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lenovo 联想

Lenovo Group Limited 联想集团有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

**PROPOSED ISSUE OF
UNLISTED CONVERTIBLE PREFERRED SHARES
AND UNLISTED WARRANTS**

On 30 March 2005, the Company entered into the Investment Agreement with the Investors pursuant to which the Investors have agreed to subscribe for, and the Company has agreed to issue, 2,730,000 unlisted Convertible Preferred Shares at an issue price of HK\$1,000 per share and unlisted Warrants to subscribe for 237,417,474 Shares for an aggregate cash consideration of US\$350 million.

The Convertible Preferred Shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5% per annum on the Stated Value of each Convertible Preferred Share. The Convertible Preferred Shares are redeemable, in whole or in part, at a price equal to the Stated Value together with accrued and unpaid dividends at the option of the Company or the Convertible Preferred Shareholders at any time after the Maturity Date. In addition, the Convertible Preferred Shareholders are entitled to require the Company to make an offer to repurchase all or part of the Convertible Preferred Shares at a purchase price equal to the aggregate of 101% of the Stated Value of the Convertible Preferred Shares and 100% of the accrued and unpaid dividends upon a change of control of the Company.

Each Convertible Preferred Share is convertible, at the option of the Convertible Preferred Shareholder, into Shares at any time at a conversion price equal to HK\$2.725, subject to certain anti-dilution adjustments. In the aggregate, the Convertible Preferred Shares to be issued under the Investment Agreement will be convertible into 1,001,834,862 Shares at a conversion price equal to HK\$2.725 per Share, representing approximately 13.40% of the Company's total existing issued share capital as at the date of this announcement and approximately 10.24% of the Company's issued share capital as enlarged by the issue of the Shares upon full conversion of the Convertible Preferred Shares and assuming the issue of up to 1,307,153,271 Shares to IBM upon closing of the IBM Acquisition.

Each Warrant carries the right to subscribe for one Share at the Exercise Price, subject to certain anti-dilution adjustments. Warrant holders may exercise the subscription rights attaching to the Warrants, in whole or in part, at any time from the Closing Date until the Expiry Date. Assuming full exercise of the Warrants, the Company will issue 237,417,474 Warrant Shares, representing approximately 3.18% of the Company's total existing issued share capital as at the date of this announcement and approximately 2.63% of the Company's issued share capital as enlarged by the issue of the Warrant Shares upon full exercise of the Warrants and assuming the issue of up to 1,307,153,271 Shares to IBM upon closing of the IBM Acquisition.

The Convertible Preferred Shares and the Warrants will not be listed on the Stock Exchange or any other stock market. However, the Company will apply for the listing on the Stock Exchange of the Shares issuable upon the exercise of the Warrants and the conversion of the Convertible Preferred Shares.

In connection with the proposed issue of the Convertible Preferred Shares, the Board proposes a special resolution for amending the Articles of Association.

Closing is conditional upon, among other things:

- (a) the issue of the Convertible Preferred Shares and the Warrants having been approved by the Stock Exchange;
- (b) the issue and allotment of the Convertible Preferred Shares (which requires 75% approval of the Shareholders), and the proposed amendment to the Articles of Association (which will authorise the creation of preferred shares and the issuance of the Convertible Preferred Shares) having been passed by special resolutions by the Shareholders, and the issue of the Warrants and the Shares (upon exercise of the Warrants and conversion of the Convertible Preferred Shares) having been passed by ordinary resolutions by the Shareholders, in each case at the Extraordinary General Meeting;
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, any Shares to be issued upon exercise of the Warrants and upon the conversion of the Convertible Preferred Shares;
- (d) the initial closing of the IBM Acquisition taking place concurrently with, or having occurred prior to, the Closing;
- (e) the consents to the transactions contemplated by the Investment Agreement having been obtained from the financiers to the Company and IBM; and
- (f) there having been no material adverse change on the condition of the Group since the date of the Investment Agreement.

A circular containing further details of the terms of the investment Agreement, the Convertible Preferred Shares, the Warrants and the proposed amendments to the Articles of Association, together with the notice of the Extraordinary General Meeting and the form of proxy, will be distributed to the Shareholders as soon as possible.

The Directors intend to apply the net proceeds from the issue of the Convertible Preferred Shares and the Warrants as to approximately US\$150 million to satisfy part of the consideration payable to IBM for the IBM Acquisition, and as to the balance for general corporate purposes.

The terms of the Convertible Preferred Shares and the Warrants were negotiated at arm's length between the Company and the Investors. The Directors consider that the issue of the Convertible Preferred Shares and Warrants is in the Shareholders' interest as a whole as it provides an alternative funding means to the Company and part of the proceeds will be used to satisfy part of the consideration payable to IBM for the IBM Acquisition. In addition, the Directors consider that the Investors offer expertise and experience that are expected to be valuable to the Company. The Directors consider that the terms of the Convertible Preferred Shares and Warrants are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On the application of the Company, trading in the Shares was suspended from 10:06 a.m. on 24 March 2005 pending the release of this announcement. The Company has applied for resumption of trading in the Shares with effect from 9:30 a.m. on 31 March 2005.

THE INVESTMENT AGREEMENT

Date: 30 March 2005

Parties: (a) Issuer: The Company

(b) Investors: TPG IV Acquisition Company LLC
 General Atlantic Partners (Bermuda), L.P.
 GAPSTAR, LLC
 GAP Coinvestments III, LLC
 GAP Coinvestments IV, LLC
 GAPCO GmbH & Co. KG
 Newbridge Asia Acquisition Company LLC

Pursuant to the Investment Agreement, the Investors have agreed to subscribe for, and the Company has agreed to issue, 2,730,000 Convertible Preferred Shares, together with Warrants to subscribe for an aggregate of 237,417,474 Warrant Shares at an initial Exercise Price of HK\$2.725 per Share, subject to certain anti-dilution adjustments, for an aggregate cash consideration of US\$350 million (approximately HK\$2,730 million). The Investors have each agreed to subscribe for the following number of Convertible Preferred Shares and Warrants set opposite their respective names:

Purchaser	Number of Convertible Preferred Shares	Number of Warrants	Percentage of enlarged issued share capital of the Company* (Note 1)
TPG IV Acquisition Company LLC	1,560,000	135,667,128	5.851%
General Atlantic Partners (Bermuda), L.P. (Note 2)	715,145	62,193,400	2.682%
GAPSTAR, LLC (Note 2)	9,750	847,920	0.037%
GAP Coinvestments III, LLC (Note 2)	42,737	3,716,658	0.160%
GAP Coinvestments IV, LLC (Note 2)	11,149	969,596	0.042%
GAPCO GmbH & Co. KG (Note 2)	1,219	105,990	0.005%
Newbridge Asia Acquisition Company LLC	390,000	33,916,782	1.463%
Total	<u>2,730,000</u>	<u>237,417,474</u>	<u>10.240%</u>

Notes:

1. Assuming full conversion of the Convertible Preferred Shares and up to 1,307,153,271 Shares (comprising Shares and Non-Voting Shares) have been issued to IBM upon closing of the IBM Acquisition.
2. The number of Convertible Preferred Shares and Warrants to be allotted to and among General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG are subject to changes. However, the total number of Convertible Preferred Shares and Warrants to be allotted to General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG will not be changed.

Information on the Investors

TPG

Texas Pacific Group, or TPG, is a leading global private equity investment firm and currently manages over US\$13 billion of committed equity capital. Its portfolio companies total over US\$35 billion in revenues and over 500,000 employees. TPG is a leading global private equity investor in technology whose investments include MEMC Electronic Materials, ON Semiconductor, Seagate Technology, Business Objects, Conexant Semiconductor, Eutelsat, Isola, Network General, Paradyne Networks and Smart Modular. Other TPG investments have included Burger King, Continental Airlines, Del Monte Foods, Ducati Motorcycles and J. Crew. TPG is based in Fort Worth, Texas, San Francisco and London.

TPG IV Acquisition Company LLC is a limited liability company wholly-owned by funds managed by TPG, that has been established specifically for the purpose of holding the proposed investment in the Company. TPG is a private equity investment firm that acquires interests in companies in various industries as financial investments. Certain of these portfolio companies are listed above.

General Atlantic Group

General Atlantic Group is a leading global private equity firm focused on investing in companies providing information technology or using information technology to drive growth. Investment entities affiliated with General Atlantic LLC make investments on an arm's length basis in portfolio companies. General Atlantic's current investments in China include Vimicro and Digital China. The firm was founded in 1980 and has about US\$8 billion in capital under management. General Atlantic has invested in over 140 companies and has current holdings in over 50 companies, of which almost half are based outside the United States. General Atlantic Group has offices in Greenwich, New York, Palo Alto, Washington, D.C., London, Düsseldorf, Singapore, Tokyo, Mumbai, Hong Kong and São Paulo.

General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG are affiliated investment entities. The general partner of General Atlantic Partners (Bermuda), L.P. is GAP (Bermuda) Limited. The sole member of GAPSTAR, LLC is General Atlantic LLC. The Managing Directors of General Atlantic LLC are the senior executive officers and directors of GAP (Bermuda) Limited and control the voting and investment power over securities owned by GAPCO GmbH & Co. KG. In addition, the Managing Members of GAP Coinvestments III, LLC and GAP Coinvestments IV, LLC are Managing Directors of General Atlantic LLC.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no members of the General Atlantic Group have any relationship with, and each member of the General Atlantic Group is a third party independent of, the Texas Pacific Group and Newbridge Capital Group.

The Newbridge Capital Group

Newbridge Capital Group is one of Asia's leading private equity investment firms with US\$1.7 billion of capital under management. Founded in 1994 by Texas Pacific Group and Blum Capital Partners, Newbridge Capital Group was one of the first private equity firms dedicated to Asian investments. The firm has offices in Hong Kong, San Francisco, Shanghai, Tokyo, Seoul, Mumbai and Melbourne. Newbridge Capital Group has made significant investments in such companies as Hanaro Telecom, Japan Telecom, Korea First Bank, Matrix Laboratories and Shenzhen Development Bank.

Newbridge Asia Acquisition Company LLC is a limited liability company wholly-owned by funds managed by Newbridge Capital Group, that has been established specifically for the purpose of holding the proposed investment in the Company. Newbridge Capital Group is a private equity investment firm that acquires interests in companies in various industries as financial investments. Certain of these portfolio companies are listed above.

Newbridge Asia Acquisition Company LLC is indirectly controlled by a corporation of which 50% is owned by a corporation under common control with TPG IV Acquisition Company LLC. The other 50% is owned by an entity controlled by Blum Investment Partners, another private equity investment firm.

Save as disclosed in this announcement, each of the Investors and its ultimate beneficial owners and fund managers is independent from the other Investors and their respective ultimate beneficial owners and fund managers.

Based on the above information provided by the Investors and to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Investors, TPG, the Newbridge Capital Group and the General Atlantic Group is a third party independent of the Company and any connected persons of the Company (as defined in the Listing Rules).

Conditions and Completion

Closing is conditional upon, among other things:

- (a) the issue of the Convertible Preferred Shares and the Warrants having been approved by the Stock Exchange;
- (b) the issue and allotment of the Convertible Preferred Shares (which requires 75% approval of the Shareholders), and the proposed amendment to the Articles of Association (which will authorise the creation of preferred shares and the issuance of the Convertible Preferred Shares) having been passed by special resolutions by the Shareholders, and the issue of the Warrants and the Shares (upon exercise of the Warrants and conversion of the Convertible Preferred Shares) having been passed by ordinary resolutions by the Shareholders, in each case at the Extraordinary General Meeting;
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, any Shares to be issued upon the exercise of the Warrants and upon the conversion of the Convertible Preferred Shares;
- (d) the initial closing of the IBM Acquisition taking place concurrently with, or having occurred prior to, the Closing;
- (e) the consents to the transactions contemplated by the Investment Agreement having been obtained from the financiers to the Company and IBM; and
- (f) there having been no material adverse change on the condition of the Group since the date of the Investment Agreement.

Closing is scheduled to take place on the third business day following the satisfaction of all of the conditions precedent, which cannot be later than 30 September 2005.

PRINCIPAL TERMS OF THE CONVERTIBLE PREFERRED SHARES

Form

The Convertible Preferred Shares will only be issued in registered form. Definitive certificates will be issued to the Investors as holders of the Convertible Preferred Shares.

Preferential dividends

The Convertible Preferred Shares will bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5% per annum on the Stated Value of each Convertible Preferred Share. The Company may defer the payment of cash dividends if it is unable to make such payments under law or the Company's bank credit facility. If at any time the Company has deferred payment of a dividend, it shall be prohibited from paying cash dividends on its junior securities, including the Shares, until all such deferred dividends shall have been paid in full. If the Company fails to pay cash dividends when due, the Convertible Preferred Shareholders will have the right to receive additional interest at the rate of 4.5% on the amount of such cash dividend payment that was not paid when due. No additional Convertible Preferred Shares will be issued in respect of unpaid dividends. In addition, the Company is prohibited, in this event, from paying cash dividends on any junior securities, including the Shares.

Redemption and repurchase

The Convertible Preferred Shares are redeemable, in whole or in part, at a price equal to the Stated Value together with accrued and unpaid dividends at the option of the Company or the Convertible Preferred Shareholders at any time after the Maturity Date. In addition, the Convertible Preferred Shareholders are entitled to require the Company to make an offer to repurchase all or part of the Convertible Preferred Shares at a purchase price equal to the aggregate of 101% of the Stated Value of the Convertible Preferred Shares and 100% of the accrued and unpaid dividends upon a change of control of the Company.

Conversion

Each Convertible Preferred Share is convertible, at the option of the Convertible Preferred Shareholder at any time, into a number of Shares equal to the Stated Value divided by HK\$2.725, subject to certain anti-dilution adjustments. Shares that are to be issued upon the conversion of the Convertible Preferred Shares will rank *pari passu* in all respects with the Shares in issue on the conversion date except that they will not be entitled to any rights or entitlement to dividends or distributions the record date for which precedes the conversion date.

The Convertible Preferred Shares will not be listed on the Stock Exchange or any other stock exchange. However, the Company will apply for the listing on the Stock Exchange of the Shares issuable upon the conversion of the Convertible Preferred Shares.

Shareholders' approval

The issue of the Convertible Preferred Shares and the Shares to be issued upon the conversion of the Preferred Shares is subject to the approval by the Shareholders at the Extraordinary General Meeting.

Upon the conversion of all Convertible Preferred Shares, 1,001,834,862 Shares will be issued, representing approximately 13.40% of the existing issued share capital of the Company (being 7,474,796,108 Shares in issue) and approximately 10.24% of the issued share capital as enlarged by the allotment and issue of such Shares and assuming the issue of up to 1,307,153,271 Shares to IBM upon initial closing of the IBM Acquisition (please also refer to the notes set out below to the table in the paragraph headed “Shareholding Structure” in this announcement).

Transferability

During the first 12 months from and after the Closing Date, the Investors are not permitted to transfer any of the Convertible Preferred Shares or Shares issuable upon conversion of the Convertible Preferred Shares. From and after the date occurring 12 months and one day after the Closing Date, except as described below, there will be no restrictions on the transfers by the Investors of the Convertible Preferred Shares or Shares issuable upon conversion of the Convertible Preferred Shares.

Transfers of Convertible Preferred Shares and Shares issuable upon conversion thereof by the Investors to any person who holds, or would hold, as a result of any such transfer, more than 4.9% of the issued share capital of the Company, or, to certain designated competitors of the Company, will be restricted when it can be ascertained that the transferee meets the foregoing criteria. Designated competitors generally include any person, together with its controlled affiliates, primarily engaged in the computer business that has, together with its controlled affiliates annual consolidated gross revenues, in excess of US\$1,000,000,000.

Voting and other rights attaching to the Convertible Preferred Shares

Each Convertible Preferred Share will be voted on an “as if” converted basis. The holder of each Convertible Preferred Share will have the right to one vote for each whole Share into which a Convertible Preferred Share is convertible at the close of business on the record date for any meeting of Shareholders at which such Convertible Preferred Shares will be voted. The holders of Convertible Preferred Shares shall have the right, when the Company proposes to issue shares at below the then current market value, to subscribe in such proposed issue for shares on the same terms as that offered by the Company to other subscribers, unless such shares are being (1) sold as part of an underwritten offering at a price of no less than 97% of the then current market value (which is intended to reflect customary underwriting discounts and commissions paid to the underwriters in such offerings), (2) issued as part of a share dividend, (3) issued as part of a reclassification of the Company’s securities, or (4) issuance in connection with an employees benefit plan approved by the Company’s Board. In addition, the conversion price for the Convertible Preferred Shares will be adjusted to account for stock dividends, stock splits, reclassifications and below market issuances in which a holder elects not to participate.

A comparison of the respective rights of the holders of the Convertible Preferred Shares and the holders of Shares is set out below:

	Convertible Preferred Shares	Shares
Voting	Vote on an “as if” converted basis with the Shares	One vote per Share
Dividends	Entitled to quarterly cumulative dividend at a rate of 4.5% subject to additional dividends if such dividend is not paid when due	Entitled to dividends when, as and if declared by the Company

Anti-Dilution	Contains anti-dilution protections (see Note A below)	No anti-dilution protections unless subject to contractual preemptive rights
Conversion	Convertible into Shares (see Note B below)	Not convertible
Preference	Preferential dividend and liquidation payments	No right to preferential payments
Ranking	Ranks senior to Shares	Ranks junior to Convertible Preferred Shares

Notes:

- A. Including downward adjustments of the conversion price in the event that at any time after the original issuance of the Convertible Preferred Shares, the Company (1) pays a dividend or other distribution on the Shares, such dividend payable in whole or in part, in Shares, (2) subdivides any of its outstanding Shares into a greater number of Shares, (3) distributes certain special dividends in the form of evidence of its indebtedness or assets to holders of Shares, subject to certain exception, (4) issues its shares below market price, (5) distributes cash dividends that exceed a specified formula, (6) reclassifies its Shares into securities other than Shares.
- B. Convertible into Shares at a conversion price equal to HK\$2.725 per Share, subject to certain adjustments in accordance with the anti-dilution provisions described above.

Board composition and representation

During the period commencing on the Closing Date and ending on the third anniversary of the Closing Date, the Board shall consist of no more than 12 Directors, of whom four shall be independent non-executive directors and at least two shall be members of the management of the Company.

TPG shall be entitled to designate a total of two individuals for election to the Board, which after three years from the Closing Date, may be reduced to one individual at the option of the Company. Subject to the foregoing right of the Company, TPG shall be entitled to designate two such individuals for so long as TPG and the Newbridge Capital Group, taken together, beneficially own at least 50% of the number of Convertible Preferred Shares (or Shares issuable upon conversion of the Convertible Preferred Shares) issued to them on the Closing Date. For so long as TPG and the Newbridge Capital Group, taken together, beneficially own 25% of the number of Convertible Preferred Shares (or Shares issuable upon conversion of the Convertible Preferred Shares) issued to them on the Closing Date, TPG shall be entitled to designate one such individual.

The General Atlantic Group shall be entitled to designate one individual for election to the Board for so long as the General Atlantic Group beneficially owns 50% of the number of Convertible Preferred Shares (or Shares issuable upon conversion of the Convertible Preferred Shares) issued to the General Atlantic Group on the Closing Date.

If the Board shall determine in good faith that nomination of any individual designated by an Investor for election to the Board would not be consistent with the fiduciary duties of the Board, the Investor shall have the right to designate a new individual for nomination for election to the Board. The Company is required to cause individuals nominated by Investors to be elected to the Board, including placing such individuals on the slate of nominees recommended for election and soliciting proxies for the election of such individuals. If individuals nominated by the Investors are not elected to the Board, the Company must use its reasonable best efforts to cause a director to resign and to be elected in place of such a director an individual nominated by the Investors.

For so long as any Investor is entitled to designate an individual for election to the Board, at least one such individual who is appointed as a Director shall be appointed as a member of each committee of the Board. In the event that the Listing Rules prohibit the appointment of any such Director to a committee of the Board, such Director nominated by the Investor shall be permitted to attend each such committee meetings as an observer. Pursuant to the Investment Agreement, the Investors and their representatives undertake confidentiality obligations to the Company (under which they cannot disclose any such confidential information to the public), which would apply to board observers. In addition, the Investors agree to use any such information only in connection with their investment in the Company, their rights and obligations under the Investment Agreement, and the rights and duties of their nominees as Directors.

PRINCIPAL TERMS OF THE WARRANTS

Issuer

The Company

Number of Warrants

Warrants conferring rights to subscribe for up to a total of 237,417,474 Warrant Shares at an initial Exercise Price of HK\$2.725 per Share, subject to certain anti-dilution adjustments.

Status

The Warrants will be constituted by a deed poll to be executed by the Company at Closing. The Warrants will not be listed on the Stock Exchange or any other stock market.

Form

The Warrants will be issued in registered form. Definitive certificates will be issued to the Investors as holders of the Warrants.

The Issue Price and Exercise Price

The Warrants are to be issued in conjunction with the Convertible Preferred Shares and there is no separate issue price for the Warrants.

Each Warrant carries the right to subscribe for one Warrant Share at the initial Exercise Price of HK\$2.725, subject to certain anti-dilution adjustments. The initial Exercise Price was determined at arm's length between the Investors and the Company on the basis of the share price of the Shares at the time of negotiation, expectations on the future share price performance of the Company and the Investors' consideration of the prospects of the Group at the time of negotiation.

The initial Exercise Price represents a premium of 6.86% compared to the closing price of the Shares of HK\$2.55 as quoted on the Stock Exchange on 24 March 2005, being the latest closing price before the date of the Investment Agreement, a premium of 9.66% compared to the average closing prices of the Shares of HK\$2.485 for the five consecutive trading days up to and including 24 March 2005, a premium of 9.99% compared to the average closing prices of the Shares of HK\$2.4775 for the ten consecutive trading days up to and including 24 March 2005, a premium of 16.70% compared to the average closing prices of the Shares of HK\$2.335 for the thirty consecutive trading days up to and including 24 March 2005, and a premium of 20.93% compared to the average closing prices of the Shares of HK\$2.253 for the sixty consecutive trading days up to and including 24 March 2005.

An Investor wishing to exchange Warrants pursuant to this right will deliver a notice to the Company, stating the number of Shares for it wishes to subscribe, accompanied by cash in an amount equal to the nominal value of such number of Shares, together with Warrants having an “in the money” value equal to the balance of the Exercise Price for such Shares (after taking into account the cash payment of the nominal value of such Shares). A Warrant’s “in the money value” is the excess, if any, of the current market price for a Share over the Exercise Price. Upon surrender of such Warrants and cash, the Warrantholder will become entitled to receive the specified number of Shares. For example, if the exercise price of the Warrant is HK\$2.725, and the market price of one Share is HK \$4.725, the “in-the-money value” of the Warrant would be HK \$2.00, and could be used to pay a portion of the exercise price.

The Exercise Price must be paid in cash. However, the Investors will be entitled to pay the portion of the Exercise Price in excess of the nominal value of HK\$0.025 per Share using the in-the-money value of other Warrants. Hence, the aggregate amount of cash which the Company will receive upon full exercise of the Warrants cannot be ascertained as at the date of this announcement.

Exercise

The subscription rights attaching to the Warrants may be exercised, in whole or in part, at any time from the Closing Date until the Expiry Date.

Shares that are to be issued upon the exercise of the subscription rights attaching to the Warrants will rank *pari passu* in all respects with the Shares in issue on the exercise date except that they will not be entitled to any rights or entitlement to dividends or distributions the record date for which precedes the exercise date. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants.

Shareholders’ approval

The issue of the Warrants and the Warrant Shares to be issued upon the exercise of the subscription rights attaching to the Warrants are subject to the approval by the Shareholders at the Extraordinary General Meeting.

Upon the exercise of the subscription rights attaching to the Warrants in full, 237,417,474 Shares will be issued, representing approximately 3.18% of the existing issued share capital of the Company and approximately 2.63% of the issued share capital as enlarged by the allotment and issue of such Shares and assuming the issue of up to 1,307,153,271 Shares to IBM upon closing of the IBM Acquisition.

Transferability

During the first 12 months from and after the Closing Date, the Investors are not permitted to transfer any of the Warrants or the Warrant Shares. From and after the date occurring 12 months and one day after the Closing Date, there will be no restrictions on the transfers of the Warrants or Warrant Shares by the Investors, except as described below.

Subject to exceptions described below, during the first three years after the Closing, Investors' transfers of Warrants to third parties in private transactions will be subject to a right of first refusal on the part of the Company, while transfers pursuant to market transactions and those effected through brokers will be subject to the Company's right of first offer. Transfers of Warrants among Investors will not be subject to these rights.

In addition, transfers of Warrants and Warrant Shares by the Investors to any person who holds, or would hold, as a result of any such transfer, more than 4.9% of the issued share capital of the Company, or, to certain designated competitors of the Company, will be restricted when it can be ascertained that the purchaser meets the foregoing criteria. Designated competitors generally include any person, together with its controlled affiliates, primarily engaged in the computer business that has, together with its controlled affiliates annual consolidated gross revenues, in excess of US\$1,000,000,000.

Voting and other rights of the Warrantholders

The Warrantholders shall not have any right to attend or vote at any general meeting of the Company by virtue of holding the Warrants. The Warrantholders shall have the right, when the Company proposes to issue shares at below the then current market value, to subscribe in such proposed issue for shares on the same terms as that offered by the Company to other subscribers, unless such shares are being (1) sold as part of an underwritten offering at a price of no less than 97% of the then current market value (which is intended to reflect customary underwriting discounts and commissions paid to the underwriters in such offering), (2) issued as part of a share dividend, (3) issued as part of a reclassification of the Company's securities, or (4) issuance in connection with an employees benefit plan approved by the Company's board. In addition, the Exercise Price for the Warrants will be adjusted to account for stock dividends, stock splits, reclassifications and below market issuances in which a Warrantholder elects not to participate.

SHAREHOLDING STRUCTURE

Based on the information available to the Directors as at 29 March 2005, set out below are the shareholding structures of the Company as at that date and upon full conversion of the Convertible Preferred Shares and the initial closing of the IBM Acquisition.

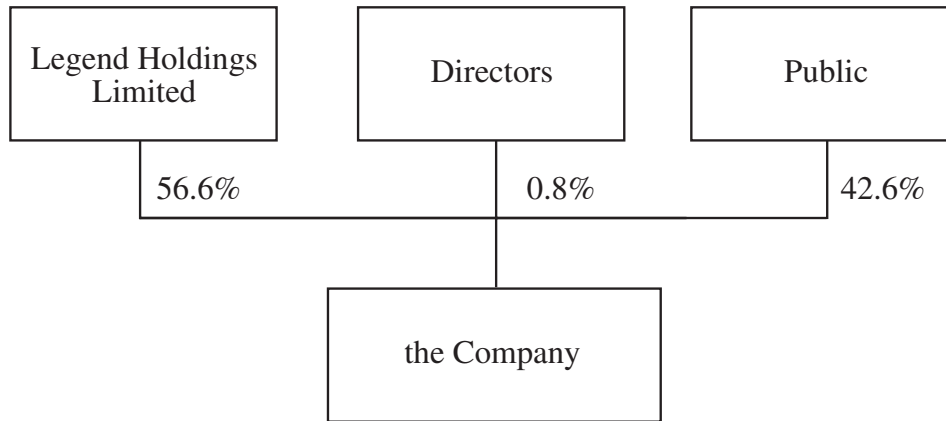
	As at 29 March 2005		After the issue of Convertible Preferred Shares and the Initial Closing of the IBM Acquisition	
	Number and class of shares	Percentage of voting rights (approx.)	Number and class of shares	Percentage of voting rights (approx.)
Legend Holdings Limited	4,229,819,971 Shares	56.6%	4,229,819,971 Shares	45.5%
IBM (please see notes below)	–	–	1,307,153,271 Shares (Note 2)	8.8%
TPG	–	–	1,560,000 Convertible Preferred Shares	6.2%
General Atlantic Group	–	–	780,000 Convertible Preferred Shares	3.1%
Newbridge Capital Group	–	–	390,000 Convertible Preferred Shares	1.5%
Directors	58,940,000 Shares	0.8%	58,940,000 Shares	0.6%
Public	3,186,036,137 Shares	42.6%	3,186,036,137 Shares	34.3%
		100.0%		100.0%

Notes:

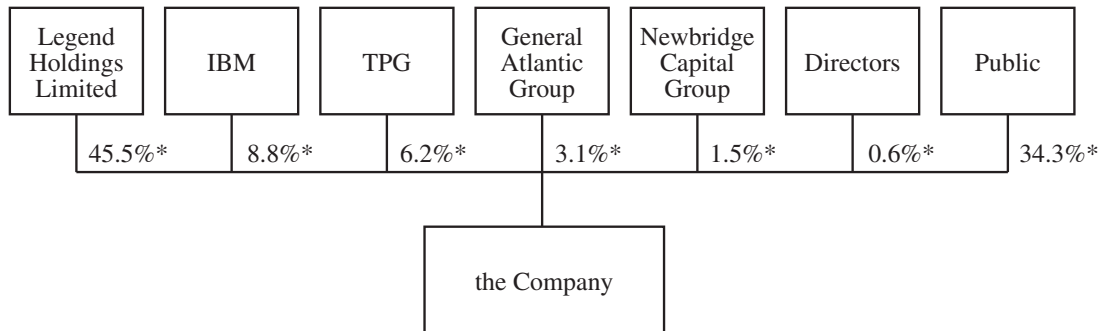
- No figures as to the number of Shares and Non-voting Shares to be issued to IBM are provided in the above table as the exact numbers of Shares and Non-voting Shares to be issued to IBM will only be fixed upon initial closing of the IBM Acquisition.
- 1,307,153,271 Shares to be issued to IBM represent the “Base Consideration Shares” described in the IBM Circular. If the Company applies US\$150 million from the proceeds from the issue of the Convertible Preferred Shares and the Warrants to pay IBM, the Company will not issue the 435,717,757 Excess Shares (as defined in the IBM Circular) to IBM. Under the Asset Purchase Agreement in relation to the IBM Acquisition, IBM will take Excess Shares, representing up to 435,717,757 Shares or Non-voting Shares, as settlement of the consideration. However, instead of issuing the Excess Shares to IBM, the Company may pay cash to IBM. The value of 435,717,757 Excess Shares calculated by reference to the formula set out in the Asset Purchase Agreement amounts to approximately US\$150 million. The cash payment alternative was disclosed in the IBM Circular.

Among the “Base Consideration Shares”, the exact numbers of Shares and Non-voting Shares to be issued to IBM will only be determined upon initial closing of the IBM Acquisition. Further, pursuant to the Company Agreement as described in the IBM Circular, IBM may convert such number of its Non-voting Shares up to 9.9% of the outstanding voting capital stock of the Company into Shares. It is possible that IBM will hold Shares up to 9.9% of total voting capital stock of the Company, being 931,394,524 Shares (assuming that the Convertible Preferred Shares have been issued and IBM has converted 110,159,957 Non-voting Shares to Shares), while the balance will be held in 375,758,747 Non-voting Shares.
- Assuming 821,234,567 Shares and 485,918,702 Non-voting Shares will be issued to IBM upon the initial closing of the IBM Acquisition.

As at 29 March 2005



Immediately upon the issue of the Convertible Preferred Shares and the initial closing of the IBM Acquisition



* Represents percentage of the total issued capital of the Company (comprising Shares, Non-voting Shares and Shares converted from the Convertible Preferred Shares) and assuming: (a) up to 1,307,153,271 Shares will be issued to IBM upon the initial closing of the IBM Acquisition; and (b) no Warrants have been exercised.

A Convertible Preferred Shareholder (individually or in aggregate with its associates) having the rights to exercise 10% or more of the voting rights of the Company will be regarded as a substantial shareholder of the Company (as defined in the Listing Rules) and thus a connected person of the Company (as defined in the Listing Rules).

USE OF PROCEEDS

The net proceeds from the issue of the Convertible Preferred Shares and the Warrants after deducting the relevant expenses are expected to be approximately US\$347 million. The Directors intend to apply the proceeds from the issue of the Convertible Preferred Shares and the Warrants as to approximately US\$150 million to satisfy part of the consideration payable to IBM for the IBM Acquisition, and as to the balance for general corporate purposes. The payment of US\$150 million in cash to IBM would reduce 435,717,757 shares in the capital of the Company which would otherwise be issuable to IBM as consideration for the IBM Acquisition. Pursuant to the Investment Agreement, the initial closing of the IBM Acquisition is one of the condition precedents to the closing of the Investment Agreement. It is expected that the closing IBM Acquisition shall either occur contemporaneously or before the closing of Investment Agreement.

As mentioned in the paragraph entitled “The Issue Price and Exercise Price” above, the aggregate amount of cash which the Company will receive upon full exercise of the Warrants cannot be ascertained as at the date of this announcement. The Company intends to use the proceeds arising from the exercise of Warrants for general corporate purposes.

GENERAL

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. In December 2004, the Company announced a definitive agreement for the acquisition of IBM’s global desktop computer and notebook computer business.

The terms of the Convertible Preferred Shares and the Warrants were negotiated at arm’s length between the Company and the Investors. The Directors consider that the issue of the Convertible Preferred Shares and Warrants provides an alternative funding means to the Company and part of the proceeds from the issue of the Convertible Preferred Shares and Warrants will be used to satisfy part of the consideration payable to IBM for the IBM Acquisition. In addition, the Directors consider that the Investors offer expertise and experience that are expected to be valuable to the Company. The Directors consider that the terms of the Convertible Preferred Shares and the Warrants are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Subject to any applicable laws or regulations, the Listing Rules and decisions of any applicable authority, the Major Shareholder has, under the Voting Undertaking, undertaken and agreed with the Investors to vote (or procure to be voted) in favour of the Investment Agreement and any other agreements relating to the transactions mentioned therein, and any action and transaction contemplated under such agreements at any shareholder meeting and Board meeting, including the resolutions to be proposed at the Extraordinary General Meeting and the appointment of the Directors to be designated by the Investors as described in this announcement.

Save as the Warrants to be issued and the 516,100,000 outstanding share options granted under the Company’s share option schemes, there are no other warrants, options, or similar securities conferring rights to subscribe for Shares outstanding as at the date of this announcement.

A circular containing further details of the terms of in the Investment Agreement, the Convertible Preferred Shares, the Warrants and the proposed amendments to the Articles of Association, together with the notice of the Extraordinary General Meeting and the form of proxy, will be distributed to the Shareholders as soon as possible.

Neither the Major Shareholder nor its associates has any interest in the Investment Agreement, the proposed issue of the Convertible Preferred Shares and the Warrants which is different from that of the other Shareholders. Hence, the Major Shareholder will not be required to abstain from voting at the Extraordinary General Meeting. The Company is not aware of any Shareholder who will need to abstain from voting at the Extraordinary General Meeting.

TPG, the General Atlantic Group and the Newbridge Capital Group and the Investors do not own any shares in Lenovo or its subsidiaries. Certain of TPG’s associates, however, are “portfolio companies” in which TPG has invested. These investments are managed separately, rather than as part of a centrally managed corporate group. TPG generally does not collect information regarding the equity interests that its portfolio companies may hold in other companies.

RESUMPTION OF TRADING

On the application of the Company, trading in the Shares was suspended from 10:06 a.m. on 24 March 2005 pending the release of this announcement. The Company has applied for resumption of trading in the Shares with effect from 9:30 a.m. on 31 March 2005.

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“Closing”	closing of the subscription of the Convertible Preferred Shares and the Warrants
“Closing Date”	the date on which Closing takes place in accordance with the terms of the Investment Agreement
“Company”	Lenovo Group Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Convertible Preferred Shareholders”	holders of the Convertible Preferred Shares
“Convertible Preferred Shares”	Series A Cumulative Convertible Preferred Shares of nominal value HK\$9.175 each in the share capital of the Company
“Directors”	the directors of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held for considering and, if thought fit, approving, among others, the issue of the Convertible Preferred Shares and the Warrants and the proposed amendments to the Articles of Association
“Exercise Price”	HK\$2.725 per Share, subject to certain anti-dilution adjustments
“Expiry Date”	the fifth anniversary of the Closing Date
“General Atlantic Group”	collectively, General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG and affiliates that are under common control with such entities
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“IBM”	International Business Machines Corporation
“IBM Acquisition”	the Group’s acquisition of IBM’s global desktop computer and notebook computer business, details of which are contained in the IBM Circular
“IBM Circular”	the circular of the Company in relation to the IBM Acquisition dated 31 December 2004
“Investment Agreement”	the agreement entered into between the Company and the Investors dated 30 March 2005 in relation to the issue of the Convertible Preferred Shares and the Warrants
“Investor Group”	General Atlantic Group, Newbridge Capital Group or TPG Group (as the case may be)
“Investors”	TPG IV Acquisition Company LLC, General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GAPCO GmbH & Co. KG and Newbridge Asia Acquisition Company LLC; and the term “Investor” shall mean any one of them
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Major Shareholder”	Legend Holdings Limited, the controlling shareholder of the Company holding approximately 57% of all the Shares in issue as at the date hereof
“Maturity Date”	the seventh anniversary of the Closing Date
“Newbridge Capital Group”	collectively Newbridge Asia Acquisition Company LLC and affiliates that are under common control with such entity
“Shares”	ordinary shares of nominal value of HK\$0.025 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stated Value”	HK\$1,000 per Convertible Preferred Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TPG”	collectively TPG IV Acquisition Company LLC and affiliates that are under common control with such entity
“US\$”	United States Dollars, the lawful currency of the United States of America
“Voting Undertaking”	the voting undertaking entered into by the Major Shareholder in favour of the Investors on 30 March 2005
“Warrantholders”	holders of the Warrants

“Warrants”	237,417,474 unlisted warrants to be issued by the Company entitling the Warrantholders to subscribe for the same number of new Warrant Shares at the Exercise Price at any time from the Closing Date up to the Expiry Date (both dates inclusive)
“Warrant Shares”	new Shares to be issued upon the exercise of the subscription rights attaching to the Warrants

This announcement contains translation between HK\$ and US\$ at HK\$7.80 = US\$1.00. The translation shall not be taken as representation that the HK\$ amount could actually be converted into US\$ at that rate, or at all.

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

By Order of the Board
Liu Chuanzhi
Chairman

Hong Kong, 30 March 2005

The English text of this announcement shall prevail over the Chinese text.

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