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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 TRANSACTIONS

SUMMARY

On 18 May 2004, Lenovo Pioneer, an indirect wholly-owned subsidiary of the Company, entered into the Master Agreement with Peak Champion pursuant to which, among other things:

- (1) Peak Champion has agreed to acquire, directly or indirectly, 25% of the entire equity interest in Lenovo Networks from Lenovo Pioneer at a cash consideration of RMB17,550,000 (equivalent to approximately HK\$16,557,000); and
- (2) the parties have agreed that Lenovo Networks may undergo a restructuring so that upon completion of the Master Agreement, the holders of the equity interest of Lenovo Networks will become the shareholders of Networks BVI in the same proportion as their equity interest in Lenovo Networks immediately after SP Completion and Networks BVI will in turn hold 100% of the equity interest in Lenovo Networks.

The principal business of Lenovo Networks is the manufacturing and sale of computer networking products and related accessories carried out mainly in the PRC.

As RLL is a substantial shareholder of the Company, Peak Champion, which is directly wholly-owned by RLL, is an associate of RLL and thus a connected person of the Company within the meaning of the Listing Rules. Under the Listing Rules, execution of the Master Agreement would constitute a connected transaction of the Company and is subject to the disclosure requirements under Rule 14A.56 of the Listing Rules in accordance with Rule 14A.32 of the Listing Rules.

Further details in relation to the connected transaction will be disclosed in the next published annual report of the Company.

A. MASTER AGREEMENT

1. Date

18 May 2004

2. Parties

Vendor : Lenovo Pioneer, a member of the Group

Purchaser : Peak Champion, a direct wholly-owned subsidiary of RLL

3. The Proposed Transactions

Prior to SP Completion, the equity interest in Lenovo Networks is held as to 80% by Lenovo Pioneer and 20% by Century United. Century United is a connected person of the Company by virtue of its equity interests in Lenovo Networks. It is independent of Peak Champion.

Pursuant to the Master Agreement:

- (1) Peak Champion has agreed to acquire, directly or indirectly, 25% of the entire equity interest in Lenovo Networks from Lenovo Pioneer at a cash consideration of RMB17,550,000 (equivalent to approximately HK\$16,557,000); and
- (2) the parties have agreed that Lenovo Networks may undergo a restructuring so that upon completion of the Master Agreement, the holders of the equity interest of Lenovo Networks will become the shareholders of Networks BVI in the same proportion as their equity interest in Lenovo Networks immediately after SP Completion and Networks BVI will in turn hold 100% of the equity interest in Lenovo Networks.

It is contemplated that at the same time as the Sale and Purchase, a third party independent of the Company and its connected persons will acquire 10% of the entire equity interest in Lenovo Networks from Lenovo Pioneer. Immediately after SP Completion and completion of the acquisition by the independent purchaser, Lenovo Networks will be held, directly or indirectly, as to 45% by Lenovo Pioneer, 25% by Peak Champion, 10% by the independent purchaser and 20% by Century United and therefore, Lenovo Networks will cease to be a subsidiary of the Company.

4. The Consideration

The consideration payable by Peak Champion to Lenovo Pioneer shall be satisfied in cash within 3 months upon the approval by the relevant Administration for Industry and Commerce in the PRC. The consideration was determined after arm's length negotiations.

Based on the carrying value of 25% net asset value and goodwill for Lenovo Networks, there would be a gain to the Group of RMB1,602,968 (equivalent to approximately HK\$1,512,000) on the disposal of equity interest in Lenovo Networks pursuant to the Master Agreement.

The proceeds receivable by the Group from the Sale and Purchase will be used for general working capital purposes of the Group.

5. SP Completion

SP Completion shall be conditional upon having obtained (1) the written waiver of the preemptive rights by Century United in respect of the Sale and Purchase; and (2) such approval (where required) of the relevant authorities in respect of the Sale and Purchase, unless such conditions are waived in whole or in part by both parties. Lenovo Pioneer and Peak Champion have agreed to use reasonable endeavours to procure the fulfillment of the conditions in respect of the Sale and Purchase on or before 30 September 2004 or such later date as they may agree. SP Completion and completion of the acquisition by the independent purchaser as described in the paragraph entitled "The Proposed Transactions" above are independent of each other and failure to complete one shall not affect completion of the other.

B. CONNECTED TRANSACTION

As RLL is a substantial shareholder of the Company, Peak Champion, which is directly wholly-owned by RLL, is an associate of RLL and thus a connected person of the Company within the meaning of the Listing Rules. Under the Listing Rules, execution of the Master Agreement would constitute a connected transaction of the Company and is subject to the disclosure requirements under Rule 14A.56 of the Listing Rules in accordance with Rule 14A.32 of the Listing Rules.

Further details in relation to the connected transaction will be disclosed in the next published annual report of the Company.

C. INFORMATION ON LENOVO NETWORKS

Lenovo Networks is a company incorporated in the PRC and its principal business is the manufacturing and sale of computer networking products and related accessories carried out mainly in the PRC. Lenovo Networks has carried on business since June 2002. Based on its financial statements, the net losses before taxation of Lenovo Networks for the years ended 31 December 2002 and 2003 were approximately RMB4,166,000 (equivalent to approximately HK\$3,930,000) (audited) and RMB4,865,000 (equivalent to approximately HK\$4,590,000) (unaudited) respectively. Based on the same financial statements, the net losses after taxation but before minority interests of Lenovo Networks for the years ended 31 December 2002 and 2003 were the same as above.

The investment cost for the acquisition of 25% of the entire equity interest in Lenovo Networks by Lenovo Pioneer was RMB15,947,031 (equivalent to approximately HK\$15,044,000). Total assets of Lenovo Networks as at 31 December 2003 was approximately RMB26,243,000 (equivalent to approximately HK\$24,758,000) and the net asset value of Lenovo Networks as at 31 December 2003 was approximately RMB7,000,000 (equivalent to approximately HK\$6,604,000).

D. REASONS FOR THE PROPOSED TRANSACTION

The Directors believe that by disposing of part of its equity interest in and reorganising the structure of Lenovo Networks, the Group can focus on its core businesses and efficiently allocate resources according to its strategic priorities. In addition, introducing new partners into the business of Lenovo Networks can help to deliver the highest value to customers and, working together, the Directors expect to expand future opportunities and capture new efficiencies.

E. GENERAL

Given the above, the Directors (including the independent non-executive Directors) consider that the terms of the Master Agreement are fair and reasonable, are on normal commercial and in the interests of the Company and its shareholders as a whole.

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

Peak Champion is an investment holding company. The principal activities of RLL are property investment and investment holding.

F. TERMS USED IN THIS ANNOUNCEMENT

“associate(s)” has the meaning ascribed to it under the Listing Rules

“BVI” British Virgin Islands

“Century United”	Century United Investments Limited (世和投資有限公司), a company incorporated in the BVI, which holds a 20% equity interest in Lenovo Networks
“Company”	Lenovo Group Limited (聯想集團有限公司), a company incorporated in Hong Kong with limited liability and shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Lenovo Networks”	聯想網絡(深圳)有限公司 (Lenovo Networks (Shenzhen) Limited), a company incorporated in the PRC
“Lenovo Pioneer”	Lenovo Pioneer Limited (聯想先鋒有限公司), a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing Listing of Securities on the Stock Exchange
“Master Agreement”	the agreement dated 18 May 2004 entered into between Lenovo Pioneer and Peak Champion in relation to, inter alia, the Sale and Purchase
“Networks BVI”	a new company incorporated in the BVI for the purpose of holding 100% equity interest in Lenovo Networks
“Peak Champion”	Peak Champion Investments Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of RLL
“PRC”	The People’s Republic of China
“RLL”	Right Lane Limited (南明有限公司), a company incorporated in Hong Kong and a substantial shareholder of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase”	the sale of 25% equity interest in Lenovo Networks by Lenovo Pioneer to Peak Champion and the purchase of such equity interest by Peak Champion from Lenovo Pioneer
“SP Completion”	completion of the Sale and Purchase
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board of
Directors
Liu Chuanzhi
Chairman

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

Conversion of Renminbi into Hong Kong dollars is based on the exchange rate of HK\$1.00 = RMB1.06.

18 May 2004, Hong Kong

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