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lenovo 联想

Lenovo Group Limited 联想集团有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 992)

**VERY SUBSTANTIAL ACQUISITION
RELATING TO
THE PERSONAL COMPUTER BUSINESS OF IBM
AND
CONTINUING CONNECTED TRANSACTIONS**

Financial Adviser to the Company



Goldman Sachs (Asia) L.L.C.

**VERY SUBSTANTIAL ACQUISITION AND CONTINUING
CONNECTED TRANSACTIONS**

Reference is made to the First Announcement made by the Company dated 8 December 2004 in respect of, inter alia, a very substantial acquisition relating to the Personal Computer Business of IBM. Terms defined in the First Announcement have the same meaning in this announcement.

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. Since with effect from the Initial Closing, IBM will be deemed to be a connected person of the Company pursuant to the Listing Rules, certain transactions underlying the Ancillary Agreements will constitute continuing connected transactions of the Company under the Listing Rules upon and after the Initial Closing. The Ancillary Agreements will become effective from the Initial Closing.

The Continuing Connected Transactions, together with the Asset Acquisition, are subject to the approval of the Independent Shareholders and according to Rule 14A.52 of the Listing Rules, the vote taken at the EGM to seek approval of the Continuing Connected Transactions and their respective annual caps will be taken by poll. The Independent Board Committee will be established to consider the Continuing Connected Transactions and to advise the Independent Shareholders.

A circular containing, among other things, a notice convening the EGM to approve the Asset Acquisition and Continuing Connected Transactions, further details of both the Asset Purchase Agreement and the Ancillary Agreements, a letter from an independent financial adviser to advise the Independent Board Committee on the Continuing Connected Transactions, and a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions, will be dispatched to Shareholders as soon as practicable.

An independent financial adviser will be appointed to advise the Independent Board Committee in relation to the Continuing Connected Transactions.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to the Asset Purchase Agreement, on 7 December 2004, the Company entered into the Ancillary Agreements 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. Since upon the Initial Closing, IBM will be deemed as a connected person of the Company pursuant to the Listing Rules, the transactions underlying the Ancillary Agreements will constitute continuing connected transactions of the Company under Rule 14A.14 of the Listing Rules. In respect of the Intellectual Property Agreements whilst they constitute continuing connected transactions, since no monetary consideration is payable under such agreements they fall within the de minimis exemption under Rule 14A.34 of the Listing Rules.

The Ancillary Agreements will take effect upon the Initial Closing and will essentially be conditional upon the Initial Closing taking place.

Annual caps

Details of the annual caps in relation to the relevant Ancillary Agreements are set out below:

Transition Services Agreement

The Directors expect that the aggregate amount of fees payable under the Transition Services Agreement for each of the three years following the Initial Closing will not exceed US\$285 million, US\$223 million and US\$197 million, respectively.

The said aggregate amounts have been determined based on the historical costs incurred by the Business, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

Strategic Financing and Asset Disposition Services Agreement

The Directors expect that the aggregate amount of fees payable by IBM to the Company in relation to the Customer Financing Services under the Strategic Financing and Assets Disposition Services Agreement for each of the five years following the Initial Closing will not exceed US\$8 million, US\$9 million, US\$9 million, US\$9 million and US\$9 million, respectively.

The Directors expect that the aggregate amount of fees payable by the Company to IBM in relation to the Distribution Channel Financing Services and Excess Surplus Distribution Services under the Strategic Financing and Asset Disposition Services Agreement for each of the five years following the Initial Closing will not exceed US\$89 million, US\$92 million, US\$93 million, US\$95 million and US\$97 million, respectively.

The said aggregate amounts have been determined based on estimated future business volume, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

IGS Services Agreement

The Directors expect that the aggregate amount of fees payable by the Company to IBM under the IGS Services Agreement for each of the five years following the Initial Closing will not exceed US\$273 million, US\$318 million, US\$188 million, US\$191 million and US\$195 million.

The said aggregate amounts have been determined based on the estimated future business volume, market competitive terms for warranty services, the agreed upon revenue sharing arrangement, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

The Directors expect that the aggregate amount of fees payable by IBM to the Company under the IGS Services Agreement for each of the five years following the Initial Closing will not exceed US\$15 million, US\$15 million, US\$15 million, US\$16 million and US\$16 million, respectively.

The said aggregate amounts have been determined based on the estimated future business volume, the agreed upon revenue sharing arrangement, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

Internal Use Purchase Agreement

The Directors expect that the aggregate amount of fees payable under the Internal Use Purchase Agreement for each of the five years following the Initial Closing will not exceed US\$368 million, US\$377 million, US\$383 million, US\$390 million and US\$398 million, respectively.

The said aggregate amounts have been determined based on the agreed upon pricing mechanism, and estimated future business volume, and taking account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

Marketing Support Agreement

The Directors expect that the aggregate amount of fees payable under the Marketing Support Agreement for each of the five years following the Initial Closing will not exceed US\$291 million, US\$278 million, US\$194 million, US\$77 million and US\$26 million, respectively.

The said aggregate amounts have been determined based on the agreed upon fee structure, the estimated future business volume, the estimated future service reduction, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium to account for any uncertainties.

Master Distribution Agreement

The extent to which the Company will provide IBM with Personal Computers and certain services pursuant to this agreement is permitted where the relevant customers: (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. The amount of Personal Computers and services to be provided will depend on whether such events occur.

The Company considers that the transaction value of the Continuing Connected Transaction arising out of the Master Distribution Agreement shall not be subject to any annual cap for the following reasons: (a) it is impossible for annual caps to be determined because the identities and number of customers which will insist on purchasing products and services directly from IBM are uncertain

and entirely outside the control of the Company and IBM; (b) the level of actual sales which would arise out of the relevant purchase agreements are also uncertain because the relevant customers do not have any contractual obligations to purchase a fixed amount of products and/or services from IBM under such agreements; (c) the Company is unable to predict such identities or number of customers as there is no relevant historical patterns to base on; (d) the arrangement underlying the Master Distribution Agreement is in place to protect the Company from losing customers who want to deal with IBM only (and IBM will not make any profit directly out of the arrangement) and is therefore in the interests of the Company as well as all the Shareholders (including the minority shareholders).

Hence, the Company will apply to the Stock Exchange for a waiver from complying with the requirements set out in Rule 14A.35(2) of the Listing Rules for imposing an annual cap on the transaction value arising out of the Master Distribution Agreement.

Employee Matters Agreement

The Directors expect that the aggregate amount of fees payable under the Employee Matters Agreement for each of the two financial years ending 31 March 2007 will not exceed US\$47 million and US\$47 million, respectively and in any event the aggregate amount of fees to be paid during the two financial years ending 31 March 2007 will not exceed US\$47 million.

The said aggregate amounts have been determined based on the payment related terms contained in the Employee Matters Agreement.

Real estate arrangements

The Directors expect that the aggregate amount of fees payable under the Real Estate Arrangements for each of the five years following the Initial Closing will not exceed US\$78 million, US\$54 million, US\$30 million, US\$30 million and US\$31 million, respectively.

The said aggregate amounts have been determined based on estimated costs, and taking into account potential tax consequences arising as a result of payments to be made pursuant to this agreement, plus a 10% premium for uncertainties.

Reasons for terms in excess of three years

There are five agreements with terms in excess of three years, namely: the Strategic Financing and Asset Disposition Services Agreement, the IGS Services Agreement, the Marketing Support Agreement, the Internal Use Purchase Agreement and the Trademark License Agreement. All these agreements have a term of five years. Some of the Real Estate Arrangements may also have a term in excess of three years. The reasons are as follows:

- (a) to ensure continuity, smooth integration of the Business, and success of the Enlarged Group;
- (b) to demonstrate both the Company and IBM's commitment to work together for the success of the Enlarged Group;
- (c) to allow both the Company and IBM to mutually benefit from their co-operation to work together; for example, the Company benefiting from not paying any consideration for the use of the IBM brand and securing IBM as its largest enterprise customer; further the benefit to the Company of IBM's existing global service capabilities, and IBM receiving guaranteed custom from the Company for its after-sales and financing services;
- (d) to allow the Company's management to focus their attention and resources on transition and grow the Business; and

- (e) in relation to the subletting of portions of properties currently leased and to be retained by IBM under the Real Estate Arrangements, the term will be coterminous with IBM's prime lease term and in some cases this may exceed three years and may in one case run for a term up to 2014.

Pursuant to Rule 14.A35(1) of the Listing Rules, the relevant independent financial adviser will, in their letter of advice to the Independent Board Committee to explain why a longer period for the above agreements is required and that it is normal business practice for agreements of the relevant types to be of the relevant durations.

CONTINUING CONNECTED TRANSACTIONS

Each of the Continuing Connected Transactions is subject to reporting, announcement and approval of the Independent Shareholders at the EGM.

The Directors consider that each of the Continuing Connected Transactions has been negotiated and will be conducted on an arm's length basis and on normal commercial terms between the Company and IBM.

The Company seeks the approval of the Independent Shareholders for the Continuing Connected Transactions and the respective annual caps in relation to the Continuing Connected Transactions mentioned above on the conditions that the Company will comply with the rules in relation to annual review of continuing connected transactions set out in Rules 14A.37 to 14A.41 of the Listing Rules. The Company further undertakes that upon any variation or renewal of the agreements or arrangements in respect of the Continuing Connected Transactions, the Company will comply with all applicable requirements set out in Chapter 14A of the Listing Rules.

REASONS AND BENEFITS

Please refer to the sub-section entitled "Reasons and benefits of the major Ancillary Agreements" under the section entitled "Reasons and benefits of the Asset Acquisition and the Ancillary Agreements" in the First Announcement. Please also refer to the section entitled "Ancillary Agreements" in the First Announcement for a summary of the relevant Ancillary Agreements.

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.

GENERAL

A circular containing, among other things, a notice convening the EGM to approve the Asset Acquisition and the Continuing Connected Transactions, further details of both the Asset Purchase Agreement and the Ancillary Agreements, a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions, and a letter from an independent financial adviser to be appointed to advise the Independent Board Committee on the Continuing Connected Transactions, will be dispatched to Shareholders as soon as practicable.

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. Terms defined in the First Announcement, to the extent not inconsistent with the following definitions, shall have the same meaning in this announcement.

“Ancillary Agreements”	the agreements and arrangements whose particulars are set out in the section entitled “Ancillary Agreements” in the First Announcement
“caps”	the proposed annual limits for the values of the non-exempt continuing connected transactions
“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
“connected person”	has the meaning set out in the Listing Rules
“Continuing Connected Transactions”	the transactions underlying the Transition Services Agreement, Strategic Financing and Asset Disposition Services Agreement, the IGS Services Agreement, the Internal Use Purchase Agreement, the Marketing Support Agreement, Master Distribution Agreement, the Employee Matters Agreement and the Real Estate Arrangements
“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 and the Continuing Connected Transactions
“First Announcement”	the announcement made by the Company dated 8 December 2004 in respect of, inter alia, the very substantial acquisition relating to the Personal Computer Business of IBM
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Wong Wai Ming, Professor Woo Chia-Wei and Mr. Ting Lee Sen being the independent non-executive Directors
“Independent Shareholders”	Shareholders who do not have any material interest in the Asset Acquisition or any of the Continuing Connected Transactions

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, 10 December 2004

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