of the Business for MSA Services. Other than with respect to calendar year 2006, the targeted revenues for each calendar year are expected to be agreed to by the parties in June of the preceding calendar year.

Internal Use Purchase Agreement

Date

7 December 2004

Parties

The Company and IBM

Sale and purchase of Personal Computers

IBM has agreed to purchase from the Company not less than 95% of the Personal Computers IBM requires worldwide for its internal use (which includes Personal Computers for use in connection with strategic outsourcing where IBM keeps title to the Personal Computers), each calendar year during the term of the Internal Use Purchase agreement, subject to certain reduction and other limitations, IBM also has the right to buy from the Company Personal Computers for resale in certain cases.

Consideration and liquidated damages

The consideration that the Company will receive for Personal Computers purchased for internal use (including IBM's strategic outsourcing business noted above) will be the cost of the products plus an agreed upon profit margin. In the event that IBM fails to fulfil its obligations to purchase internal use Personal Computers under the Internal Use Purchase Agreement, it will be required to pay the Company liquidated damages. There are no obligations to pay liquidated damages in connection with Personal Computers for resale.

The price that the Company will receive for Personal Computers purchased for use in certain IBM systems integration and outsourcing services, as an embedded Product in anther system, to fulfil obligations under existing government contracts or in other situations that the parties mutually agree will be the Company's price to its other resellers purchasing similar quantities. The price that the Company will receive for Personal Computers purchased for resale to IBM's employees (or for IBM's employees in the case of direct sales) as a part of an IBM benefit plan will be the price the Company charges its own employees pursuant to the Company's employee benefit plan. The price that the Company will receive for Personal Computers purchased by IBM for warranty and maintenance replacement service will be the base manufacturing costs of such Personal Computers plus shipping costs.

Term

The term of the Internal Use Purchase Agreement is five years from the Initial Closing.

Master Distribution Agreement

Date

7 December 2004

Parties

The Company and IBM

Distribution of Products to end users

IBM will be permitted to acquire Personal Computers and certain services from the Company and resell those products and services to customers who: (i) have previously entered into non-assignable purchase agreements with IBM; (ii) insist on purchasing products and services directly from IBM despite the fact that IBM has used commercially reasonable efforts to convince them to purchase products directly from the Company; or (iii) are in countries that do not close upon the Initial Closing. IBM may also market the Company's Products through one or more subsidiaries.

Term

The term of the agreement is two years from the Initial Closing or, for individual agreements that has a specific commitment to sell a specified amount of products and services over a period of time, for the duration of that agreement, and may be extended if both parties agree in writing.

Consideration

Where the non-assignable agreement sets forth a specified amount of Products over a fixed period of time, the Company will provide IBM with such products or services at the price and on the terms set forth in such agreement. Where the non-assignable agreement requires IBM to accept customer orders, the Company shall provide products pursuant to an agreed pricing methodology. If the parties have mutually agreed to allow sales under a non-assignable agreement, IBM will work with the customer to set the price and other terms of such sales, but such sales will be subject to the Company's agreement to provide products and services at such price. In instances of countries that do not close upon the Initial Closing, IBM and the Company will work together to continue to provide products at the prices provided to customers by IBM in such countries.

No separate consideration is payable by the Company to IBM.

Intellectual Property Agreements

Trademark Assignment Agreement

Date

7 December 2004

Parties

IBM as the assignor and a subsidiary of IBM as the assignee

Assignment of marks

IBM has agreed to assign to a subsidiary of IBM all of its right, title and interest in and to certain marks and domain names that are exclusively related to the Business, as specified in the Trademark Assignment Agreement together with the goodwill of the business symbolized thereby. The Company will then acquire such subsidiary.

Consideration

No payment is payable by the Company under the Trademark Assignment Agreement.

Effective date of assignment

The assignment under the Trademark Assignment Agreement will become effective upon the Initial Closing.

Trademark License Agreement

Date

7 December 2004

Parties

IBM as the licensor, a subsidiary of IBM as the licensee and the Company as guarantor of the obligations and responsibilities of the licensee

Grant of license

IBM will grant to a subsidiary of IBM, on a fully paid-up basis, a non-transferable license to use certain of IBM's registered and unregistered trademarks, including but not limited to "IBM" and the IBM logo, for the identification of certain products in marketing, and subject to certain restrictions, advertising (in the case of the "IBM" mark) in connection with the Business in the United States, its territories and possessions, and every other country where prior to the Initial Closing IBM had used or had the right to use these marks. The Company will then acquire such subsidiary.

The grant of license under the Trademark License Agreement is subject to certain pre-existing trademark license contracts or arrangements of IBM.

Right to use

For 18 months after the Initial Closing, the Business will be permitted to use the IBM trademark and logo on all Products existing as of the Initial Closing, and on other successor products that have substantially the same functions and attributes. During this period, the Business will also be permitted to use the IBM trademark and logo in marketing and advertising materials, but only as they appear on the Products or successors to the Products. The Business will not be required to add any qualifying wording in connection with its use of the mark during this period.

For 40 months after the Initial Closing, the Business will be permitted to use the IBM trademark and logo together with a trademark of the licensee or guarantor as it selects, on all Products existing as of the Initial Closing, and on successor products that have substantially the same functions and attributes.

Until the expiry of five years after the Initial Closing, the Business will be permitted to use the IBM trademark and logo together with a trademark of the licensee or guarantor as it selects, on all Products existing as of the Initial Closing, and on other products that have substantially the same functions and attributes, provided that on those products, after the first 40 months following the Initial Closing, the Company must only use the IBM logo and trademark on a product together with an endorsement text, which must be approved by IBM.

The Business will be permitted to use the common mark during the term of the license, and may seek registration on its own for newly created marks embodying the common term.

Term

The Trademark License Agreement is for a term of five years from the Initial Closing.

Patent Assignment Agreement

Date

7 December 2004

Parties

IBM as the assignor and a subsidiary of IBM as the assignee

Effective date of assignment

The assignment under the Patent Assignment Agreement is effective on or before the Initial Closing.

Assignment of patents

Subject to all rights granted to others prior to the Initial Closing and the Asset Purchase Agreement, IBM assigns and transfers to a subsidiary of IBM all of its right, title and interest in and to all patent ownership interest IBM may have anywhere throughout the world in and to those patents that are exclusively related to the Business, as identified in the Patent Assignment Agreement. The Company will then acquire such subsidiary.

Consideration

No payment is payable by the Company under the Patent Assignment Agreement.

Patent Cross License Agreement

Date

7 December 2004

Parties

IBM and a subsidiary of IBM and the Company

Effective date of licence

The licence under the Patent Cross License Agreement will become effective as of the Initial Closing and will continue until the expiration of the last to expire of the licensed patents.

License of patents

IBM grants to a subsidiary of IBM and the Company, and the Company and a subsidiary of IBM each grants to IBM a license, in relation to its respective licensed patents, as follows:

(i) to make (including the right to use any apparatus and practice any method in making), use, import, offer for sale, lease, license, sell and/or otherwise transfer the respective party's licensed products;

(ii) to have the respective party's licensed products made by another entity; and

(iii) to use any apparatus and practice any method in connection with the performance of business processes for itself or third parties.

Consideration

No payment is payable by the Company or the subsidiary of IBM under the Patent Cross License Agreement.

Intellectual Property Assignment and License Agreement

Date

7 December 2004

Parties

IBM and the Company

Assignment of programs and documentation exclusive to the Business

IBM has agreed to assign to the Company all of its right, title and interest in, to and under all intellectual property rights in and to certain software programs and tangible embodiments of information and know-how, in each case that are exclusively related to the Business.

The Company has agreed to grant back to IBM a non-exclusive, worldwide, perpetual, royalty-free license in and to the software programs and tangible embodiments of information and know-how assigned to it by IBM.

License of programs and documentation used in connection with the Business

IBM has agreed to grant to the Company a non-exclusive, worldwide, perpetual, royalty-free license in and to certain software programs and tangible embodiments of information and know-how, in each case that are used in connection with the Business and in each case only for the purpose of operating the Business.

Consideration

No payment is payable by the Company under the Intellectual Property Assignment and Licence Agreement.

Effective date of assignment

The assignment is effective on or before the Initial Closing. The term of each granted license under this agreement is for the life of the respective intellectual property right.

Employee Matters Agreement

Parties

The Company and IBM

Transfer of employees

Employees of the Business will be transferred to the Company, either as may be required by the laws of the applicable jurisdictions or by offers of employment made by the Company to such employees, on the dates of the relevant Closings. In general, the Company will honor those terms and conditions of employment that are required by law, or, if not required by law, provide salary, wages, and terms and conditions at levels at least as favorable as the terms provided by IBM, and provide pension and other employee benefit plans that are substantially comparable in the aggregate to plans that were provided to such employees by IBM.

Employer liability and retention

Upon the relevant Closings, the Company will be responsible for all liabilities, including but not limited to those regarding severance claims, relating to the relevant employees' employment with the Company. IBM will retain liability for severance payments arising automatically from any termination or refusal to accept an offer of employment made by the Company in accordance with the terms of the Employee Matters Agreement.

The Company will also adopt a long-term employee retention plan for the benefit of the transferred employees, no later than the first anniversary of the Initial Closing.

Non-solicitation

Generally, the Company is obliged for two years after the Initial Closing, not to solicit or hire any current or former employee of IBM who had been an employee of IBM in the one-year period prior to such time, subject to an exception for solicitation in responses to a general public advertisement. The same non-solicitation and non-hire restriction applies to IBM on a reciprocal basis. Notwithstanding the foregoing, the Company and IBM will be permitted to solicit or hire such employees and former employees so long as the party that desires to engage in such solicitation or has obtained the written consent of the other party.

Real estate arrangements

Pursuant to the Asset Purchase Agreement, the Company and IBM agreed that the real estate assets of the Business would be conveyed to the Company, with effect from the applicable Closing, pursuant to the following arrangements:

Acquisition of leasehold interests held by IBM

At the applicable Closing for the subject country, IBM will assign to the Company its entire leasehold interest in various floors of an office building located in Brisbane, Australia and a manufacturing facility in Pondicherry, India. The Company will assume IBM's payment and performance obligations under the various leases for these sites for the balance of the term of these leases. In connection with the Company's purchase of the Chinese Business Unit, the Company will also acquire certain leasehold interests in certain factory, warehouse, office and research facilities located in Shenzhen, Futian, Shanghai and Beijing, the PRC.

Sublease of portions of properties currently leased and to be retained by IBM

At the applicable Closing for the subject country, IBM will sublet portions of various properties in Toronto and Montreal (Canada), Fujisawa and Yamato (Japan), Sydney and Cumberland Forest (Australia) and Singapore to the Company. The portion of each site to be sublet will be that portion utilized by the Business, and the rental that will be payable will be the Company's pro rata share of IBM's cost for such space pursuant to its lease, based on a percentage of the total square footage occupied by the Company. The sublease term for each of these sites will commence at the applicable Closing for the subject country and be coterminous with IBM's prime lease term, with the exception of the Toronto site which will commence after the space has been reconstructed or otherwise reconfigured as necessary to house the Business, and will run up to a four and a half year term.

Occupancy of certain additional properties for a transitional period

The Company will occupy space at over 200 IBM locations worldwide for a one year term, commencing as of the date of the applicable Closing for the subject country, pursuant to a licence agreement for each jurisdiction. The licence with respect to each of these locations will be terminable by the Company upon 30 days' notice.

Option to elect either short term licence or longer term lease with respect to certain key sites

Tokyo, Japan

With respect to the IBM building located in Tokyo, the Company has up to 60 days from the signing of the Asset Purchase Agreement to decide whether it will (a) occupy the in-scope portion of the site pursuant to a licence for a one year term from the date of the Initial Closing, or (b) lease the in-scope portion of the building from IBM site for a five year term at the prevailing market rate.

Option to elect either short term licence or assumption of lease for balance of lease term

With respect to the complex leased by IBM in Raleigh/Durham, North Carolina, the Company has up to 60 days from the signing of the Asset Purchase Agreement to decide whether it will (a) occupy the in-scope portion of the site pursuant to a licence for a one year term from the date of the Initial Closing, or (b) acquire IBM's leasehold interest in the Research Development Park Buildings and the Pinnacle Buildings (and assume the obligations of IBM under the subject leases) after occupying various portions of the site and leased locations pursuant to a licence until such time as the space has been reconfigured and built-out as necessary to consolidate the Company's employees and the Business.

INFORMATION ON THE LENOVO GROUP

The principal activity of the Company is investment holding. The principal activities of the Lenovo Group are the provision of advanced information technology products and services in the PRC.

The Company was listed on the Stock Exchange in 1994 and is a constituent stock of the Hang Seng Index. Its American Depository Receipts are also being traded in the over the counter market in the USA.

INFORMATION ON IBM

IBM is the largest supplier of "hardware", "software" and information technology services, and pioneered the development and implementation of "e-business" solutions. Over the past decade, IBM has been a leader in the information technology market's shift of focus from selling hardware, software, and services, to the creation of solutions to clients' business problems. The common stock of IBM is listed on the New York, Chicago and Pacific stock exchanges and on other exchanges in the USA and around the world.

INFORMATION ON THE BUSINESS

Overview

The Business develops, manufactures and markets Personal Computer products including a wide variety of notebook and desktop computers and related peripherals. The Business' target customers are business customers.

The Business is headquartered in the city of Raleigh, in the state of North Carolina of USA. It has a global presence, is active in over 160 countries and employs more than 9,500 employees worldwide.

In 2003, based on the US GAAP financial information of the Business, the Business generated revenues of US$9,566 million, representing an increase of 3.6% over 2002, with gross profit of US$961 million. As at 31 December 2003, the Business had total assets of US$1,458 million and total liabilities of US$2,449 million.

Products

The Business' mobile notebook computer series, termed "ThinkPad", includes a range of products designed to meet users' needs such as portability, speed, networking and battery life. The ThinkPad laptops feature rugged designs and proprietary software, such as for immediate data recovery, intended to meet the needs of the business user.

The Business' "ThinkCentre" desktop computers feature designs for durability and serviceability supporting new technologies at various price points. The Business also offers computer accessories such as monitors, keyboards, mice and other components.

History and development of the Business

IBM introduced its first Personal Computer in 1981, followed by the introduction of its first portable computer (weighing 30 pounds) in 1984. The first “laptop”, weighing in at 12 pounds, was introduced in 1986. In 1992, IBM branded a new line of notebook computers under the “ThinkPad” logo. In 2002, IBM outsourced a significant portion of the Business’ desktop Personal Computer manufacturing to Sanmina SCI. To date, IBM’s ThinkPad notebook series has been the best-selling notebook brand, having sold over 20 million units since its inception.

Sales and marketing

The Business operates through three primary sales/distribution channels including: direct/large enterprise customers; distributors and resellers, and internet/direct order channels. The Business’ sales force comprises more than 2,500 sales personnel in over 55 countries.

The Business’ business focus is on the commercial marketplace and it targets large enterprise, government and education and medium and small customer segments. The Business utilizes both a direct and indirect sales/distribution channel structure.

Manufacturing

The Business manufactures its notebooks through its Chinese Business Unit. In 1994, the Business entered into a joint venture with a local partner, which led to the construction of a state-of-the-art Personal Computer manufacturing facility in Shenzhen, the PRC, in 2000.

In January 2002, the Business sold certain of its North American and European desktop personal computer manufacturing operations to Sanmina SCI. Along with the sale, the Business entered into a three year outsourcing agreement with Sanmina SCI to manufacture personal computers for the Business.

Purchasing

The Business operates a centralised purchasing function responsible for the selection and management of suppliers, as well as procurement engineering and materials management activities to support the manufacture and fulfillment of Personal Computer products. The purchasing organization has major centers in Raleigh, North Carolina, USA, Shenzhen and Shanghai, PRC and Japan, and additional resources co-located with major sources of supply.

The role of the purchasing function is to acquire goods and services efficiently and effectively while providing flexibility in response to market changes. The focus is on the development of long term relationships with key supplier partners to ensure early access to new technologies, continuity of materials supply and competitive prices. As a result, the Business has well established relationships with industry suppliers of Personal Computer components, as well as major ODM and EMS companies.

Inventory management

The Business operates on the general principle of minimising inventory whenever possible. In the case of outsourced manufacturing, the Business only takes ownership of a product once it leaves a supplier’s back dock.

Some customers and fulfilment channels require finished goods to be built in advance of an order being received. Typically these customers or channels require very fast turnaround of an order, often requiring that the product ships the same day. The inventory generated in this way is managed very closely and adjusted on a daily basis in line with updated forecasts. Inventory is managed by the geography-based operations teams.

Competition

The Personal Computer industry is highly competitive. The Business currently faces competition primarily from Dell and HP, as well as Fujitsu, Toshiba, Sony and NEC, among others. This competition has resulted in strong pricing pressure across all products, and desktops in particular.

REASONS AND BENEFITS OF THE ASSET ACQUISITION AND ANCILLARY AGREEMENTS

Reasons and benefits for the Asset Acquisition

A unique opportunity

The Company has focused the business on the Personal Computer sector and has achieved undisputed leadership in the PRC Personal Computer market with a 27% market share. The Company has decided that it is critical to expand globally to further enhance its competitiveness and pursue future growth. The Business is one of the leading Personal Computer businesses in the world in terms of its scale, global reach, innovation capabilities and brand strength. The combination with the Business represents a unique opportunity for the Company to fulfill its globalisation strategy by further strengthening its focus and achieving its global leadership in Personal Computers and related products, and forging a long-term strategic relationship with the world's largest information technology company, which is one of the global leaders in business and technology services, information technology solution consulting services, information technology research, and information technology financing services. The combination of the Company and the Business will result in the creation of a global personal computer powerhouse representing approximately 8% of the worldwide personal computer market, with global sales, marketing, distribution and customer support infrastructure. The Company expects that this transaction would significantly strengthen its capability to compete with Dell and HP in corporate and consumer markets in the PRC and globally.

Global reach and brand awareness

The Asset Acquisition will allow the Company to quickly transform from a business conducted exclusively in the PRC into a worldwide operation. Following the Asset Acquisition, the company will leverage the Business' existing infrastructure to quickly establish direct presence in approximately 30 countries with comprehensive sales networks covering 160 countries to reach global enterprise customers. This global presence and coverage will also help the Company sell the Company's consumer products in global markets outside the PRC. As a result, the Company's sales generated outside the PRC is expected to represent approximately 72% of the revenue base of the Enlarged Group, compared to less than 2% for the year ended 31 March 2004 on a standalone basis. Pursuant to the terms of a trademark licensing arrangement between the Company and IBM, the Company intends to leverage the global recognition of IBM's brand, one of the most widely recognised in the world, to bring rapid global awareness of its own brand, eventually establishing "Lenovo" as the single worldwide brand in the long term. The Company will be allowed to market products of the Business with the IBM logo, including with the Lenovo logo co-branded and IBM endorsement on the Products over transition periods. The Company will also acquire the right to use "Think", and its variations within a family of products and features such as "ThinkPad", "ThinkCentre", "ThinkVision" and "ThinkVantage", that have been used in the Business. The co-branding opportunity with IBM should allow the Company to more easily establish customer relationships and credibility in the enterprise market niche, when combined with the Business' historical practice of treating such accounts as clients, as well as to launch the Company's brand beyond its existing customer base to a global consumer base.

Enhanced product portfolio

Historically, the Company has enjoyed strong market leadership in the PRC for both desktop and notebook products in both commercial and consumer markets, with particular strengths in desktop and consumer products. Over the years, the Company has developed strong product and application innovation capabilities, which have been a key contributing factor to its leadership position in the PRC. The Business has evolved in the past 10 years to focus on the notebook products for the global enterprise market. Consequently, complementary product lines and core competencies in differentiated markets are expected to ensure rapid integration of the Company's desktop and consumer product lines capabilities, with IBM's technology, notebook and commercial product lines and capabilities. This combination will create a comprehensive and innovative product portfolio and significantly enhance the Company's competitiveness against its competitors in the PRC and globally for all customer segments. Little overlap in respective target market segments also allows minimal potential "cannibalisation" of sales following the Asset Acquisition.

Cost containment

The Asset Acquisition also presents a unique synergistic opportunity for cost savings, which will be maximised by leveraging the Business' integrated supply chain management capability. The main source of cost savings is procurement synergies arising from improvement in economies of scale in procurement by combining procurement volumes of the Business and the Company. The benefit of increased scale will be further amplified by sharing best practice and prices, consolidating vender lists and increasing common parts as a result of product line consolidation between the Company and the Business.

Additional cost saving opportunities will arise from leveraging the Company's low cost infrastructure in the PRC to reduce the overall cost of the global operation of the Business. The opportunities include consolidating relevant back-office operations of the Business to the PRC, and leveraging the Company's low cost manufacturing capabilities in the PRC.

Technology leadership

The Company would acquire a part of the world's largest information technology research organisation including a highly skilled and experienced development team, advanced facilities and a portfolio of technology intellectual property and know-how. In particular, the Business' notebook research and development capability and know-how will complement the Company's current research and development strength in desktops to allow the Company to achieve technology leadership in both notebook and desktop products. The Business' strong overall product system design, component specifications and quality control capability will also further strengthen the Company's product development effectiveness across product lines. In addition to product development, the Business' unique "ThinkVantage Technologies" will allow the Company to increase product reliability and flexibility and reduce business customers' total cost of ownership. In acquiring the Business, the Company would also acquire a portion of the

Business' extensive patent portfolio, thereby enhancing the Company's intellectual property portfolio. The Company would also acquire leading research and development facilities in USA and the PRC, and one of the world's largest dedicated notebook computer research and development facilities in Japan.

Leading internationally experienced management

Because the Business sells products in almost 160 countries, the management of the Business is very experienced in development and execution of international strategy and managing large scale global operations. The Company recognises the importance of continuity of leadership in the Business, and intends to retain an industry leading management team with significant international experience in commercial markets. As an integral part of the Asset Acquisition, the Company and IBM will make necessary arrangements and offers including compensation and benefits to ensure the retention of the management of the Business as part of the management team of the Enlarged Group. The combined experience of the retained management team of the Business and the Company's existing PRC management team will create a management team that has strong capabilities and extensive experience in both managing a large scale global business and winning in fast growing emerging markets. With the strong commitment from the Company and IBM in the success of the Enlarged Group and long term strategic partnership, the Company therefore believes that transfer of this experienced team of managers with international experience is both key to the success of the Asset Acquisition and achievable.

Reasons and benefits of the major Ancillary Agreements

The reasons and benefits of the major Ancillary Agreements are set out below:

IGS Services Agreement

The Company believes that the IGS Services Agreement will provide several major benefits to the Company and its customers:

(1) Maintaining a relationship with IGS will minimise customer loss by maintaining the industry best award-winning warranty services to which IBM's customers are accustomed.

(2) IGS is widely regarded as one of the leading providers in after-sales services, and it is one of the few service providers that have the global coverage which is required by the Company's top enterprise customers. A strategic partnership will be a competitive advantage for the Company and help to establish and maintain the premium image of the Company's product offerings and increase credibility with enterprise customers.

(3) A strategic relationship with IGS will increase Personal Computer sales through IGS strategic outsourcing and system integration businesses, where IBM customers outsource their information technology services to IGS or buy Personal Computer products through system integration transactions and IGS recommends that such customers purchase their related information technology hardware from the Company.

(4) The IGS Services Agreement will also allow the Company to share the profit generated from extended warranty services sold by IGS and its affiliates.

Please refer to the section entitled "Ancillary Agreements" for a summary of the IGS Services Agreement.

Marketing Support Agreement

Under the Marketing Support Agreement, the Company will be able to leverage IBM's well established enterprise sales force and IBM established global sales infrastructure, i.e. client representative teams, for a period of five years. The key benefits are identified below:

(1) Ensure smooth transition and minimise customer loss — IBM's client sales representatives are responsible for overall client relationships, and will play a critical role in ensuring clear communication, a smooth transition and minimising revenue loss immediately after the Initial Closing.

(2) Protect business momentum — The Business' and IBM's client sales representatives have an established and proven sales model, pursuant to which IBM's sales representatives are responsible for client relationships and overall satisfaction, and the Business' sale representatives jointly visit and develop enterprise customers. Historically, more than one-third of the Business' sales opportunities have been identified by IBM's client representatives. Maintaining the sales model is important to protect business momentum going forward.

(3) Build customer relationships — The arrangement allows the Company to gradually build its own customer relationships with large enterprise customers through joint customer visits with IBM's client representatives and proactive facilitation of transferring customer relationships from IBM client representatives to the Company's sales team.

(4) Allow the Company to continue to leverage IBM's established global network and established infrastructure, including such functions as sales fulfillment, information technology and treasury.

(5) Minimise incremental cost to the Company. The agreed commission rate is based on historical sales related costs to the Business. This will minimise incremental cost to the Company in the future.

(6) Tiered commission structure to provide incentive and reflect future changes to the Company's sales model — The tiered commission structure is designed to incentivize IBM's sales team to meet and exceed sales targets. The total cost will change to reflect future business fluctuations, changes in sales coverage by IBM's sales team and the gradual migration to the Company's own sales team.

Please refer to the section entitled "Ancillary Agreements" for a summary of the Marketing Support Agreement.

Internal Use Purchase Agreement

Under this agreement the Company will be the preferred and nearly exclusive (95%) supplier for all Personal Computers purchased by IBM for its internal use or strategic outsourcing deals for a period of five years. In calendar year 2003, the amount of IBM's internal purchases made it the largest customer of the Business. Under the Internal Use Purchase Agreement, pricing of future sales to IBM will be based on commercial terms subject to most favored nation pricing, which allows the Company to earn a comparable margin as sales to other top enterprise customers.

Please refer to the section entitled "Ancillary Agreements" for a summary of the Internal Use Purchase Agreement.

Strategic Financing and Asset Disposition Services Agreement

The services IGF provides are crucial to the Company's day-to-day operations and beneficial to the Company's customer and business partners and will result in several benefits to the Company and its customers:

(1) Customer Financing Services gives the Company's customers in more than 40 countries the option to lease the Company's products, thus enhancing the Company's revenue potential.

(2) Distribution Channel Financing Services allow the Company to effectively manage channel credit and significantly reduce its working capital and total invested capital required.

(3) Excess Surplus Disposition Services allow the Company to manage the disposition of its used products in a global and orderly manner to avoid channel confusion and maximise residual value by leveraging IGF's extensive asset recovery/resell capability.

In view of the fact that IGF has existing relationships with IBM's customers and resellers, the Strategic Financing and Asset Disposition Services Agreement will help ensure a smooth transition and minimise business and customer disruption, employee training and business process redesign.

As one of the industry leaders with a global network and significant scale, IGF is most likely to offer the Company the best service given its unique presence in and understanding of the information technology hardware industry.

IGF has agreed to assume the credit, operational and residual value risks associated with its provision of services to the Company, which significantly reduces the Company's exposure to contingent liabilities.

Please refer to the section entitled "Ancillary Agreements" for a summary of the Strategic Financing and Asset Disposition Services Agreement.

Transition Services Agreement

The Transition Services Agreement and the services provided thereunder will provide a variety of benefits to the Company and its customers:

(1) Because the Business is fully integrated with IBM's other businesses it is not economically feasible for the Company to acquire from IBM all of the assets, functionality and services that the Business currently enjoys within IBM. Accordingly, IBM's provision of services to the Company on a transitional basis will allow the Company to be fully operational following the Initial Closing and therefore minimise business and customer disruption.

(2) The transitional period provides the Company with an opportunity to develop in-house capabilities or other plans to replace the services provided by IBM at the end of such period.

Please refer to the section entitled "Ancillary Agreements" for a summary of the Transition Services Agreement.

PROPOSED APPOINTMENT OF NEW CHIEF EXECUTIVE OFFICER

It is proposed that, with effect from the Initial Closing, Mr. Yang Yuanqing, currently the chief executive officer of the Company, will become the chairman of the Board while Mr. Stephen M.Ward, currently a senior vice-president of IBM, will be appointed as the new chief executive officer of the Company. Mr. Stephen M.Ward has been with IBM for 26 years and is currently in charge of IBM's "personal systems group" operations.

If required by the Listing Rules, a further public announcement will be made by the Company pursuant to Rule 13.51(2).

GENERAL

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, IBM and its holding company is a third party independent of the Company and any connected persons of the Company.

The Directors are of the view and confirm that the Major Shareholder does not have any interest in the transactions mentioned in this announcement which is different from the interest of the other Shareholders.

A circular containing, among other things, a notice convening the EGM to approve the Asset Acquisition and the Ancillary Agreements and further details of both the Asset Purchase Agreement and the Ancillary Agreements, will be dispatched to Shareholders as soon as practicable.

Subject to any applicable laws or regulations, the Listing Rules and the requirements and decisions of any regulatory authority, the Major Shareholder has, under the Voting Agreement, covenanted and agreed with IBM to vote (or cause to be voted) in favour of the Asset Purchase Agreement, the Company Agreement, the Ancillary Agreements and any other agreements relating to the transactions mentioned herein, and any transaction contemplated under such agreements at the EGM and any adjourned meeting. The Major Shareholder also covenanted and agreed with IBM not to take any action which would frustrate its ability to perform its obligations and undertakings under the Voting Agreement.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued to IBM.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 6 December 2004, pending the issue of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 9 December 2004.

As of the date of this announcement, the Executive Directors are Mr Liu Chuanzhi, Mr Yang Yuanqing, Ms Ma Xuezheng, Non-executive Director is Mr Zeng Maochao, Independent Non-executive Directors are Mr Wong Wai Ming, Professor Woo Chia-Wei, and Mr Ting Lee Sen.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as set out below:

"Acquired Assets"	the assets to be acquired by the Company pursuant to the Asset Purchase Agreement, details of which are set out in the sub-section entitled "Assets to be acquired and liabilities to be assumed by the Company" in the section entitled "Asset Purchase Agreement" in this announcement
"Acquired Intellectual Property"	all right, title and interest of IBM or its relevant subsidiaries in relation to intellectual property which is required to be transferred or assigned to the Company pursuant to the Intellectual Property Agreements
"affiliate"	with respect to any person, any other person who directly or indirectly or who through one or more intermediaries, controls or is controlled by or is under common control with the person specified
"Americas"	USA, Canada, South America and Latin America
"Ancillary Agreements"	the agreements and arrangements whose particulars are set out in the section entitled "Ancillary Agreements" in this announcement
"Asia Pacific"	Japan, the PRC, South Korea, Australia, New Zealand, Association of South East Asian Nations, Hong Kong and Taiwan
"Asset Acquisition"	the acquisition of the Acquired Assets by the Company from IBM pursuant to the Asset Purchase Agreement
"Asset Purchase Agreement"	the agreement dated 7 December 2004 entered into between the Company and IBM in relation to the Asset Acquisition
"Assumed Liabilities"	the liabilities to be assumed by the Company under the Asset Purchase Agreement, details of which are set out in the sub-section entitled "Assets to be acquired and liabilities to be assumed by the Company" under the section entitled "Asset Purchase Agreement" in this announcement
"Base Consideration Shares"	the Consideration Shares less the Excess Shares
"Board"	the board of Directors of the Company

"Business"	the business conducted by IBM and its subsidiaries of designing, developing, manufacturing, marketing and selling Products but does not include the businesses of: (a) providing maintenance and warranties services or any other Global Services with respect to the Products; (b) leasing, renting, financing or selling leased Products; (c) providing financing services and disposal services; (d) developing, manufacturing, marketing or selling Excluded Products; or (e) marketing or selling Products to the extent conducted by employees of IBM or any of its subsidiaries who will not be employed by the Company following the Initial Closing
"Business Day"	any day other than (a) a Saturday or Sunday, (b) any day on which banks located in New York City, USA or Hong Kong are authorized or required by law to be closed for the conduct of regular banking business and (c) when such term is used in relation to a country other than USA, any other day on which commercial banks in such country are authorized or required by law to be closed for the conduct of regular banking business
"Cash Consideration"	US$650 million payable by the Company to IBM as part of the consideration under the Asset Purchase Agreement, subject to certain adjustments set out in the sub-section entitled "Consideration" under the section entitled "Asset Purchase Agreement" in this announcement
"Chinese Business Unit"	Business related to the Products, operated under International Information Products (Shenzhen) Co., Ltd., a Sino-foreign equity joint venture currently owned as to 80% by IBM. The remaining 20% is held by China Great Wall Computer (Shenzhen) Co., Ltd.. China Great Wall Computer (Shenzhen) Co., Ltd., its parent company, Great Wall Technology Company Limited (a company listed on the Stock Exchange) and China Great Wall Computer Group Company, being the controlling shareholder thereof, are parties independent of the Company and its connected persons
"Closings"	the Initial Closing and the Subsequent Closings, and "Closing" means any one of them
"Company"	Lenovo Group Limited, a company incorporated on 5 October 1993 with limited liability under the laws of Hong Kong, the Shares of which are listed on the main board of the Stock Exchange
"Company Agreement"	the company agreement to be entered into between the Company and IBM, details of which are set out in the section entitled "Company Agreement" in this announcement
"Conditions Precedent"	the conditions precedent to the Closings under the Asset Purchase Agreement, details of which are set out in the sub-section entitled "Conditions Precedent for the Closings" under the section entitled "Asset Purchase Agreement" in this announcement

"connected person"	has the meaning set out in the Listing Rules
"Consideration Shares"	up to 821,234,569 new Shares and 921,636,459 new Non-voting Shares to be allotted and issued by the Company to IBM to satisfy part of the consideration for the Acquired Assets in accordance with the Asset Purchase Agreement
"controlling shareholder"	has the meaning set out in the Listing Rules
"Customer Financing Services"	the provision of leasing and financing for the Business' customers for personal computing products and associated equipment
"Digital China"	Digital China Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed and traded on the Main Board of the Stock Exchange (stock code 0861)
"Directors"	the directors of the Company
"Distribution Channel Financing Services"	the provision of financing to remarketers of personal computing products and associated equipment
"EMEA"	Europe, Middle East and Africa
"Employee Matters Agreement"	the employee matters agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Enlarged Group"	the Lenovo Group following the acquisition of the Acquired Assets and the assumption of the Assumed Liabilities
"Excess Shares"	up to 435,717,757 of the Consideration Shares, subject to the Company's ability to pay cash instead, pursuant to the Asset Purchase Agreement
"Excess Surplus Disposition Services"	the provision of excess surplus disposition services with respect to used personal computing products
"Excluded Assets"	assets of IBM other than the Acquired Assets, details of which are set out in the sub-section entitled "Assets to be acquired and liabilities to be assumed by the Company" under the section entitled "Asset Purchase Agreement" in this announcement
"Excluded Liabilities"	all liabilities related to the Business other than the Assumed Liabilities, details of which are set out in the sub-section entitled "Assets to be acquired and liabilities to be assumed by the Company" under the section entitled "Asset Purchase Agreement" in this announcement

"Excluded Products"	the products described in the Asset Purchase Agreement, including, among others, server solutions; workstations and similar standalone products that are designed and marketed for use in high-end professional applications; special purpose devices that are designed, marketed and used for one or more dedicated purposes, whether or not such devices incorporate all or part of a Product or Personal Computer; mobile devices in a more compact form-factor than laptop or notebook Personal Computers, which lack a display screen measuring at least 6 inches diagonally; components sold and marketed as such; and options and accessories
"EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving, among other things, the Asset Acquisition
"Global Services"	maintenance and warranty services and all other services, including, information technology outsourcing, system integration services, professional information technology services, integrated technology services, strategic outsourcing, business process outsourcing, business consulting services, business transformation outsourcing, e-business hosting services, application management services, web sales or tele-sales services and services provision through variable utilities pricing
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C.
"Goodwill Deposit"	the goodwill deposit in the amount of US$25 million paid by the Company to IBM upon the signing of the Asset Purchase Agreement, details of which are set out in the sub-section entitled "Goodwill Deposit" under the section entitled "Asset Purchase Agreement" in this announcement
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HSR Act"	Section 7A of the United States Clayton Act (Title II of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) and the rules and regulations promulgated thereunder
"IBM"	International Business Machines Corporation
"IGF"	IBM's financing services and disposal services business conducted through one or more subsidiaries and affiliates of IBM
"IGS Services Agreement"	the IGS services agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Independent Shareholders"	Shareholders who do not have any material interest in the Asset Acquisition or the Ancillary Agreements

"Initial Closing"	closing of the Asset Purchase Agreement (relating to the Acquired Assets other than the Remaining Assets) in accordance with the terms thereof
"Initial Closing Countries"	the PRC, Japan, the USA, Singapore and the United Kingdom
"Intellectual Property Agreements"	the Trademark Assignment Agreement, Trademark Licence Agreement, Patent Assignment Agreement, Patent Cross Licence Agreement and Intellectual Property Assignment and Licence Agreement, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Intellectual Property Assignment and Licence Agreement"	the intellectual property assignment and licence agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Internal Use Purchase Agreement"	the internal use purchase agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Issue Price"	the price of HK$2.675 per new Share and new Non-voting Share
"Korean Joint Venture"	an existing joint venture between IBM and LG IBM PC Company Limited which is going to be dissolved with effect from 1 January 2005
"Lenovo Group"	the Company and its subsidiaries
"LIBOR"	the London Interbank offered rate
"Listing Committee"	has the meaning set out in the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Major Shareholder"	Legend Holdings Limited, the controlling shareholder of the Company holding approximately 57% of all of the Shares in issue as at the date hereof
"Marketing Support Agreement"	the marketing support agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Master Distribution Agreement"	the master distribution agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"MSA Service Description Attachments"	the services set forth in the attachments 1–9 to the Marketing Support Agreement, particulars of which are set out in the section entitled "Ancillary Agreements" in this announcement

"MSA Services"	collectively, the services set forth in or contemplated by the MSA Service Description Attachments
"Non-voting Shares"	ordinary unlisted shares of par value HK$0.025 each in the share capital of the Company, which have the same rights as the Shares save that the Non-voting Shares shall not carry any voting rights until they are converted into Shares
"ODM and EMS companies"	original design manufacturer and electronic manufacturing services companies
"Patent Assignment Agreement"	the patent assignment agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Patent Cross Licence Agreement"	the patent cross licence agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"person"	any natural person, corporation, general partnership, limited partnership, limited or unlimited liability company, proprietorship, joint venture, other business organisation, trust, union, association or governmental authority
"Personal Computers"	any self-contained, programmable, general purpose computing device in a desktop (including a thin client and a desktop system designed for media distribution for residential use), mobile or tablet platform, generally used by a single local user at a time, consisting of microprocessor hardware architecture, on-board memory, multiple input/output capabilities and a single user desk-top/mobile/tablet operating system, other than Excluded Products
"PRC"	the People's Republic of China (for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"Products"	desktop personal computers and ThinkPad laptop personal computers and peripherals, a list of which is in the Asset Purchase Agreement
"Real Estate Arrangements"	the real estate arrangements to be entered into by the Company and IBM with effect from the Initial Closing, particulars of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Remaining Assets"	subject to the terms and conditions of the Asset Purchase Agreement, Acquired Assets located in certain countries which are to be transferred to the Company at the Initial Closing under the multiple closing arrangements set out in the sub-section entitled "Multiple Closing Arrangements" under the section entitled "Asset Purchase Agreement" in this announcement

"SFAD Services"	collectively, the Customer Financing Services, the Distribution Channel Financing Services and the Excess Surplus Disposition Services
"SFAD Services Attachments"	the SFAD Services set forth in the attachments to the Strategic Financing and Asset Disposition Services Agreement, particulars of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Shareholders"	holders of the Shares
"Shares"	ordinary shares of par value HK$0.025 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Financing and Asset Disposition Services Agreement"	the strategic financing and asset disposition services agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Subsequent Closings"	the closings which take place after the Initial Closing contemplated under the multiple closing arrangements set out in the sub-section entitled "Multiple Closing Arrangements" under the section entitled "Asset Purchase Agreement" in this announcement
"subsidiary"	has the meaning set out in the Listing Rules
"Trademark Assignment Agreement"	the trademark assignment agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Trademark Licence Agreement"	the trademark licence agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"Transition Services"	collectively, the transition services set forth in or contemplated by the TSA Service Description Attachments
"Transition Services Agreement"	the transition services agreement entered into by the Company and IBM on 7 December 2004, details of which are set out in the section entitled "Ancillary Agreements" in this announcement
"TSA Service Description Attachments"	attachments to the Transition Services Agreement which set forth the Transition Services
"USA"	the United States of America
"US GAAP"	accounting principles that are generally accepted in the USA
"US$"	United States Dollar, the lawful currency of USA

"Voting Agreement"	the voting agreement entered into by the Major Shareholder and IBM on 7 December 2004

This announcement contains translation between HK$ and US$ at HK$7.8 = US$1. The translation shall not be taken as representation that the HK$ amount could actually be converted into US$ at that rate, or at all.

By Order of the board
Liu Chuanzhi
Chairman

Hong Kong, 8 December 2004

Please also refer to the published version of this announcement in the ***(South China Morning Post/The Standard)***