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**lenovo 联想**

**Lenovo Group Limited 联想集团有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0992)**

**CONTINUING CONNECTED TRANSACTIONS  
APPROVAL OF A DIRECTOR'S SERVICE CONTRACT**

The Directors announce that on 27 April 2005, IIPC and Blue Express entered into the China Services Agreement and on 12 May 2005, the Company and IBM entered into the Reverse Transition Services Agreement. Pursuant to the China Services Agreement, Blue Express will provide maintenance and warranty services to IIPC in the PRC on Lenovo Liability Machines sold after the Effective Date. Pursuant to the Reverse Transition Services Agreement, the Group will provide IBM and its affiliates with the Reverse Transition Services with effect from the Effective Date.

Reference is made to the announcements made by the Company dated 8 December 2004 and 30 April 2005 in relation to the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM and the Initial Closing, respectively. IBM is now deemed a connected person of the Company by the Stock Exchange and IIPC is a subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence a connected person of the Company.

Pursuant to Rules 14A.25 to 14A.27 of the Listing Rules, the Company considers that the continuing connected transactions contemplated under the China Services Agreement and the Reverse Transition Services Agreement should be aggregated with the continuing connected transactions as set out in the Company's circular dated 31 December 2004 and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005. Accordingly, such continuing connected transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

On 30 April 2005, the Company entered into the Service Contract with Mr Stephen M Ward, Jr, an executive Director, Chief Executive Officer and President of the Company. The Service Contract will require the approval of the Shareholders at a general meeting (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive directors of the Company has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Shareholders in respect of the Service Contract. N M Rothschild & Sons (Hong Kong) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions.

A circular containing, among other things, a notice convening the EGM, further details of the Continuing Connected Transactions and the Service Contract, a letter from the Independent Board Committee and a letter from the independent financial adviser will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

Reference is made to the announcement made by the Company dated 8 December 2004 in relation to the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM. Reference is also made to the announcement made by the Company dated 30 April 2005 in relation to the Initial Closing.

IBM is now deemed a connected person of the Company by the Stock Exchange and IIPC is a wholly-owned subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence a connected person of the Company. The remaining 49% interest in Blue Express is held by an independent third party not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates as defined under the Listing Rules. IBM has confirmed that save for its 51% interest in Blue Express, it is not connected with the independent third party.

## **CONTINUING CONNECTED TRANSACTIONS**

On 27 April 2005, IIPC and Blue Express entered into the China Services Agreement and on 12 May 2005, the Company and IBM entered into the Reverse Transition Services Agreement. Pursuant to an assignment agreement between the Company and Lenovo (Singapore) Pte. Ltd. dated 30 April 2005, the Company has assigned its rights and obligations under the Reverse Transition Services Agreement to Lenovo (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company.

Pursuant to Rules 14A.25 to 14A.27 of the Listing Rules, the Company considers that the Continuing Connected Transactions should be aggregated with the continuing connected transactions as set out in the Company's circular dated 31 December 2004 and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005. Accordingly, the Continuing Connected Transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules. The Company will comply with the continuing obligations under Rules 14A.36 to 14A.40 of the Listing Rules in respect of the Continuing Connected Transactions. In the event that any of the annual caps under the China Services Agreement or the Reverse Transition Services Agreement are exceeded or either agreement is renewed or materially varied, the Company will re-comply with the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

### **China Services Agreement**

#### *Date*

27 April 2005

#### *Parties*

International Information Products (Shenzhen) Co., Ltd. ("**IIPC**") and Changchun Blue Express Computer Engineering Technology Co., Ltd. ("**Blue Express**")

### *Maintenance and Warranty Services*

Blue Express will provide maintenance and warranty services to IIPC in the PRC on the Lenovo Liability Machines. The Lenovo Liability Machines are IBM logoed, other logoed and non-logoed Products (although it is currently contemplated that this will mainly be IBM-logoed Products) which will be sold after the Effective Date, that is, the date which is the later of the Initial Closing Date and the date on which all of the Stock Exchange's regulatory requirements have been complied with and/or Independent Shareholders' approval of the China Services Agreement has been obtained. In practice, the Effective Date will be the date on which the Independent Shareholders' approval has been obtained.

### *Consideration*

The China Services Agreement comprises different types of warranty services and a rate has been fixed in respect of each type of warranty service. The service fees payable will be the product of (i) the rate in respect of a particular type of service; and (ii) the actual number of Lenovo Liability Machines receiving that particular type of service in a particular year. The service fees charged by Blue Express are no less favourable to the Group than the terms offered by Blue Express to its independent customers in the PRC. It is not possible to compare the charges of Blue Express against charges of independent service providers as the Company is not aware of another service provider which provides the same geographical coverage in the PRC and which has the technical expertise to provide maintenance and warranty services specifically for Lenovo Liability Machines.

The service fees have been agreed upon between IIPC and Blue Express as a result of arm's length negotiations.

### *Term*

The China Services Agreement shall become effective on the Effective Date. The term of this agreement is five years from the Effective Date and, subject to compliance with the relevant Listing Rules, will extend for a term of one or more additional periods of one year each unless either party gives written notice of termination at least six months prior to the then-scheduled expiration of the term. The Company will ensure compliance with the applicable Listing Rules before the term of the China Services Agreement is extended after the initial five-year term.

The first annual review will be conducted jointly by IIPC and Blue Express in August 2006. If the parties cannot agree on the scope of work, service level commitment and service fees by the end of September 2006, IIPC shall have the right, at its sole discretion, to terminate this agreement within 15 days after such date by serving six months' written notice on Blue Express (in practice, this date could not be later than 15 October 2006). Nevertheless, if IIPC does not exercise its right to terminate this agreement, Blue Express shall be obliged to continue to provide the services upon the same terms and conditions until the later of termination or expiration of this agreement.

In addition, the China Services Agreement may be terminated prior to its scheduled expiration if: (i) the parties so agree in writing; (ii) the non-defaulting party gives notice to the defaulting party if the latter fails to rectify a material breach; (iii) either party ceases business or suspends operations for a period exceeding 12 months; or (iv) either party is subject to insolvency proceedings.

The 5-year term of the China Services Agreement will enable IIPC to bargain for better rates and better service levels and more importantly, to ensure continuity and consistency of warranty services for the customers. An agreement with a longer term will also give Blue Express the incentive to continuously invest in and improve its service capability. Furthermore, as some of the Lenovo Liability Machines (which will be sold for a period of 18 months after Initial Closing) will have a warranty period of 3 years, a term of 5 years is desirable in order to cover the entire warranty period of such machines.

Pursuant to Rule 14A.35(1) of the Listing Rules, the independent financial adviser will explain why a term of 5 years is required and that it is normal business practice for contracts of this type to be of such duration in its letter of advice to the Independent Board Committee and the Independent Shareholders which will form part of the circular to be despatched to the Shareholders as soon as practicable.

### *Annual Caps*

The Company expects that the aggregate amount of fees payable by IIPC to Blue Express under the China Services Agreement for each of the six financial years ending on 31 March 2011 will be as follows:

<b>Annual Cap for the year ending</b>	<i>US\$</i>	<i>HK\$</i>
31 March 2006	8,800,000	68,640,000
31 March 2007	22,000,000	171,600,000
31 March 2008	13,600,000	106,080,000
31 March 2009	9,300,000	72,540,000
31 March 2010	1,600,000	12,480,000
31 March 2011	340,000	2,652,000

The annual caps have been calculated by reference to: (i) the estimated sales of the Lenovo Liability Machines; (ii) the estimated failure rate of the Lenovo Liability Machines based on the historical failure rate in 2004; and (iii) the service fees charged by Blue Express for providing similar services to IIPC in the second to fourth quarters of 2004. As the service fees paid by IIPC in the years 2002, 2003 and the first quarter of 2004 were fixed (based on a certain percentage of the revenue of IIPC regardless of the number of machines which required the warranty services), it is not meaningful to compare the historical fees for the years 2002 and 2003 and the first quarter of 2004 against the annual caps under the China Services Agreement. The historical fees for the period from 1 April 2004 to 31 March 2005 were approximately US\$6,410,000 (approximately HK\$49,998,000) (the basis of charge is similar to that under the China Services Agreement).

The Lenovo Liability Machines are IBM logoed, other logoed and non-logoed Products (although it is currently contemplated that this will mainly be IBM-logoed Products) which will be sold by the Group after the Effective Date.

As it is envisaged that there will be growth in the sales of the machines in the first 18 months after Initial Closing and certain services not previously provided by Blue Express will now be provided under the China Services Agreement, the annual cap for the year ending 31 March 2006 is more than the aggregate historical fees for the period from 1 April 2004 to 31 March 2005. As it is less likely that the Lenovo Liability Machines will require servicing in the first year of the warranty period and the accumulated sales in the second year after the Effective Date will be higher than that in the first year given the passage of time, there is an increase in the annual cap for the year ending 31 March 2007 from that in the year ending 31 March 2006. As the Company will only have the right to use the IBM trademark and logo (solely and not jointly with any other trademark or logo) for a period of 18 months after Initial Closing and some of the Lenovo Liability Machines have a warranty period of one year (although some have a period of three years), it is expected that demand for servicing will be highest in the first and second year of the term of the China Services Agreement.

## **Reverse Transition Services Agreement**

### *Date*

12 May 2005

### *Parties*

The Company and IBM

The Reverse Transition Services Agreement was first entered into on 30 April 2005 and subsequently amended on 2 May and 12 May 2005. Pursuant to an assignment agreement between the Company and Lenovo (Singapore) Pte. Ltd. dated 30 April 2005, the Company has assigned its rights and obligations under the Reverse Transition Services Agreement to Lenovo (Singapore) Pte. Ltd.

The Reverse Transition Services were not contemplated at the time of the Transition Services Agreement. The Company and IBM commenced discussions on the Reverse Transition Services after the despatch of the circular dated 31 December 2004. Furthermore, the Company and IBM needed time to discuss in detail the terms and conditions of the Reverse Transition Services Agreement. Whilst the Reverse Transition Services Agreement forms part of the transitional agreements which have to be put into place in relation to the very substantial acquisition, it is not a condition precedent to Initial Closing and hence will be approved separately in the EGM.

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

### *After sales services*

- (a) *Warranty services and support transition services* – management of day-to-day activities for customer satisfaction issues relating to parts required for service on a global level; operate and manage e-support content and websites including all technical content, site maintenance, problem management and overall design; management of delivery to authorised business partner and provision of technical support (initial term covering the period from the Effective Date until 30 April 2009 and IBM has the right to extend the term for one additional year to 30 April 2010);
- (b) *Legacy products services* – provision of service relating to product safety and compliance with relevant regulations (from the Effective Date to 30 April 2010);

### *Procurement*

- (c) *Procurement and Lenovo ISC Engineering services* – provision of ongoing procurement and manufacturing functions in relation to certain computer hardware (from the Effective Date to 30 April 2006);

### *Programming*

- (d) *Lenovo ISC Engineering services* – provision of programming support to IBM in relation to certain Intel based server (from the Effective Date to 30 April 2006);

### *Sales*

- (e) *Japan Lenovo DAC support services* – provision of x-Series brand program clean up and support and support/response for DAC Activator related data requests in Japan (with effect from the Effective Date to 31 December 2005);

### *Marketing*

- (f) *Marketing database content management services* – provision of service to maintain databases covering day to day issues, administration duties, new requirements and testing of new template release with marketing guidelines from IBM in relation to x-Series and relevant marketing materials (from the Effective Date to 31 December 2005); and

### *Sharing of GMV client data*

- (g) *Sharing of GMV client data between IBM and Lenovo* – provision of client information data which utilise data from outside consultants (from the Effective Date to 30 April 2008).

### *Consideration*

The Reverse Transition Services (save for the Japan Lenovo DAC support services) will be provided by the Group to IBM and its affiliates on a cost basis. The proportion which the cost of the warranty services and support transition services will bear to the total cost will be equivalent to the proportion which the number of IBM liability machines will bear to the total number of machines requiring such services in a particular year. The costs of the Japan Lenovo DAC support services and sharing the GMV client data will be fixed (based on arm's length negotiations). The cost of the other services will be based on the cost of the estimated manpower to perform the services. All of the above service fees have been agreed upon as a result of arm's length negotiations.

As the Reverse Transition Services form part of the transitional arrangements which have been put into place between the Company and IBM in relation to the acquisition by the Group of the global desktop computer and notebook computer business of IBM, such services are unique in the context of the acquisition and accordingly, there are no market comparables against which the service fees may be compared.



### *Term*

The provision of the Reverse Transition Services will become effective on the Effective Date and range in duration from 7 months to 5 years (please see above for the term of each Reverse Transition Service). The Reverse Transition Services Agreement will terminate upon the earlier to occur of: (i) the last date indicated for the termination of a Reverse Transition Service in the Reverse TSA Service Description Attachments; (ii) the date on which all of the Reverse Transition Services have been terminated. IBM may cancel any Reverse Transition Service or reduce the amount of any separately priced portion of a Reverse Transition Service at any time upon 60 days' prior written notice.

The Reverse Transition Services set out under paragraphs (a) and (b) above have to be for a term of approximately 5 years (as the case may be) as this coincides with the normal product life cycle of the machines sold by IBM prior to Initial Closing. Further reasons as to why the term of these Reverse Transition Services is longer than the term of the services provided under the Transition Services Agreement will be included in the circular to be despatched to the Shareholders as soon as practicable.

Pursuant to Rule 14A.35(1) of the Listing Rules, the independent financial adviser will explain why a term of approximately 5 years is required and that it is normal business practice for contracts of this type to be of such duration in its letter of advice to the Independent Board Committee and the Independent Shareholders which will form part of the circular to be despatched to the Shareholders as soon as practicable.

### *Annual Caps*

The Company expects that the aggregate amount of fees payable to the Group under the Reverse Transition Services Agreement for each of the six financial years ending on 31 March 2011 will be as follows:

<b>Annual Cap for the year ending</b>	<i>US\$</i>	<i>HK\$</i>
31 March 2006	45,400,000	354,120,000
31 March 2007	29,800,000	232,440,000
31 March 2008	7,600,000	59,280,000
31 March 2009	2,900,000	22,620,000
31 March 2010	1,700,000	13,260,000
31 March 2011	120,000	936,000

The annual caps have been determined by reference to the actual cost and the estimated number of machines requiring a particular reverse transition service in a particular year. As the number of machines sold by IBM prior to Initial Closing which are in use will decrease over time, it is expected that the demand for the Reverse Transition Services will decrease over time. Accordingly, the annual caps decrease by each financial year.

## **REASONS FOR, AND BENEFITS OF, THE CONTINUING CONNECTED TRANSACTIONS**

### **China Services Agreement**

Blue Express is widely regarded as one of the leading providers of after-sales services in the PRC and it is one of the few service providers which have extensive country wide coverage which is required by the Company's top enterprise customers and end users. Prior to the Effective Date, Blue Express had been providing maintenance and warranty services to IIPC's customers since 1996 and the employees of Blue Express are familiar with both the specifications of the IBM products and customers. It would be in the interests of the Company to maintain a close relationship with Blue Express after Initial Closing to help ensure a smooth transition and to minimise customer attrition as the Company will be able to continue to provide the quality warranty services to which IBM's customers are accustomed. A strategic partnership with Blue Express will also provide the Company with a competitive advantage in establishing and maintaining the premium image of the Company's product offerings in the PRC and to increase its credibility with enterprise customers.

Furthermore, under the China Services Agreement, Blue Express will provide IIPC with improved service levels at lower service fees as compared to what Blue Express had been offering to IBM prior to the Effective Date, the Directors believe that the new services thereunder provide good value for money from the Company's perspective.

### **Reverse Transition Services Agreement**

The Reverse Transition Services form part of the transitional arrangements which have been put into place in relation to the acquisition by the Group of the global desktop computer and notebook computer business of IBM. The terms of the Reverse Transition Services Agreement have been negotiated on an arm's length basis and in the same spirit as the Transition Services Agreement between the Company and IBM dated 7 December 2004.

Upon the Initial Closing, certain employees of the personal computing division of IBM were transferred to the Company. Under the Reverse Transition Services Agreement, the Company will be able to leverage on such employees' expertise in order to ensure a smooth transition and to minimise customer attrition as customers will continue to be served by essentially the same dedicated team. From a practical perspective, to the customers, there is no difference between a IBM-logoed machine sold prior to Initial Closing and one that is sold thereafter, thus, from the Company's perspective, it is important that the IBM liability machines are serviced by the same team providing the same service standards in order to ensure the confidence of customers in machines with the IBM logo.

Furthermore, this arrangement will allow the Company to better utilise its resources acquired from IBM as well as having IBM share part of the cost (in proportion to the services performed under this agreement) for maintaining the relevant departments and personnel for which the Company would otherwise be solely liable. It is expected that the time that they will be required to spend in performing the Reverse Transition Services will only constitute a small portion of the Company's time cost and resources as a whole.

The Directors (including the independent non-executive directors) are of the view that so far as the Independent Shareholders are concerned, the China Services Agreement and the Reverse Transition Services Agreement and their respective terms (including the basis of the allocation of cost under the Reverse Transition Services Agreement) have been negotiated on an arm's length basis, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.



## **INFORMATION ON THE GROUP**

The principal activity of the Company is investment holding. Since the Initial Closing, the principal activity of the Group is the provision of desktop and notebook computers in worldwide markets. The Group also provides information technology products including mobile handsets, servers, peripherals and digital entertainment products in the PRC.

IIPC mainly provides supply chain management, research support, sales support, technical support, procurement and logistics services. It is also a key production and distribution centre of notebooks as well as a key export and production base of desktop computers of the Group.

## **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.

Blue Express was founded in January 1996 to handle primarily the after-sales services for IBM’s personal computers in the PRC. As Blue Express expanded its geographical coverage in the PRC over the last few years, it has now extended its business scope to include the provision of after-sales services for IBM’s low-end servers and the undertaking of out-tasking services for companies that wish to outsource their personal computer technical support function. Blue Express has 170 service centres covering over 2,000 cities and towns in the PRC.

## **APPROVAL OF A DIRECTOR’S SERVICE CONTRACT**

On 30 April 2005, the Company entered into the Service Contract with Mr Stephen M Ward, Jr, an executive Director, the Chief Executive Officer and President of the Company. The Service Contract will require the approval of the Shareholders at a general meeting (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules. Reference is made to the Company’s announcement dated 30 April 2005 regarding his appointment.

### *Term and termination*

The Service Contract is for a term of three years and may be terminated by either party serving 30 days’ written notice on the other (save for termination by the Company for Cause, termination by Mr Ward for Good Reason or Mr Ward’s death or disability).

### *Base salary and bonus*

Mr Ward’s annual base salary is US\$600,000 (approximately HK\$4,680,000) and his annual target bonus is US\$1,000,000 (approximately HK\$7,800,000), the latter is only payable if the performance targets for the relevant financial year have been met. Further details of the components of such performance targets will be included in the circular to be despatched to the Shareholders as soon as practicable. If such performance targets have been exceeded, subject to (among other things) the recommendation of the remuneration committee (comprising a majority of independent non-executive directors of the Company at the relevant time) and the approval of the board of directors of the Company, Mr Ward shall be entitled to an increased bonus, in the Company’s discretion, of up to US\$3,000,000 (approximately HK\$23,400,000) for the relevant financial year.

### *Restrictive covenant*

Pursuant to the Service Contract, Mr Ward is bound by a restrictive covenant which provides that for 18 months (if the Service Contract is terminated by the Company for Cause or by Mr Ward without Good Reason) or for 12 months (if the Service Contract is terminated by the Company without Cause or by Mr Ward with Good Reason), Mr Ward shall not, among other things and subject to certain exceptions, directly or indirectly engage in any business primarily engaged in the development or manufacture or sale of general purpose personal computers anywhere that the Group engages in such business as at the date of termination of the Service Contract.

### *Termination compensation*

Certain provisions of the Service Contract provide that upon termination of the Service Contract, Mr Ward may be entitled to compensation and other payments (primarily consisting of one year's base salary and target bonus, continued health and welfare coverage for one year, accelerated vesting of equity-based incentives and payment of cash based long-term incentives) equivalent to more than one year's emoluments depending on a number of factors including his length of service, the performance of the Company, the amount of his unvested equity awards and the amount of his annual bonus (the "**Relevant Provisions**"). The basis of calculating the compensation and other payments payable to Mr Ward upon termination of the Service Contract depends largely on the circumstances surrounding the termination – whether the Service Contract has been terminated by the Company with or without Cause or by Mr Ward with or without Good Reason. Further details of the bases of calculation will be included in the circular to be despatched to the Shareholders as soon as practicable. The compensation and other payments payable to Mr Ward upon termination of the Service Contract will be calculated in accordance with the Relevant Provisions, to this extent, the amount will be set according to objective criteria. However, certain components of the compensation package (mainly the increased bonus) will be subject to the recommendation of the remuneration committee and approval of the board of directors of the Company.

There will not be a cap on the compensation and other payments payable to Mr Ward upon termination of the Service Contract. Compensation will not be payable by Mr Ward if he terminates the Service Contract during its term.

Further details of the Service Contract will be contained in the circular to be despatched to the Shareholders as soon as practicable.

### *Approval at the EGM*

Accordingly, the Service Contract including the Relevant Provisions will require approval of the Shareholders at a general meeting of the Company (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules. According to the register maintained by the Company pursuant to Part XV of the Securities and Futures Ordinance, as at the date of this announcement, Mr Ward holds 1,000,000 Shares and none of his associates holds any Shares. In the event that the Service Contract is not approved by the Shareholders, the Relevant Provisions shall forthwith become null and void and any payments which may be made to Mr Ward upon termination of the Service Contract will not exceed one year's emoluments but the remaining provisions of the Service Contract (including the provisions which will entitle Mr. Ward to receive compensation not exceeding one year's emoluments upon termination thereof) shall remain in effect. Further details of the components of his one year's emoluments will be included in the circular.

The Independent Board Committee will advise the independent Shareholders as to whether the terms of the Service Contract (including the mechanism to ensure compliance with Rule 13.68 of the Listing Rules whereby Mr. Ward will receive compensation not exceeding one year's emoluments in the event that the Service Contract and the Relevant Provisions are not approved by the independent Shareholders) are fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole and advise the independent Shareholders on how to vote.

## **GENERAL**

IBM is deemed a connected person of the Company by the Stock Exchange and IIPC is a subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence a connected person of the Company. Accordingly, the transactions contemplated under the China Services Agreement and the Reverse Transition Services Agreement will constitute continuing connected transactions of the Company under Rule 14A.14 of the Listing Rules. Such transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

IBM and its associates shall abstain from voting on resolutions in connection with the Continuing Connected Transactions at the EGM. The Directors are of the view that the Major Shareholder does not have any interest in the Continuing Connected Transactions which is different from the interest of the other Shareholders (excluding IBM and its associates).

On 30 April 2005, the Major Shareholder and IBM entered into a voting undertaking agreement pursuant to which the Major Shareholder has, subject to any applicable laws or regulations, the Listing Rules and the requirements and decisions of any applicable authority, undertaken and agreed with IBM to vote (or procure to be voted) at any general meeting of the Shareholders (or any adjournment thereof) in favour of resolutions in respect of: (i) the Initial Closing Continuing Connected Transactions; and (ii) "refresh", pursuant to Rule 14A.36 of the Listing Rules, the connected transaction approvals granted in respect of some or all of the Initial Closing Continuing Connected Transactions.

Mr Ward and IBM have reached an understanding that IBM will vote in favour of the resolution to approve the Service Contract at the EGM. IBM will approach the Stock Exchange to determine whether it may vote on the resolution to approve the Service Contract at the EGM.

Pursuant to an undertaking dated 30 April 2005, the Major Shareholder has, subject to the Listing Rules, undertaken to vote in favour of the resolution approving the terms of the Service Contract at a general meeting of the Company. This voting undertaking has been entered into with a view to securing Mr. Ward's services to the Company which the Major Shareholder considers to be invaluable to the Company. The Major Shareholder's interest in the Service Contract is no different from that of any other Shareholder. The Major Shareholder has confirmed that it does not have any connection with Mr. Ward and his associates other than the voting undertaking above.

The Company and the Major Shareholder will approach the Stock Exchange to determine whether the Major Shareholder may vote on the resolutions to be proposed at the EGM.

An Independent Board Committee comprising the independent non-executive directors of the Company has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the independent Shareholders in respect of the Service Contract. N M Rothschild & Sons (Hong Kong) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions.

Votes taken at the EGM to seek approval of the Continuing Connected Transactions (together with the annual caps thereunder) and the Service Contract will be taken by poll.

A circular containing, among other things, a notice convening the EGM, further details of the Continuing Connected Transactions and the Service Contract, a letter from the Independent Board Committee and a letter from the independent financial adviser will be despatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

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

“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
“associate”	has the meaning set out in the Listing Rules
“Blue Express”	Changchun Blue Express Computer Engineering Technology Co., Ltd. which is held as to 51% by IBM as at the date of this announcement
“Cause”	means, broadly speaking: (i) conviction of or committing a felony or any misdemeanour involving moral turpitude; (ii) gross negligence or gross misconduct resulting in material and demonstrable harm to the Company; (iii) embezzlement or other material acts of dishonesty; or (iv) a material breach of any provision of the Service Contract by Mr Ward
“China Services Agreement”	the services agreement entered into by IIPC and Blue Express on 27 April 2005, details of which are set out in the section headed “China Services Agreement” in this announcement
“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 contemplated under the China Services Agreement and the Reverse Transition Services Agreement
“controlling shareholder”	has the meaning set out in the Listing Rules
“Directors”	the directors of the Company
“Effective Date”	the later of (i) the Initial Closing Date; and (ii) the date on which all Stock Exchange’s regulatory requirements have been complied with and/or Independent Shareholders’ approval of the Continuing Connected Transactions has been obtained

“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 Continuing Connected Transactions and the Service Contract
“Good Reason”	means, broadly speaking: (i) material reduction in Mr Ward’s annual base salary, target annual bonus and other benefits; (ii) relocation of his principal place of employment; (iii) failure by the Company to pay compensation and other benefits to him; (iv) failure to elect or re-elect him to the positions of Chief Executive Officer, President and Director or removal from such positions; (v) material diminution in his duties and responsibilities; or (vi) a material breach of any provision of the Service Contract by the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBM”	International Business Machines Corporation
“IIPC”	International Information Products (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company following the Initial Closing
“Independent Board Committee”	the independent board committee comprising the independent non-executive directors of the Company for the purpose of advising the Independent Shareholders in connection with the Continuing Connected Transactions
“Independent Shareholders”	Shareholders other than IBM and its associates
“Initial Closing”	initial closing of the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM
“Initial Closing Continuing Connected Transactions”	all agreements and other arrangements entered into by IBM and the Company or either of their respective subsidiaries or affiliates as of the Initial Closing
“Initial Closing Date”	the date on which Initial Closing took place, being 30 April 2005 (Eastern Daylight Time)
“Lenovo Liability Machines”	IBM logoed, other logoed and non-logoed Products sold by the Group after the Effective Date
“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 49% of all of the Shares as at the date of this announcement
“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
“Reverse Transition Services Agreement”	the reverse transition services agreement entered into by the Company and IBM on 30 April 2005 as amended by an amendment agreement dated 2 May 2005 and a second amendment agreement dated 12 May 2005, details of which are set out in the section entitled the “Reverse Transition Services Agreement” in this announcement
“Reverse Transition Services”	collectively, the reverse transition services set forth in or contemplated by the Reverse TSA Service Description Attachments
“Reverse TSA Service Description Attachments”	attachments to the Reverse Transition Services Agreement
“Service Contract”	the service contract dated 30 April 2005 between the Company and Mr Stephen M Ward, Jr, an executive Director, Chief Executive Officer and President of the Company
“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
“subsidiary”	has the meaning set out in the Listing Rules
“Transition Services Agreement”	the transition services agreement entered into between the Company and IBM on 7 December 2004
“US\$”	United States Dollar, the lawful currency of USA
“USA”	the United States of America

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.



*As of the date of this announcement, the Executive Directors are Mr Yang Yuanqing, Mr Stephen M Ward, Jr and Ms Ma Xuezheng, the Non-executive Directors are Mr Liu Chuanzhi, Mr Zhu Linan, Mr James G Coulter, Mr William O Grabe, Mr Shan Weijian, Mr Justin T Chang (alternate Director to Mr James G Coulter), Mr Vince Feng (alternate Director to Mr William O Grabe) and Mr Daniel A Carroll (alternate Director to Mr Shan Weijian); and the Independent Non-executive Directors are Mr Wong Wai Ming, Professor Woo Chia-Wei, and Mr Ting Lee Sen.*

By order of the Board  
**Yang Yuanqing**  
*Chairman*

Hong Kong, 23 June 2005

“Please also refer to the published version of this announcement in The Standard”