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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Lenovo Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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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)**

**CONNECTED AND SHARE TRANSACTION  
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
LENOVO MOBILE**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**

CREDIT SUISSE 

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A letter from the Board is set out on pages 7 to 18 of this circular. A letter from the Independent Board Committee is set out on pages 19 to 20 of this circular. A letter from the IFA containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 31 of this circular.

An ordinary resolution will be proposed at the EGM of Lenovo Group Limited to be held at Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 22 January 2010 at 9:00 a.m. to approve the matters referred to in this circular. The notice convening the EGM is set out on pages 37 to 38 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Tricor Abacus Ltd., the Company's share registrar in Hong Kong, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the EGM should you so wish.

18 December 2009

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“%”	per cent.;
“2008 Announcement”	the announcement of the Company dated 30 January 2008 in relation to, among other things, the 2008 Sale and Purchase Agreement and the Option;
“2008 Sale and Purchase Agreement”	the sale and purchase agreement dated 30 January 2008 entered into between Lenovo Beijing, Levono Manufacturing BVI, the Company, Jade Ahead, LEV Ventures, Ample Growth and Super Pioneer in relation to the sale and purchase of the entire equity interest of Lenovo Mobile;
“Acquisition”	the acquisition by the Purchasers of the Equity Interest pursuant to the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Agreed Cash Balance”	the necessary level of cash balance at Completion as agreed jointly by the Purchasers and Jade Ahead (on behalf of the Vendors) as shall be sufficient to maintain the business of Lenovo Mobile as a going concern, having regard to the working capital, and financial commitments of Lenovo Mobile, which shall in no event be less than US\$50 million;
“Ample Growth”	Ample Growth Enterprises Limited, a company incorporated in the BVI with limited liability;
“Announcement”	the announcement of the Company dated 27 November 2009 in relation to the Acquisition;
“Articles of Association”	the Articles of Association of the Company and all supplementary, amended or substituted articles for the time being in force;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;

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## DEFINITIONS

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“Business Days”	a day on which banks are open for business in the PRC and Hong Kong (excluding Saturdays, Sundays and public holidays);
“BVI”	the British Virgin Islands;
“Cash Consideration”	US\$154 million;
“Company”	Lenovo Group Limited, a company incorporated on October 5, 1993 with limited liability under the laws of Hong Kong, the ordinary shares of which are listed on the main board of the Stock Exchange;
“Completion”	completion of the Sale and Purchase Agreement;
“Conditions”	the conditions precedent to the completion of the sale and purchase of the Equity Interest under the Sale and Purchase Agreement;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	US\$200 million, which shall be settled as to US\$154 million by the Cash Consideration and as to US\$46 million by the issue of the Consideration Shares;
“Consideration Shares”	80,894,033 Shares; the issue price of the Consideration Shares is HK\$4.407 which is calculated by reference to the average closing price of the Shares as quoted on the daily quotation sheets of the Stock Exchange for the 20 consecutive trading days immediately preceding the day prior to the date of the Sale and Purchase Agreement at the Exchange Rate;
“Directors”	the directors of the Company;
“EBIT”	earnings before interest and taxation;
“EGM”	the extraordinary general meeting to be convened by the Company to consider and, if thought fit, to approve, among other things, the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Equity Interest”	the registered capital of Lenovo Mobile;

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## DEFINITIONS

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“Exchange Rate”	US\$1 equals to HK\$7.75;
“Gainnew”	Gainnew International Limited, a company incorporated in Hong Kong with limited liability;
“General Atlantic”	GAP Coinvestments III, LLC; GAP Coinvestments IV, LLC; GAPCO GmbH & Co. KG; Gapstar, LLC; General Atlantic Partners (Bermuda), L.P.; General Atlantic Partners 81, L.P. collectively;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hony Fund”	Hony Capital Fund III, L.P.;
“IFA”	Credit Suisse (Hong Kong) Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) as defined under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and Independent Shareholders in respect of the Acquisition;
“Independent Board Committee”	an independent committee of the Board established for the purpose of advising the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Independent Shareholders”	Shareholders other than Mr. Liu Chuanzhi, Mr. Zhu Linan and Legend Holdings and its associates;
“Jade Ahead”	Jade Ahead Limited, a company incorporated in Hong Kong with limited liability;
“Latest Practicable Date”	11 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
“LBIT”	loss before interest and taxation;

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## DEFINITIONS

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“Legend Holdings”	聯想控股有限公司 (Legend Holdings Limited*), an investment holding company established in the PRC with its subsidiaries primarily engaged in information technology, equity investment and real estate investment;
“Lenovo Beijing”	聯想(北京)有限公司 (Lenovo (Beijing) Limited*), a limited liability company incorporated in the PRC and a direct wholly-owned subsidiary of the Company;
“Lenovo Manufacturing BVI”	Lenovo Manufacturing Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company;
“Lenovo Manufacturing HK”	Lenovo Manufacturing Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“Lenovo Mobile”	聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.*), a limited liability company incorporated in the PRC and is owned as to 20%, 30%, 40% and 10% by Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer respectively as at the Latest Practicable Date;
“Lenovo Mobile Group”	Lenovo Mobile and its subsidiaries;
“Lenovo” or “Group”	the Company and its subsidiaries;
“LEV Ventures”	深圳市小象創投合夥企業 (LEV Ventures*), a limited liability company incorporated in the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Net Cash Balance”	a balance comprising (i) the aggregate cash-at-bank and cash-in-hand; plus (ii) the aggregate fair values of cash equivalent items, including any marketable securities and treasury bills of the Lenovo Mobile Group determined in accordance with HKFRS as at the end of the month immediately preceding the date of Completion;
“Newbridge”	Newbridge Asia Acquisition Company LLC;

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## DEFINITIONS

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“Option”	the option to subscribe for 5% enlarged registered capital of Lenovo Mobile granted to Lenovo Manufacturing BVI under the 2008 Sale and Purchase Agreement, details of the Option was referred to in the 2008 Announcement;
“Parties”	collectively, the Vendors, the Purchasers and the Company, and “ <b>Party</b> ” shall mean any of them;
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Purchasers”	collectively Lenovo Beijing and Lenovo Manufacturing HK, and “ <b>Purchaser</b> ” shall mean any of them;
“Resolution”	the ordinary resolution to approve the Sale and Purchase Agreement, the issue of Consideration Shares and the transactions contemplated thereunder at the EGM;
“RMB”	Reminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 27 November 2009 entered into between the Vendors, the Purchasers and the Company in relation to the sale and purchase of the Equity Interest;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	holder(s) of ordinary share(s) and preferred shares in the issued share capital of the Company;
“Shares”	ordinary shares of par value HK\$0.025 each in the share capital of the Company;
“Shenzhen Investment”	深圳市傲盈時投資合夥企業(有限合夥) (Shenzhen AoYinShi Investment LP*), a limited liability company incorporated in the PRC;
“Shenzhen Lenovo”	聯想(深圳)電子有限公司 (Lenovo (Shenzhen) Electronic Co., Ltd.*), a wholly-owned subsidiary of the Company;

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Super Pioneer”	Super Pioneer International Limited, a company incorporated in the BVI with limited liability;
“TPG”	T <sup>3</sup> II Acquisition Company, LLC; TPG III Acquisition Company, LLC and TPG IV Acquisition Company LLC collectively;
“US\$”	United States Dollars, the lawful currency of the United States of America; and
“Vendors”	Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer, and “ <b>Vendor</b> ” shall mean any of them.

\* *English translations of the Chinese names are for identification purpose only*



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LETTER FROM THE BOARD

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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)

***Chairman and Non-executive Director:***

Mr. Liu Chuanzhi

***Executive Director:***

Mr. Yang Yuanqing

***Non-executive Directors:***

Mr. Zhu Linan

Ms. Ma Xuezheng

Mr. James G. Coulter

Mr. William O. Grabe

Dr. Wu Yibing

***Independent Non-executive Directors:***

Professor Woo Chia-Wei

Mr. Ting Lee Sen

Mr. John W. Barter III

Dr. Tian Suning

Mr. Nicholas C. Allen

***Registered Office:***

23rd Floor

Lincoln House

Taikoo Place

979 King's Road

Quarry Bay

Hong Kong

18 December 2009

*To the Shareholders and, for the information only,  
holders of other securities of the Company*

Dear Sir or Madam,

**CONNECTED AND SHARE TRANSACTION  
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
LENOVO MOBILE**

**I INTRODUCTION**

Reference is made to the Announcement in relation to the Sale and Purchase Agreement entered into between, among others, Lenovo Beijing and Lenovo Manufacturing HK as the Purchasers on one hand, Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer as the Vendors on the other hand, pursuant to which the Vendors have agreed to dispose of their respective Equity Interest, and Lenovo Beijing and Lenovo Manufacturing HK have agreed to purchase 30% and 70% of the Equity Interest, respectively.

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## LETTER FROM THE BOARD

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Legend Holdings, the controlling Shareholder, is also indirectly interested in more than 30% of the issued share capital of Jade Ahead. This results in Jade Ahead being regarded as an associate of Legend Holdings. Gainnew is a company controlled by a director of Shenzhen Lenovo, a wholly-owned subsidiary of the Company. Accordingly, Jade Ahead, being an associate of a substantial shareholder of the Company and Gainnew, being an associate of a director of a subsidiary of the Company are connected persons of the Company under Chapter 14A of the Listing Rules. The transaction between any member of the Group on one hand and Jade Ahead and Gainnew on the other is a connected transaction of the Company.

As one or more of the applicable percentage ratios of the transactions contemplated under the Sale and Purchase Agreement exceed 2.5%, the Sale and Purchase Agreement constitutes a non-exempt connected transaction under Chapter 14A of the Listing Rules. As such, the Acquisition (including but not limited to the issue of Consideration Shares) is subject to the approval by the Independent Shareholders at the EGM by poll.

As Consideration Shares will be issued to settle the Consideration in part and each of the applicable percentage ratios are less than 5%, the Sale and Purchase Agreement also constitutes a share transaction under Chapter 14 of the Listing Rules. An application for listing of and permission to deal in the Consideration Shares and the Shares to be issued pursuant to the adjustments to the Consideration (if required) will be made to the Stock Exchange.

The purpose of this circular is to provide you with further information in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

## II CONNECTED AND SHARE TRANSACTION

### THE SALE AND PURCHASE AGREEMENT

**Date:**

27 November 2009

**Parties:**

- (i) Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer, as the Vendors;
- (ii) Lenovo Beijing and Lenovo Manufacturing HK, both being wholly-owned subsidiaries of the Company, as the Purchasers; and
- (iii) the Company.

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## LETTER FROM THE BOARD

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### **Sale and Purchase of the Equity Interest:**

Subject to the terms and conditions of the Sale and Purchase Agreement, the Vendors have agreed to sell, and the Purchasers have agreed to purchase, the Equity Interest free from any encumbrances and together with all rights and advantages attaching to it at the Completion. Subject to Completion, the Parties further agreed that the Option granted to Lenovo Manufacturing BVI shall lapse.

In 2008, Lenovo Beijing and Lenovo Manufacturing BVI divested the entire Equity Interest to the then purchasers, namely Jade Ahead, LEV Ventures, Ample Growth and Super Pioneer as to 45%, 30%, 15% and 10% respectively for an aggregate consideration of US\$100 million pursuant to the 2008 Sale and Purchase Agreement. Subsequent to the 2008 Sale and Purchase Agreement, there had been changes to the Equity Interest amongst the then purchasers. In mid 2008, Gainnew acquired the 15% and 5% Equity Interest in Lenovo Mobile from Ample Growth and Jade Ahead at the consideration of US\$12 million and US\$4 million, respectively. This acquisition was effected to realize the previous arrangement or understanding between Lenovo Mobile and its management team in view of the contribution by the management. As at the Latest Practicable Date, Lenovo Mobile is owned as to 20%, 30%, 40% and 10% by Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer respectively.

As at the Latest Practicable Date, Lenovo Mobile has a total registered capital of RMB187,500,000, which is fully paid up. Pursuant to the Sale and Purchase Agreement, the Vendors shall dispose of their respective Equity Interest in Lenovo Mobile and each Purchaser shall acquire the respective amount of Equity Interest at the respective amount of Consideration (i.e. in the proportion of 70% in the case of Lenovo Manufacturing HK and 30% in the case of Lenovo Beijing):

### **Consideration:**

The Consideration is US\$200 million which will be settled as to US\$154 million by Cash Consideration and as to US\$46 million by the issue of 80,894,033 Consideration Shares, and subject to adjustment with reference to the Net Cash Balance.

The Consideration is to be settled in the following manner:

### **Gainnew**

The consideration payable to Gainnew is US\$40 million, of which US\$24 million is in cash and US\$16 million is by the issue of 28,137,055 Consideration Shares. The cash portion receivable by Gainnew represents mainly its acquisition costs, finance costs and other related fees paid by the existing management of Lenovo Mobile.

### **Shenzhen Investment**

The consideration payable to Shenzhen Investment, being US\$60 million, will be settled in cash in full.

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## LETTER FROM THE BOARD

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### **Jade Ahead**

The consideration payable to Jade Ahead is US\$80 million of which US\$50 million is in cash and US\$30 million is by the issue of 52,756,978 Consideration Shares. The cash portion corresponds to the indirect attributable interest in Lenovo Mobile held by Hony Fund through Jade Ahead. The Consideration Shares portion corresponds to the indirect interest held by Jade Ahead in Lenovo Mobile attributable to Legend Holdings.

### **Super Pioneer**

The consideration payable to Super Pioneer, being US\$20 million, will be settled in cash in full.

Cash consideration shall be paid by the Purchasers to the Vendors on or before the third Business Day following the Completion whereas Consideration Shares shall be issued and allotted by the Company to the relevant Vendors at Completion.

Each of Gainnew and Jade Ahead has undertaken to the Purchasers and the Company that it shall not, and shall procure that its nominee shall not, without the prior written consent of the Purchasers, dispose of any of the Consideration Shares within 12 months following Completion.

The Consideration was determined by arm's length negotiations between the Parties having regard to a number of factors including the operational performance of Lenovo Mobile, in particular, the turnaround from operating loss to profit, market position and future prospects of the mobile handset business of Lenovo Mobile.

## LETTER FROM THE BOARD

### Effect on Shareholding Structure

The following table summarises the shareholding structure of the Company as at the Latest Practicable Date, and immediately after Completion and the allotment and issue of the Consideration Shares (without taking into account the possible adjustment with reference to the Net Cash Balance):

Name of Shareholders	As at the Latest Practicable Date and before Completion				Immediately after Completion and the allotment and issue of Consideration Shares			
	No. of ordinary shares	Approximate percentage	Total voting rights (including convertible preferred shares)	Approximate percentage	No. of ordinary shares	Approximate percentage	Total voting rights (including convertible preferred shares)	Approximate percentage
Legend Holdings	4,116,933,971	43.267%	4,116,933,971	41.424%	4,169,690,949	43.455%	4,169,690,949	41.618%
IBM	435,717,757	4.579%	435,717,757	4.384%	435,717,757	4.541%	435,717,757	4.349%
Directors	65,341,535	0.687%	65,341,535	0.657%	65,341,535	0.681%	65,341,535	0.652%
Holders of convertible preferred shares ( <i>Note</i> )	-	-	423,394,126	4.261%	-	-	423,394,126	4.226%
Gainnew	-	-	-	-	28,137,055	0.293%	28,137,055	0.281%
Public	4,897,156,078	51.467%	4,897,156,078	49.274%	4,896,594,078	51.030%	4,896,594,078	48.874%
<b>Total</b>	<b>9,515,149,341</b>	<b>100%</b>	<b>9,938,543,467</b>	<b>100%</b>	<b>9,595,481,374</b>	<b>100%</b>	<b>10,018,875,500</b>	<b>100%</b>

*Note:* Holders of convertible preferred shares include TPG holding total voting rights of 241,871,559; General Atlantic holding total voting rights of 121,054,678 and Newbridge holding total voting rights of 60,467,889 as at the Latest Practicable Date and immediately after Completion and the allotment and issue of Consideration Shares.

### Adjustments with reference to the Net Cash Balance

If the Net Cash Balance exceeds the Agreed Cash Balance, the Purchasers (in the proportion of 70% in the case of Lenovo Manufacturing HK and 30% in the case of Lenovo Beijing) shall reimburse the Vendors the excess amount (the “**Excess Amount**”), subject to the maximum amount of US\$60 million. The Excess Amount will be settled in cash, except for Gainnew where the relevant portion of the Excess Amount will be satisfied in full by the issue and allotment of Shares and Jade Ahead where the relevant portion of the Excess Amount will be satisfied partly by the issue and allotment of Shares and partly in cash. If the Net Cash Balance is below the Agreed Cash Balance, the Vendors shall pay the shortfall (the “**Shortfall**”) to the Purchasers in proportion to their respectively Equity Interest (i.e. 20% by Gainnew, 30% by Shenzhen Investment, 40% by Jade Ahead and 10% by Super Pioneer).

The Excess Amount or the Shortfall (as applicable) shall be payable by the Purchasers to the Vendors (or by the Vendors to Purchasers (as the case may be)) within five Business Days of the determination and agreement of the Net Cash Balance by the Parties.

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## LETTER FROM THE BOARD

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### Conditions:

The sale and purchase of the Equity Interest under the Sale and Purchase Agreement is conditional upon satisfaction or waiver of (as the case may be), inter alia, the following conditions:

- (i) the licences, authorisations, consents, registrations and any other approvals necessary, or desirable for the Completion, including all approvals and the amended business licence of Lenovo Mobile from the relevant PRC government authority and other relevant PRC government authorities approving the Acquisition and any agreement in relation to the Acquisition, having been granted by the requisite governmental, court or other regulatory bodies;
- (ii) the passing of an unanimous resolution of the board of directors of Lenovo Mobile approving the transfer of the Equity Interest and all other documents and transactions incidental to and as contemplated under the Sale and Purchase Agreement;
- (iii) the obtaining by each of the Vendors, the Purchasers and the Company of all necessary consents, authorisations and approvals (or, as the case may be, waivers) in connection with the entering into and performance of the terms of the Sale and Purchase Agreement, all documents to be entered into pursuant to the Sale and Purchase Agreement and the transactions contemplated therein (including but not limited to the passing of an ordinary resolution by the Independent Shareholders at the EGM by poll in respect of the Acquisition and the issue of Consideration Shares as may be required under the Listing Rules);
- (iv) the Purchasers being reasonably satisfied that the audited accounts of each of the Lenovo Mobile Group companies for the year ended 31 December 2008 and the unaudited internal accounts of each of the Lenovo Mobile Group companies for the 9 months ended 30 September 2009 were correct in all material aspects and the Purchasers having received explanations satisfactory in all material respects concerning any discrepancies that may have been discovered by the Purchasers in relation to any item contained in either the accounts or statements;
- (v) the repayment of all debts outstanding, to the extent applicable, between Lenovo Mobile and members of each of the Vendor's group (other than in respect of any trading in the ordinary course of business between such entities, which shall be paid in accordance with existing arrangements);
- (vi) the compliance with pre-Completion undertakings; and
- (vii) the admission of the Consideration Shares for trading on the Main Board of the Stock Exchange.

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## LETTER FROM THE BOARD

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The Vendors, the Purchasers and the Company shall use all reasonable endeavors to ensure the satisfaction of the Condition(s) to the extent they are related to the respective party. To the extent thought fit by the Purchasers and permitted by applicable law and regulations, the Purchaser may at any time by notice to the Vendors in writing waive all or any of the Conditions.

In the event that not all the Conditions have been fulfilled or waived as aforesaid by 30 April 2010 (or such later date as the Vendors and the Purchasers may agree in writing), the Sale and Purchase Agreement shall terminate and no Party shall have any claim against the other except for any breaches of the clause regarding the publication of announcement and confidentiality under the Sale and Purchase Agreement.

### **Completion:**

Completion shall take place on the third Business Day following the fulfillment or waiver of the last of the Conditions, or on such other date as may be agreed in writing between the Parties.

### **Non-competition undertaking by the Vendors**

In order to protect Lenovo Mobile Group's goodwill and confidential information, the Vendors have undertaken with the Purchasers that they will not and will procure that none of their respective subsidiaries will, directly or indirectly for a period of five years from the date of Completion or such shorter period as recognized by or acceptable under applicable law as capable of being binding on the Vendors (a) solicit or canvass or endeavour to entice away from the business(es) of any member of the Lenovo Mobile Group any person who was a customer, supplier or agent of such business(es) at any time during the five years prior to Completion; and (b) solicit or entice away from the Lenovo Mobile Group any employee (for the avoidance of doubt, including directors except for directors who did not hold an executive function within the Lenovo Mobile Group), or endeavour to solicit or engage any person who during the three years prior to Completion was an employee of any member of the Lenovo Mobile Group.

## **III INFORMATION ON THE GROUP, THE VENDORS AND LENOVO MOBILE**

### **The Group**

The principal activities of the Company and its subsidiaries are the sales and manufacture of personal computers and related IT products and the provision of advanced information services in the PRC, the Americas, Europe, Middle East, Africa and Asia Pacific. As at the Latest Practicable Date, Legend Holdings is directly or indirectly through its wholly-owned subsidiary, Right Lane Limited, interested in 4,116,933,971 ordinary shares in the share capital of the Company, representing approximately 41.424% of existing issued share capital of the Company as if all preference shares are fully converted into ordinary shares.

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## LETTER FROM THE BOARD

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### Lenovo Mobile

Lenovo Mobile is a sino-foreign equity joint venture established and existing under the laws of the PRC and principally engaged in the manufacture and sale of mobile handset devices in the PRC.

The audited key financial information for the two years ended 31 December 2007 and 2008; and the unaudited key financial information for the six months ended 30 June 2009 of Lenovo Mobile/Lenovo Mobile Group are as follows:

<i>(RMB' 000)</i>	<b>Year ended 31 December</b>		<b>Six months ended</b>
	<b>2007</b>	<b>2008</b>	<b>30 June</b>
	(audited)	(audited)	(unaudited)
Sales	3,387,942	2,883,399	1,273,178
EBIT/(LBIT)	(234,859)	39,359	43,773
Profit/(loss) before taxation	(234,859)	34,118	39,990
Profit/(loss) after taxation	(183,971)	30,389	39,990
Net asset value	240,120	270,509	307,987
Net working capital	37,885	106,492	150,014

The audited and unaudited financial statements of Lenovo Mobile/Lenovo Mobile Group during the relevant period were prepared based on the generally accepted accounting principles in the PRC.

### The Vendors

Jade Ahead is a special purpose company incorporated in Hong Kong with limited liability, which is wholly-owned by Hony Fund. Hony Fund is an investment fund which is a Cayman Islands exempted limited partnership. It is indirectly controlled by Hony Capital Management III Limited, a company which is owned as to 45% by Legend Holdings (through its wholly-owned subsidiary, Right Lane Limited) and 55% by Mr. John Huan Zhao, who is not a connected person of the Company. Hony Fund is an investment fund with over 20 institutional investors.

Gainnew is a special purpose company incorporated in Hong Kong with limited liability, which is controlled by Mr. Lu Yan (吕岩) who is a connected person of the Company by virtue of his directorship of Shenzhen Lenovo. Mr. Lu is also the chief executive officer of Lenovo Mobile. Other beneficial owners of the shares of Gainnew comprise mainly of existing management of Lenovo Mobile.

Shenzhen Investment is a limited liability company incorporated in the PRC which is controlled by Mr. Yu Bing (俞兵).



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## LETTER FROM THE BOARD

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Super Pioneer is a special purpose company incorporated in the BVI with limited liability. Super Pioneer is a venture capital fund owned by Mr. Wu To Hing (胡道鑫) focusing on the investments in high technology businesses and provision of investment consultancy services.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Shenzhen Investment, Super Pioneer and their ultimate beneficial owner are third parties independent of the Company and its connected persons.

#### IV CONNECTED RELATIONSHIP

Legend Holdings, the controlling Shareholder, is also indirectly interested in more than 30% of the issued share capital of Jade Ahead. This results in Jade Ahead being regarded as an associate of Legend Holdings. Gainnew is a company controlled by a director of Shenzhen Lenovo, a wholly-owned subsidiary of the Company. Accordingly, Jade Ahead, being an associate of a substantial shareholder of the Company and Gainnew, being an associate of a director of a subsidiary of the Company are connected persons of the Company under Chapter 14A of the Listing Rules. The transaction between any member of the Group on one hand and Jade Ahead and Gainnew or their associates on the other is a connected transaction of the Company.

#### V REASONS FOR THE TRANSACTIONS

Convergence between the personal computing and mobile handset industry has been a key technology trend over the past several years. The two technologies today provide very different user experiences that are evolving and combining to create new generations of devices, applications and internet services. In addition, China is entering into a high growth phase, driven by 3G and handheld device technology. The Directors believe that as major technology shifts and user behavior evolves, significant growth opportunity for mobile internet devices in China will emerge.

The Group has been investing over the years in developing an innovative and customer-focused mobile internet device to capture the market opportunities in China. Consequently, as a result of the current integration of the personal computer and mobile handset markets described above coupled with the Group's focus on the development of leading edge mobile internet devices, the Directors now consider that it is appropriate to move aggressively to capture the opportunity in the mobile internet business. Consequently, the Directors believe that the acquisition of a well-managed mobile handset operation will provide the Group with an effective platform to accelerate development in order to achieve its strategic objective.

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## LETTER FROM THE BOARD

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The Group started a mobile handset business, Lenovo Mobile in 2002, but it decided to withdraw from the mobile handset market in 2008 to return its focus to the personal computer business. Since the sale in 2008, Lenovo Mobile has noticeably improved its financial position and market presence under decisive management actions and positioned itself for growth. The Directors believe that through the Acquisition, the Group can exploit Lenovo Mobile's experienced and successful leadership team in the China mobile industry. Specifically they will leverage Lenovo Mobile's knowledge in the entire value chain of handset business, in particular, with handset channel management which is complementary to the Group's personal computer channel experience, as well as, its connection with the China telecom operators. The Directors believe that the Group can accelerate its development in the mobile internet business by leveraging Lenovo Mobile as an effective platform, and strengthen its ability to capture the significant mobile internet market growth opportunity in China.

### VI DIRECTORS' VIEWS

Each of Mr. Liu Chuanzhi and Mr. Zhu Linan being a Director and also a director of Legend Holdings, and Dr. Wu Yibing, being a Director nominated by Legend Holdings are interested in the transactions contemplated under the Sale and Purchase Agreement, and each has abstained in approving the relevant transactions in accordance with the Articles of Association and other applicable laws and regulations.

The Directors (including the independent non-executive Directors but excluding Mr. Liu Chuanzhi, Mr. Zhu Linan and Dr. Wu Yibing who have abstained in approving the transaction due to their interests in the transactions) consider that the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms which are fair and reasonable, and that entering into such an agreement is in the best interests of the Group and the shareholders of the Company as a whole.

### VII EGM

The notice convening the EGM to be held at Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 22 January 2010 at 9:00 a.m. at which the Resolution will be proposed is set out on pages 37 and 38 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Abacus Ltd., at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjourned meeting (as the case may be) should you so wish.

Pursuant to rule 13.39(4) of the Listing Rules, the votes taken at the EGM to seek approval from the shareholders will be taken by poll.

The Company will publish an announcement on the results of the EGM with respect to whether or not the Resolution has been passed by the Independent Shareholders.

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## LETTER FROM THE BOARD

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### VIII GENERAL

Legend Holdings, Mr. Liu Chuanzhi and Mr. Zhu Linan and their respective associates which has or is deemed to have a material interest in the transactions contemplated under the Sale and Purchase Agreement shall abstain from voting on the Resolution in connection with the approval of the Sale and Purchase Agreement, the issue of Consideration Shares and the transactions contemplated thereunder at the EGM.

As at the Latest Practicable Date, (1) Legend Holdings, directly and indirectly, held 4,116,933,971 Shares representing approximately 41.424% of the total voting rights in the Company (including Shares and convertible preferred shares which carry voting rights as if they are fully converted into Shares); (2) Mr. Liu Chuanzhi, together with his associates, held 17,213,356 Shares representing approximately 0.173% of the total voting rights in the Company (including Shares and convertible preferred shares which carry voting rights as if they are fully converted into Shares) and (3) Mr. Zhu Linan held 3,947,356 Shares representing approximately 0.040% of the total voting rights in the Company (including Shares and convertible preferred shares which carry voting rights as if they are fully converted into Shares). In aggregate, Legend Holdings, Mr. Liu Chuanzhi and Mr. Zhu Linan and their respective associates, who are required under the Listing Rules to abstain from voting on the Resolution in connection with the approval of the Sale and Purchase Agreement at the EGM, held approximately 41.637% of the total voting rights in the Company (including Shares and convertible preferred shares which carry voting rights as if they are fully converted into Shares).

As at the Latest Practicable Date, as far as the Company is aware, and having made all reasonable enquiries:

- (a) Legend Holdings controlled or was entitled to exercise control over the voting rights in respect of its Shares;
- (b) (i) there were no voting trusts or other agreements or arrangements or understandings (other than an outright sale) entered into by or binding upon Legend Holdings; and  
(ii) there were no obligations or entitlements of Legend Holdings, whereby such persons have or might have temporarily or permanently passed control over the exercise of the voting rights in respect of its Shares to third parties, either generally or on a case-by-case basis;
- (c) there were no discrepancies between the beneficial shareholding interests of Legend Holdings in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting right at the EGM.

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## LETTER FROM THE BOARD

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### IX RECOMMENDATIONS

The Independent Board Committee is required to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder. The IFA has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 19 to 20 of this circular, which contains its recommendations to the Independent Shareholders, and the letter from the IFA set out on pages 21 to 31 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

Having taken into account the recommendation and advice from the IFA in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (as contained in “Letter from the IFA” on pages 21 to 31 of this circular), the Independent Board Committee is of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the entering into of the Sale and Purchase Agreement, in accordance with its terms are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors but excluding Mr. Liu Chuanzhi, Mr. Zhu Linan and Dr. Wu Yibing who have abstained in approving the transaction due to their interests in the transaction) consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the entering into of the Sale and Purchase Agreement, in accordance with its terms are in the interests of the Company and the Shareholders as a whole and so far as the Company and the Independent Shareholders are concerned. As such, the Board recommends the Independent Shareholders to vote in favour of the Resolution.

Your attention is drawn to the letter from the Independent Board Committee, the letter from the IFA and the general information set out in the appendix to this circular.

By Order of the Board  
**Liu Chuanzhi**  
*Chairman*

**lenovo** 联想

Lenovo Group Limited 联想集团有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 0992)

18 December 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED AND SHARE TRANSACTION  
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
LENOVO MOBILE**

We refer to the circular of the Company to the Shareholders dated 18 December 2009 (the “**circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the circular.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned. The IFA has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

We wish to draw your attention to the letter of advice from the IFA as set out on pages 21 to 31 of the circular and the letter from the Board set out on pages 7 to 18 of the circular.

Having taken into account the information contained in the “Letter from the Board” and the recommendation and advice of the IFA, we are of the opinion that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of Consideration Shares), in accordance with the terms set out in the Sale and Purchase Agreement are in the interests of the Company and the Shareholders as a whole and so far as the Company and the Independent Shareholders are concerned.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Accordingly, we recommend the Independent Shareholders to vote in favour of the Resolution.


Yours faithfully,  
Independent Board Committee  
**Professor Woo Chia-Wei**  
**Mr. Ting Lee Sen**  
**Dr. Tian Suning**  
**Mr. Nicholas C. Allen**

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## LETTER FROM CREDIT SUISSE

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*The following is the text of the letter of advice from the IFA, the independent financial adviser to the Independent Board Committee and Independent Shareholders, in respect of the Sale and Purchase Agreement, which has been prepared for the purpose of inclusion in this circular.*

  
CREDIT SUISSE  
Credit Suisse (Hong Kong) Limited  
45/F Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

18 December 2009

The Independent Board Committee  
Lenovo Group Limited  
23/F, Lincoln House,  
Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

The Independent Shareholders

### CONNECTED TRANSACTION

#### Acquisition of the entire equity interest in Lenovo Mobile

Dear Sirs,

#### INTRODUCTION

We refer to the Sale and Purchase Agreement, details of which are set out in the Company's circular dated December 18, 2009 (the "**Circular**"), which contains this letter. Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Under the Listing Rules, the Acquisition constitutes a non-exempt connected transaction for the Company and, pursuant to the provisions thereof, is subject to, among other things, approval by the Independent Shareholders at the EGM.

We have been appointed to act as the IFA to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition, from a financial point of view. This letter has been prepared and delivered for the purpose of assisting the Independent Board Committee in its duty to evaluate the abovementioned aspects and for no other reasons or purposes.

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## LETTER FROM CREDIT SUISSE

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In formulating our opinion, we have reviewed, among other things, the Circular as well as the information and financial projections prepared by the Group and the Lenovo Mobile Group relating to the Lenovo Mobile Group. In arriving at our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to us by, or on behalf of, the management of the Group or the Lenovo Mobile Group or otherwise reviewed by us (which information includes, without limitation, the information cited herein), and we have not assumed any responsibility or liability thereof, nor have we conducted independent legal due diligence or due diligence investigation of the business, assets, liabilities, properties, operations, conditions (financial and otherwise), results of operations, contingent liabilities, material agreements and prospects of the Lenovo Mobile Group. We have further considered the views of the Board as stated in the “Letter from the Board” that: (i) the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms which are fair and reasonable; (ii) the Consideration was determined by arm’s length negotiations between the Parties; and (iii) that entering into such an agreement is in the best interests of the Group and the shareholders of the Company as a whole. We have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular and we have no reasons to believe that any material information has been withheld, or doubt the truth or accuracy of the information provided.

We have also assumed that the Sale and Purchase Agreement is enforceable against each of the Parties thereto in accordance with its terms and that each of the Parties will perform, and will be able to perform, its respective contractual obligations thereunder, and as otherwise described in the Circular, in full when due. We have further assumed that all material governmental, regulatory or other consents and approvals necessary for the completion of the Acquisition will be obtained without any adverse effect on the Company or on the contemplated benefits of the Acquisition. We have not conducted any valuation or appraisal of any assets or liabilities, nor have any such valuations or appraisals been provided to us. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by the management of the Company and of the Lenovo Mobile Group as to the expected future results of operations and the financial condition of the Lenovo Mobile Group to which such analyses or forecasts relate.

Our opinion is necessarily based on the legal and regulatory environment, economic market and other conditions as in effect on, and the information made available to us as at, the date hereof. It should be understood that subsequent developments (including any material deviations from the financial analyses and forecasts provided to us) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

Our opinion is also subject to the following qualifications:

- (a) We are instructed as the IFA to the Independent Board Committee in relation to the Acquisition. As such, the scope of our review, and consequentially, our opinion, is limited by reference to the financial aspects of the Acquisition and does not include any statement or opinion as to the legal aspects or otherwise of the Acquisition;



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## LETTER FROM CREDIT SUISSE

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- (b) We do not express any opinion or statement as to whether any similar terms or transactions akin to the terms proposed for the Acquisition are or might be available from any independent third parties, nor as to whether any independent third parties might offer similar or better terms for a similar transaction;
- (c) It is not possible to confirm whether or not the Acquisition is in the interests of each individual Independent Shareholder and each Independent Shareholder should consider his/her/its vote on the merits or otherwise of the Acquisition in its own circumstances and from its own point of view having regard to all the circumstances (and not only the financial perspectives offered in this letter) as well as his/her/its own investment objectives;
- (d) In preparing this letter and in giving any opinion or advice, we have only had regard to the Acquisition in isolation, and not in connection with any other business plan or strategy, past or present with regard to the Company or the Group as a whole, nor have we viewed these as part of a series of other transactions or arrangements;
- (e) We express no opinion as to whether the Acquisition will be completed nor whether it will be successful;
- (f) Nothing contained in this letter should be construed as us expressing any view as to the trading price or market trends of any securities of the Company at any particular time;
- (g) Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any securities of the Company; and
- (h) We were not requested to and did not provide advice concerning the structure, the specific amount of the consideration, the timing, pricing, size, feasibility or any other aspects of the Acquisition, or to provide services other than the delivery of this opinion. We did not participate in negotiations with respect to the terms of the Acquisition.

We will receive a fee from the Company for the delivery of this opinion.

### FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration each of the principal factors and reasons set out below. Our conclusions are based on the results of all analyses taken as a whole.

#### 1. Transaction overview

Pursuant to the terms and conditions of the Sale and Purchase Agreement, between Gainnew, Shenzhen Investment, Jade Ahead and Super Pioneer (as the Vendors), Lenovo Beijing and Lenovo Manufacturing HK (both being wholly-owned subsidiaries of the

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## LETTER FROM CREDIT SUISSE

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Company, as the Purchasers) and the Company, and subject to certain conditions, the Vendors have agreed to sell, and the Purchasers have agreed to purchase, the Equity Interest free from any encumbrances and together with all rights and advantages attaching to it at Completion. Subject to Completion, the Parties further agreed that the Option granted to Lenovo Manufacturing BVI shall lapse.

The Consideration is US\$200 million which will be settled as to US\$154 million by Cash Consideration and as to US\$46 million by the issue of 80,894,033 Consideration Shares, based on a share price of HK\$4.407, and subject to adjustment with reference to the Net Cash Balance.

Each of Gainnew and Jade Ahead has undertaken to the Purchasers and the Company that it shall not, and shall procure that its nominee shall not, without the prior written consent of the Purchasers, dispose of any of the Consideration Shares within 12 months following Completion.

### *Adjustments with reference to the Net Cash Balance*

If the Net Cash Balance exceeds the Agreed Cash Balance, the Purchasers (in the proportion of 70% in the case of Lenovo Manufacturing HK and 30% in the case of Lenovo Beijing) shall reimburse the Vendors the excess amount (the “**Excess Amount**”), subject to the maximum amount of US\$60 million. The Excess Amount will be settled in cash, except for Gainnew where the relevant portion of the Excess Amount will be satisfied in full by the issue and allotment of Shares and Jade Ahead where the relevant portion of the Excess Amount will be satisfied partly by the issue and allotment of Shares and partly in cash. If the Net Cash Balance is below the Agreed Cash Balance, the Vendors shall pay the shortfall to the Purchasers in proportion to their respective Equity Interest (i.e. 20% by Gainnew, 30% by Shenzhen Investment, 40% by Jade Ahead and 10% by Super Pioneer).

We note that pursuant to the Net Cash Balance adjustment, the maximum Consideration is US\$260 million.

## **2. Information on the Lenovo Mobile Group**

The financial information set out below has been extracted from the Circular.

Lenovo Mobile is a sino-foreign equity joint venture established and existing under the laws of the PRC and principally engaged in the manufacture and sale of mobile handset devices in the PRC.

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## LETTER FROM CREDIT SUISSE

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The audited key financial information for the two years ended 31 December 2007 and 2008; and the unaudited key financial information for the six months ended 30 June 2009 of Lenovo Mobile/Lenovo Mobile Group are as follows:

<i>(RMB' 000)</i>	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>
	<b>2007</b> (audited)	<b>2008</b> (audited)	<b>2009</b> (unaudited)
Sales	3,387,942	2,883,399	1,273,178
EBIT/(LBIT)	(234,859)	39,359	43,773
Profit/(loss) before taxation	(234,859)	34,118	39,990
Profit/(loss) after taxation	(183,971)	30,389	39,990
Net asset value	240,120	270,509	307,987
Net working capital	37,885	106,492	150,014

The audited and unaudited financial statements of Lenovo Mobile/Lenovo Mobile Group during the relevant period were prepared based on the generally accepted accounting principles in the PRC.

### **3. Rationale for the Acquisition**

The reasons for the Acquisition set out below have been extracted from the Circular.

The Board considers that convergence between the personal computing and mobile handset industry has been a key technology trend over the past several years. The two technologies today provide very different user experiences that are evolving and combining to create new generations of devices, applications and internet services. In addition, China is entering into a high growth phase, driven by 3G and handheld device technology. The Directors believe that as major technology shifts and user behavior evolves, significant growth opportunity for mobile internet devices in China will emerge.

The Group has been investing over the years in developing an innovative and customer-focused mobile internet device to capture the market opportunities in China. Consequently, as a result of the current integration of the personal computer and mobile handset markets described above coupled with the Group's focus on the development of leading edge mobile internet devices, the Directors now consider that it is appropriate to move aggressively to capture the opportunity in the mobile internet business. Consequently, the Directors believe that the acquisition of a well-managed mobile handset operation will provide the Group with an effective platform to accelerate development in order to achieve its strategic objective.

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## LETTER FROM CREDIT SUISSE

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The Group started a mobile handset business, Lenovo Mobile in 2002, but it decided to withdraw from the mobile handset market in 2008 to return its focus to the personal computer business. Since the sale in 2008, Lenovo Mobile has noticeably improved its financial position and market presence under decisive management actions and positioned itself for growth. The Directors believe that through the Acquisition, the Group can exploit Lenovo Mobile's experienced and successful leadership team in the China mobile industry. Specifically they will leverage Lenovo Mobile's knowledge in the entire value chain of handset business, in particular, with handset channel management which is complementary to the Group's personal computer channel experience, as well as, its connection with the China telecom operators. The Directors believe that the Group can accelerate its development in the mobile internet business by leveraging Lenovo Mobile as an effective platform, and strengthen its ability to capture the significant mobile internet market growth opportunity in China.

#### **4. Basis of the Consideration**

As noted in the "Letter from the Board", the Acquisition was determined by arm's length negotiations between the Parties having regard to a number of factors including the operational performance of Lenovo Mobile, in particular, the turnaround from operating loss to profit, market position and future prospects of the mobile handset business of Lenovo Mobile.

As stated in the "Letter from the Board", the Board considers that the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms which are fair and reasonable, and that entering into such an agreement is in the best interests of the Group and the shareholders of the Company as a whole.

#### **5. Valuation of Lenovo Mobile**

We have analysed the Consideration using two valuation methodologies that are commonly used by investment professionals when estimating the value of a company: (i) the discounted cash flow ("DCF") analysis; and (ii) the comparable company trading analysis.

##### *(i) Discounted cash flow analysis*

We have used the DCF analysis as the primary valuation methodology as in our view it explicitly accounts for the future financial and operating performance of the Lenovo Mobile Group. The methodology takes into consideration the current and future anticipated change in the market in which the Lenovo Mobile Group operates in, as well as its long-term business plan and strategy, its cost structure, capital expenditure requirements and cost of capital.

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## LETTER FROM CREDIT SUISSE

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Our DCF analysis reflects the business plans and financial projections of the Lenovo Mobile Group and other relevant information provided by the Lenovo Mobile Group and the Company, as well as our discussions with the Lenovo Mobile Group and its representatives. We have reviewed the key assumptions and operating data of the Lenovo Mobile Group in the context of the overall conditions of the market in which the Lenovo Mobile Group operates. Specifically, our DCF analysis is based on the projected unlevered free cash flows of the Lenovo Mobile Group that are drawn from its projected income statement and cash flow statement. We have made relevant adjustments to certain assumptions (for example, to projected revenue growth and capital expenditure to reflect broker and market research estimates) to reasonably reflect our views of the future performance of the Lenovo Mobile Group.

The Consideration for the Acquisition of US\$200 million is within the range of values implied by our DCF analysis. Our range of values reflects our DCF analyses based on: (i) the financial projections provided by the Lenovo Mobile Group; and (ii) the financial projections that reflect our adjustments.

*(ii) Comparable company trading analysis*

We have carried out a comparable company trading analysis using enterprise value/revenue (“**EV/revenue**”), enterprise value/EBIT (“**EV/EBIT**”) and price/earnings (“**P/E**”) multiples of comparable companies in the mobile handset industry and related industries. We have considered the EV/revenue, EV/EBIT and P/E multiples for the following comparable companies (the “**Comparable Companies**”): Nokia Corporation, Research in Motion Limited, ZTE Corporation, HTC Corporation and TCL Communication Technology Holdings Limited. We selected the Comparable Companies after reviewing publicly available information and taking into consideration each company’s exposure to the mobile handset market, exposure to China, size, growth profile and profitability.

Based on the H1 2009 financials disclosed in the Circular and assuming an Agreed Cash Balance of US\$50 million, the assumed Consideration of US\$200 million for the Acquisition implies an enterprise value (“EV”) of US\$150 million and an H1 2009 annualised:

- EV/revenue multiple of approximately 0.4 times based on the H1 2009 revenue of Lenovo Mobile of RMB1,273.18 million for H1 2009; and
- EV/EBIT multiple of approximately 11.7 times based on the H1 2009 EBIT of Lenovo Mobile of RMB 43.77 million for H1 2009; and
- P/E multiple of approximately 17.1 times based on the H1 2009 net income of Lenovo Mobile of RMB 39.99 million for H1 2009.

We compared these multiples to the average multiples of the Comparable Companies, as set out in the table below. As shown in the table, the valuation

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## LETTER FROM CREDIT SUISSE

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multiples implied by the Acquisition are below the average multiples of the Comparable Companies. Accordingly, the multiples of the Acquisition are considered reasonable when compared to the multiples of the group of Comparable Companies.

All H1 2009 annualised figures are only intended for ease of illustration and are not intended in any way as an indication of the projected full year figures.

<b>H1 2009 annualised basis</b>	<b>EV/REVENUE</b>	<b>EV/EBIT</b>	<b>P/E</b>
Lenovo Mobile	0.4x	11.7x	17.1x
<b>Based on the Latest</b>			
<b>Practicable Date</b>	<b>EV/REVENUE<sup>(1)</sup></b>	<b>EV/EBIT<sup>(1)</sup></b>	<b>P/E<sup>(1)</sup></b>
Nokia Corporation	0.9x	26.3x	32.3x
Research in Motion Limited	2.5x	11.6x	16.4x
ZTE Corporation	1.4x	27.1x	44.6x
HTC Corporation	1.6x	9.1x	12.0x
TCL Communication Technology Holdings Limited	0.4x	n.m.	n.m.
<b>Average</b>	1.4x	18.5x	26.4x
<b>(Discount)/Premium to average</b>	(70.2%)	(36.9%)	(35.2%)

*Source: Share prices from Factset*

(1) Equity values based on share prices as at the Latest Practicable Date. Enterprise value adjustments (net debt, minorities and associates) as per the latest published consolidated financial statements available on the Latest Practicable Date. EBIT and net income as per the H1 2009 published financial statements (as 30 June 2009, except for Research in Motion Limited where H1 2009 financials are for the 6-month period ended 29 August 2009) of the relevant Comparable Companies and annualised

(2) "n.m." means not meaningful in the case where the underlying EBIT and earnings figures are negative

*(iii) Comparable transaction analysis*

Comparable transaction analysis should be viewed in the context of factors that include market dynamics, competitive differences and significance of stake acquired. However, due to the limited number of transactions in the mobile handset industry and lack of data for these transactions, we have been unable to perform a meaningful analysis using this methodology.

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## LETTER FROM CREDIT SUISSE

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### 6. Conditions of the Acquisition

As stated in the Circular, the sale and purchase of the Equity Interest under the Sale and Purchase Agreement is conditional upon satisfaction or waiver of (as the case may be), inter alia, the following conditions:

- (i) the licences, authorisations, consents, registrations and any other approvals necessary, or desirable for the Completion, including all approvals and the amended business licence of Lenovo Mobile from the relevant PRC government authority and other relevant PRC government authorities approving the Acquisition and any agreement in relation to the Acquisition, having been granted by the requisite governmental, court or other regulatory bodies;
- (ii) the passing of an unanimous resolution of the board of directors of Lenovo Mobile approving the transfer of the Equity Interest and all other documents and transactions incidental to and as contemplated under the Sale and Purchase Agreement;
- (iii) the obtaining by each of the Vendors, the Purchasers and the Company of all necessary consents, authorisations and approvals (or, as the case may be, waivers) in connection with the entering into and performance of the terms of the Sale and Purchase Agreement, all documents to be entered into pursuant to the Sale and Purchase Agreement and the transactions contemplated therein (including but not limited to the passing of an ordinary resolution by the Independent Shareholders at the EGM by poll in respect of the Acquisition and the issue of Consideration Shares as may be required under the Listing Rules);
- (iv) the Purchasers being reasonably satisfied that the audited accounts of each of the Lenovo Mobile Group companies for the year ended 31 December 2008 and the unaudited internal accounts of each of the Lenovo Mobile Group companies for the 9 months ended 30 September 2009 were correct in all material aspects and the Purchasers having received explanations satisfactory in all material respects concerning any discrepancies that may have been discovered by the Purchasers in relation to any item contained in either the accounts or statements;
- (v) the repayment of all debts outstanding, to the extent applicable, between Lenovo Mobile and members of each of the Vendor's group (other than in respect of any trading in the ordinary course of business between such entities, which shall be paid in accordance with existing arrangements);
- (vi) the compliance with pre-Completion undertakings; and
- (vii) the admission of the Consideration Shares for trading on the Main Board of the Stock Exchange.

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## LETTER FROM CREDIT SUISSE

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### 7. Non-competition undertaking by the Vendors

In order to protect the Lenovo Mobile Group's goodwill and confidential information, the Vendors have undertaken with the Purchasers that they will not and will procure that none of their respective subsidiaries will, directly or indirectly for a period of five years from the date of Completion or such shorter period as recognised by or acceptable under applicable law as capable of being binding on the Vendors: (a) solicit or canvass or endeavour to entice away from the business(es) of any member of the Lenovo Mobile Group any person who was a customer, supplier or agent of such business(es) at any time during the five years prior to Completion; and (b) solicit or entice away from the Lenovo Mobile Group any employee (for the avoidance of doubt, including directors except for directors who did not hold an executive function within the Lenovo Mobile Group), or endeavour to solicit or engage any person who during the three years prior to Completion was an employee of any member of the Lenovo Mobile Group.

### SUMMARY

After considering all of the principal factors and reasons listed above, we draw your attention to the following key factors in arriving at our opinion:

- (a) The Board's views that the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms which are fair and reasonable, and that entering into such an agreement is in the best interests of the Group and the shareholders of the Company as a whole;
- (b) The Board's representation that the Consideration was determined by arm's length negotiations between the Parties having regard to a number of factors including the operational performance of Lenovo Mobile, in particular, the turnaround from operating loss to profit, market position and future prospects of the mobile handset business of Lenovo Mobile; and
- (c) The Consideration: (i) is within the range of the equity values implied by the DCF analysis; and (ii) implies reasonable multiples compared to the relevant trading multiples of the Comparable Companies.

### OPINION

Based on the above, we consider that the terms of the Acquisition are on normal commercial terms. Furthermore, we consider the terms of the Acquisition to be fair and reasonable, so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole.

Accordingly, we advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the Acquisition.



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## LETTER FROM CREDIT SUISSE

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This letter is provided to the Independent Board Committee and the Independent Shareholders in connection with and for the purposes of their evaluation of the Acquisition. The opinion contained in this letter is intended to provide only one of the bases on which the Independent Board Committee may make their recommendation to the Independent Shareholders on how to vote, and on which the Independent Shareholders may decide how to vote, in respect of the Acquisition. This letter may not be disclosed, referred or communicated (in whole or in part) to any third party for any purpose whatsoever, except with our prior written approval. This letter may be reproduced in full in the Circular, but may not otherwise be disclosed, extracted or referred to publicly in any manner without our prior written approval.

Yours faithfully,  
For and on behalf of  
**Credit Suisse (Hong Kong) Limited**  
**Joseph D. Gallagher**  
*Managing Director*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

**DISCLOSURE OF INTERESTS****Interests of Directors**

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “**Model Code**”) were as follows:

*Interests in the Shares and underlying Shares of the Company*

Name of Director	Long/Short position	Interests in Shares/ underlying shares	Capacity and number of Shares/underlying Shares held				Aggregate interests in Shares/ underlying Shares
			Personal interests	Family interests	Trust	Corporate interests	
Mr. Liu Chuanzhi	Long position	Shares	16,237,356	976,000	-	-	17,213,356
	Long position	Share awards	20,032,240	-	-	-	20,032,240
							37,245,596
Mr. Yang Yuanqing	Long position	Shares	17,245,940	-	-	-	17,245,940
	Long position	Share options	9,000,000	-	-	-	9,000,000
	Long position	Share awards	67,584,106	-	-	-	67,584,106
							93,830,046
Mr. Zhu Linan	Long position	Shares	3,947,356	-	-	-	3,947,356
	Long position	Share awards	1,971,453	-	-	-	1,971,453
							5,918,809
Ms. Ma Xuezheng	Long position	Shares	17,588,455	-	7,240,000	-	24,828,455
	Long position	Share options	6,120,000	-	-	-	6,120,000
	Long position	Share awards	8,359,990	-	-	-	8,359,990
							39,308,445

Name of Director	Long/Short position	Interests in Shares/underlying shares	Capacity and number of Shares/underlying Shares held				Aggregate interests in Shares/underlying Shares
			Personal interests	Family interests	Trust	Corporate interests	
Mr. James G. Coulter	Long position	Shares	227,376	–	–	302,339,447*	302,566,823
	Long position	Share awards	1,407,453	–	–	–	1,407,453
							303,974,276
Mr. William O. Grabe	Long position	Shares	579,188	–	–	–	579,188
	Long position	Share awards	2,001,794	–	–	–	2,001,794
							2,580,982
Dr. Wu Yibing	Long position	Share awards	439,213	–	–	–	439,213
Professor Woo Chia-Wei	Long position	Shares	528,812	–	–	–	528,812
	Long position	Share awards	1,997,460	–	–	–	1,997,460
							2,526,272
Mr. Ting Lee Sen	Long position	Shares	298,782	–	–	–	298,782
	Long position	Share awards	1,971,453	–	–	–	1,971,453
							2,270,235
Mr. John W. Barter III	Long position	Shares	412,172	–	–	–	412,172
	Long position	Share awards	1,971,453	–	–	–	1,971,453
							2,383,625
Dr. Tian Suning	Long position	Shares	60,098	–	–	–	60,098
	Long position	Share awards	856,287	–	–	–	856,287
							916,385
Mr. Nicholas C. Allen	Long position	Share awards	156,135	–	–	–	156,135

*Note*

\*: Mr. James G. Coulter has a deemed corporate interest in these underlying shares derived from the convertible preferred shares by virtue of his shareholding in TPG Advisors IV, Inc., Tarrant Capital Advisors, Inc., TPG Advisors III, Inc. and T<sup>3</sup> Advisors II, Inc.. Mr. Coulter's corporate interest in Shares includes his deemed corporate interest in 823,875 preferred shares which are fully convertible into Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to herein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**INTEREST IN CONTRACTS OR ARRANGEMENT AND COMPETING BUSINESS**

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.
- (c) As at the Latest Practicable Date, none of the Directors or their associates has interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**DIRECTORS' INTEREST IN SERVICE CONTRACT**

Saved as disclosed below, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding the contracts expiring or determinable by any member of the Group within one year without payment of compensation, other than statutory compensation).

Mr. Yang Yuanqing, an Executive Director and the existing Chief Executive Officer (former Chairman) of the Company entered into a service contract with the Company for an unfixed term on 9 October 2006. Upon termination of the service contract, Mr. Yang may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on a number of factors including the amount of his unvested equity awards and the entitlement and amount of his annual target bonus. The service contract was approved by the general meeting of the Company held on 7 November 2006 (at which Mr. Yang and his associates abstained from voting) pursuant to Rule 13.68 of the Listing Rules.

**MATERIAL ADVERSE CHANGES**

The Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 March 2009 up to the Latest Practicable Date.

**EXPERT QUALIFICATION AND CONSENT**

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which is contained in this circular:

<b>NAME</b>	<b>QUALIFICATION</b>
Credit Suisse (Hong Kong) Limited	a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) as defined under the SFO

As of the Latest Practicable Date, the IFA held 56,141,904 shares, representing approximately 0.59% of the issued share capital of the Company (excluding convertible preferred shares of the Company). Saved as disclose above, the IFA was not beneficially interested in the share capital in any member of the Group nor has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The IFA has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice dated 18 December 2009 and references to its name, in the form and context in which they appear herein. The letter of advice given by the IFA is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, the IFA has no interest, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2009, the date to which the latest published audited financial statements of the Company were made up.

**MISCELLANEOUS**

- (a) The registered office of the Company is at 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (b) The company secretary of the Company is Mr. Mok Chung Fu, Eric, a solicitor admitted in Hong Kong and England and Wales and an associate member of The Hong Kong Institute of Chartered Secretaries.
- (c) The qualified accountant of the Company is Mr. Wong Wai Ming who is a member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

- (d) The share registrar of the Company is Tricor Abacus Ltd., situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the offices of Norton Rose Hong Kong at 38th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the Sale and Purchase Agreement;
- (b) the service contract between the Company and Mr. Yang Yuanqing entered into on 9 October 2006 (mentioned in the paragraph under the heading "Directors' interest in Service Contract" in the appendix to this circular);
- (c) the letter from the Independent Board Committee;
- (d) the letter from the IFA; and
- (e) the written consent of the IFA referred to in this appendix.

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## NOTICE OF EGM

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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)**

**NOTICE IS HEREBY GIVEN** that an EGM of the Company will be held at Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 22 January 2010 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT**

- (a) the sale and purchase agreement dated 27 November 2009 (the **“Sale and Purchase Agreement”**) in respect of the acquisition of 100% interest in the registered capital of 联想移动通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.) entered into between, Lenovo Manufacturing Limited, Lenovo (Beijing) Limited, Jade Ahead Limited (**“Jade Ahead”**), Gainnew Limited (**“Gainnew”**), Shenzhen AoYinShi Investment LP, Super Pioneer International Limited and the Company (details have been defined in the circular of the Company dated 18 December 2009), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified;
- (b) any one Director or any two Directors (if affixation of the common seal is necessary) or any delegate(s) authorised by such Director(s) be and is/are hereby authorised to sign and/or execute all such other documents, instruments or agreements and to do or take all such actions or things as such Director(s) consider(s) necessary or desirable to implement and/or give effect to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (c) the issue and allotment of 28,137,055 ordinary shares of the Company of par value HK\$0.025 each (**“Shares”**) and 52,756,978 Shares as consideration shares to each of Gainnew and Jade Ahead respectively; and
- (d) the issue and allotment of a maximum 21,102,791 Shares and 15,827,093 Shares as adjustments with reference to the Net Cash Balance (as defined in the Circular) to each of Gainnew and Jade Ahead respectively.”

By Order of the Board  
**Liu Chuanzhi**  
*Chairman*

Hong Kong, 18 December 2009

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## NOTICE OF EGM

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***Registered Office:***

23rd Floor  
Lincoln House  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

***Chairman and Non-executive Director:***

Mr. Liu Chuanzhi

***Executive Director:***

Mr. Yang Yuanqing

***Non-executive Directors:***

Mr. Zhu Linan  
Ms. Ma Xuezheng  
Mr. James G. Coulter  
Mr. William O. Grabe  
Dr. Wu Yibing

***Independent Non-executive Directors:***

Professor Woo Chia-Wei  
Mr. Ting Lee Sen  
Mr. John W. Barter III  
Dr. Tian Suning  
Mr. Nicholas C. Allen

***Notes:***

1. A member entitled to attend and vote at the EGM convened by this notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be completed and lodged at the share registrar of the Company, Tricor Abacus Ltd. at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the EGM or any adjournment thereof.
3. A form of proxy for use at the EGM is enclosed. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.
4. Where there are joint registered holders, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint registered holders be present at the EGM personally or by proxy, then the registered holder so present whose name stands first on the register of members of the Company in respect of such share will alone be entitled to vote in respect thereof.
5. The translation into Chinese language of the notice is for reference only. In case of any discrepancies, the English version shall prevail.
6. Voting at the EGM will be conducted by way of poll.