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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)

**THE INITIAL CLOSING OF THE VERY SUBSTANTIAL ACQUISITION
RELATING TO
THE PERSONAL COMPUTER BUSINESS OF IBM
AND
CHANGES OF DIRECTORATES AND CHIEF EXECUTIVE OFFICER**

The Board is pleased to announce that the Initial Closing of the acquisition of the personal computer business of IBM took place on 30 April 2005 (Eastern Daylight Time).

With effect from the Initial Closing, the Board has the following changes:

- (i) Mr Liu Chuanzhi has ceased to be the Chairman of the Board and has been re-designated as a non-executive Director.
- (ii) Mr Yang Yuanqing, an executive Director and the preceding Chief Executive Officer of the Company, has been appointed as the Chairman of the Board to replace Mr Liu.
- (iii) Mr Stephen Maurice Ward, Jr. has been appointed as an executive Director.
- (iv) Mr Zhu Linan has been appointed as a non-executive Director.
- (v) Mr Zeng Maochao has resigned as a non-executive Director.

The Board also announces that following the appointment of Mr Yang Yuanqing as the Chairman of the Board, Mr Yang resigned from the position of the Chief Executive Officer of the Company and Mr Stephen Maurice Ward, Jr. has been appointed as the new Chief Executive Officer of the Company with effect from the Initial Closing to replace Mr Yang.

With effect from the Initial Closing, IBM has nominated Mr Robert W Moffat, Jr. and Mr Henry WK Chow to sit on the Board as observers.

BACKGROUND

Reference is made to the announcements made by the Company dated 8, 10 and 28 December 2004 (the "Announcements") and to the shareholders' circular dated 31 December 2004 (the "Circular") relating to the very substantial acquisition by the Company of the personal computer business of IBM. Unless the context requires otherwise, terms defined in the Announcements and the Circular have the same meanings when used in this announcement.

SATISFACTION OF CONDITIONS PRECEDENT

The Board is pleased to announce that all the Conditions Precedent in respect of the Initial Closing of the acquisition by the Company of the personal computer business of IBM have been satisfied and that the Initial Closing took place on 30 April 2005 (Eastern Daylight Time).

PAYMENT OF CASH CONSIDERATION AND ALLOTMENT AND ISSUE OF CONSIDERATION SHARES TO IBM

On 8 December 2004, the Company paid US\$25 million cash as Goodwill Deposit to IBM. Interest in an amount of US\$252,493 had been accrued on the Goodwill Deposit up to the Initial Closing. The Goodwill Deposit together with the interest accrued thereon were kept by IBM and have been used to set off against the Cash Consideration payable by the Company to IBM at Initial Closing.

Pursuant to the terms of the Asset Purchase Agreement, at Initial Closing, the Company (i) paid US\$624,747,507 in cash to IBM as settlement of the Cash Consideration (after deducting US\$25,252,493 representing the Goodwill Deposit and the interest accrued thereon) and (ii) allotted and issued to IBM 821,234,569 Shares and 921,636,459 Non-voting Shares credited as fully paid up at the Issue Price of HK\$2.675 per share. Immediately following the Initial Closing, IBM held approximately 18.9% of the total issued share capital of the Company (including Shares and Non-voting Shares) and approximately 9.9% of the total voting rights of the Company. Pursuant to the Listing Rules, IBM has been deemed to be a connected person of the Company by the Stock Exchange following the Initial Closing.

UNDERTAKINGS

In the Company Agreement and as disclosed in the Circular, IBM has undertaken not to, without the prior written consent of the Board, transfer any of the Excess Shares for a period of six months following the date of the Initial Closing or transfer any of the Base Consideration Shares for a period of up to three years following the date of the Initial Closing, except to the extent permitted by the Company Agreement. IBM may transfer up to such percentage of the Base Consideration Shares equal to the greater of:

- (a) the percentage determined by dividing the number of Shares disposed of by the Major Shareholder during the period between 27 January 2005 (the date on which the Extraordinary General Meeting approving, among others, the Asset Acquisition was held) and up to the date of the relevant transfer by the total number of Shares held by the Major Shareholder on 27 January 2005; and
- (b) the following applicable percentage or fraction of the Base Consideration Shares as at the relevant time:

Period	Percentage/fraction
Until the first anniversary of the Initial Closing	0%
From the day after the first anniversary of the Initial Closing	One-third (1/3)
From the day after the second anniversary of the Initial Closing	Two-thirds (2/3)
After the third anniversary of the Initial Closing	100%

The above transfer restrictions do not apply to a transfer by IBM of the Consideration Shares to any of its affiliates or a transfer of such number of the Consideration Shares necessary to enable IBM to qualify for the cost method of accounting under US GAAP with respect to its holding of the Consideration Shares.

Among the Consideration Shares, 435,717,757 Consideration Shares represent the Excess Shares which IBM took up as part of the consideration for the Asset Acquisition. The Company is currently in active discussions with IBM in relation to a possible repurchase of the Excess Shares from IBM following the Initial Closing. So far, no definitive agreement has been reached and the repurchase may or may not proceed. The Company will ensure that the repurchase, if proceeded, will be carried out in compliance with the Listing Rules and all applicable rules and regulations and that all applicable consents and approvals will be obtained from the relevant authorities. Should the Company and IBM reach an agreement for such repurchase, the Company will issue a further announcement in respect of such repurchase.

ADJUSTMENT TO CONSIDERATION

Pursuant to the terms of the Asset Purchase Agreement and as stated in the Circular, the total amount of the consideration will be adjusted by subtracting the target net working capital from the actual net working capital. The target net working capital will be determined based on the historical patterns of the relationship between (a) accounts receivable, inventory and accounts payable, and (b) revenue, in each case, of the Business. It is not possible to determine the target net working capital at this stage. If the adjustment amount is less than zero by an amount in excess of US\$25 million, IBM will pay the Company an amount equal to the adjustment amount minus US\$15 million. If the adjustment amount is greater than zero by an amount in excess of US\$25 million, the Company will pay IBM an amount equal to the adjustment amount minus US\$15 million.

The Directors expect that the target net working capital amount and the amount of the adjustment to the consideration will be determined at around 150 days following the Initial Closing. The Company will make a further announcement in relation to the “target net working capital” amount and the adjustment amount once they are determined.

SUBSEQUENT CLOSINGS

As stated in the Announcements and the Circular, with respect to the Remaining Assets which have not been transferred to the Company as of the Initial Closing, they will be transferred from time to time in one or more Subsequent Closings to be agreed between the Company and IBM. The Company will make a further announcement when the final Subsequent Closing takes place and further announcements in respect of other Subsequent Closings, if appropriate.

CHANGES OF DIRECTORATES

The Board announces the following changes of directorates with effect from the Initial Closing:

- (i) Mr Liu Chuanzhi has ceased to be the Chairman of the Board and has been re-designated as a non-executive Director.
- (ii) Mr Yang Yuanqing, an executive Director and the preceding Chief Executive Officer of the Company, has been appointed as the Chairman of the Board to replace Mr Liu.
- (iii) Mr Stephen Maurice Ward, Jr. has been appointed as an executive Director.
- (iv) Mr Zhu Linan has been appointed as a non-executive Director.
- (v) Mr Zeng Maochao has resigned as a non-executive Director.

Mr Liu Chuanzhi, aged 61, has ceased to be the Chairman of the Board and been re-designated as a non-executive Director with effect from the Initial Closing. Mr Liu had been the Chairman of the Board and an executive Director since 8 February 1994 and 8 November 1993 respectively. He graduated from the Department of Radar Communications, Xian Military Communications Engineering College of China in 1966. He has over 35 years of experience in the computer industry. Mr Liu is a director of Legend Holdings Limited, the controlling shareholder of the Company, and certain of its associates (as defined in the Listing Rules). Mr Liu does not have any family relationships with any other Directors and senior management of the Company. Mr Liu did not hold any directorship in any listed public companies in the last three years. As at the date of this announcement, no service contract has been entered into by him with the Company. Mr Liu was not appointed for a specific term, but is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association. Mr Liu will receive such director's fee and other remuneration as the Board may determine from time to time pursuant to the power given to it under the Articles of Association or otherwise granted to the Board by the Shareholders. In determining the director's fee and remuneration for Mr Liu, the Board will take into account the level of remuneration paid to a non-executive director of comparable companies, time and responsibilities committed and assumed by Mr Liu in attending to the affairs of the Company and the recommendations given by the remuneration committee of the Board. The Company will make an announcement when the director's fee and remuneration of Mr Liu is fixed. According to the register maintained by the Company pursuant to section 352 of the SFO as of 30 April 2005, Mr Liu was interested in 16,986,000 Shares and 5,250,000 underlying Shares in respect of share options granted under the share option scheme of the Company.

Mr Stephen Maurice Ward, Jr., aged 50, has been appointed as an executive Director, Chief Executive Officer and President of the Company with effect from the Initial Closing. Prior to joining the Group, Mr Ward spent over 26 years with IBM and was the senior vice president and general manager of IBM's Personal Systems Group responsible for IBM's Personal Computing Division, Retail Store Solutions Division and Printing Systems Division. During his time with IBM, Mr Ward held a number of senior management positions in key product development, manufacturing management, industrial sector management, and was once the chief information officer of IBM. Mr Ward has not previously held any positions with the Company or any of its subsidiaries. He is also a director of Carpenter Technology Corporation, a company listed on the New York Stock Exchange in the United States. Save as other disclosed above, Mr Ward did not hold any other directorship with any listed companies in the last three years and has no relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company. The Company entered into a service contract with Mr Ward on 30 April 2005 for a term of three years pursuant to which Mr Ward will be entitled to a base salary of US\$600,000 per annum and a maximum annual bonus of US\$1,000,000 depending on his performance for that year. According to the register maintained by the Company pursuant to section 352 of the SFO as at 30 April 2005, Mr Ward was not interested in any Shares of the Company.

Mr Zhu Linan, aged 43, has been appointed as a non-executive Director with effect from the Initial Closing. He graduated with a Master degree in Electronic Engineering from Shanghai Jiao Tong University in 1987. He has over 18 years of management experience. He serves on the board of directors of Legend Holdings Limited, the controlling shareholder of the Company, and certain of its associates (as defined in the Listing Rules). Mr Zhu does not have any family relationships with any other Directors and senior management of the Company. Mr Zhu was a vice president of the Group from 1999 to 2000 and did not hold any directorship in other listed public companies in the last three years. As at the date of this announcement, no service contract has been entered into by him with the Company. Mr Zhu was not appointed for a specific term, but is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association. Mr Zhu will receive such director's fee and other remuneration as the Board may determine from time to time pursuant to the power given to it under the Articles of Association or otherwise granted to the Board by the Shareholders. In determining the director's fee and remuneration for Mr Zhu, the Board will take into account the level

of remuneration paid to a non-executive director of comparable companies, time and responsibilities committed and assumed by Mr Zhu in attending to the affairs of the Company and the recommendations given by the remuneration committee of the Board. The Company will make an announcement when the director's fee and remuneration of Mr Zhu is fixed. According to the register maintained by the Company pursuant to section 352 of the SFO as of 30 April 2005, Mr Zhu was interested in 3,720,000 Shares and no underlying Shares in respect of share options granted under the share option scheme of the Company.

Mr Zeng Maochao has confirmed that his resignation was due to personal reason and there are no matters or disagreements with the Board that need to be brought to the attention of Shareholders.

The Board wishes to express their appreciation for the valuable contribution of Mr Liu and Mr Zeng during their leadership and directorship with the Company and to welcome the appointment of Mr Yang as the new Chairman and Mr Ward and Mr Zhu to join the Board.

CHANGE OF CHIEF EXECUTIVE OFFICER

Following the appointment of Mr Yang Yuanqing as the Chairman of the Board, Mr Yang resigned from the position of the Chief Executive Officer of the Company, and Mr Stephen Maurice Ward, Jr. has been appointed as the new Chief Executive Officer of the Company with effect from the Initial Closing to replace Mr Yang.

APPOINTMENT OF BOARD OBSERVERS

IBM has nominated Mr Robert W Moffat, Jr. and Mr Henry WK Chow to sit on the Board as observers with effect from the Initial Closing. Mr Moffat and Mr Chow will have the rights to attend all meetings of the Board and any committee of the Board. As Mr Moffat and Mr Chow are not Directors, accordingly they will have no right to vote and may not exercise any other rights of a Director at such meetings. The purpose of appointing board observers is to ensure co-ordination of the strategic relationship between IBM and the Company. IBM will not appoint any Director.

The Company Agreement provides that the board observer shall maintain all information obtained from the Board confidential and shall observe all internal guidelines of the Company applicable to the Directors and insider dealing rules including the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules. The Board may withhold information from the board observers if there is a potential conflict of interests. In the event of a breach of confidentiality by a board observer, the Company may bring legal action against IBM including seeking a court order of specific performance to prevent the board observer from any unauthorized disclosure of confidential material. With the confidentiality protection afforded by the provisions of the Company Agreement, the Board believes that the participation of board observers from IBM should be beneficial to the Company as the board observers would bring valuable expertise and management experience in the global information technology industry to the Company.

Mr Robert W Moffat, Jr. joined IBM in 1978 and has been appointed as a senior vice president of Integrated Supply Chain of IBM since February 2002. He leads IBM's end-to-end supply chain operations, including procurement, systems manufacturing, logistics and customer fulfilment processes for IBM worldwide. Mr Moffat has spent the majority of his career in the personal computer business during which he has held a number of executive positions with IBM, including general manager of manufacturing, fulfilment and procurement initiatives and vice president of finance and planning. Mr Moffat has not entered into any service contract with the Company and has not previously held any positions with the Company or any of its subsidiaries. Mr Moffat has confirmed that he does not have any family relationships

with any Director and senior management of the Company nor did he hold directorship in other listed public companies in the last three years. Mr Moffat has confirmed that he did not have any interests in the shares of the Company within the meaning of Part XV of the SFO as of 30 April 2005.

Mr Henry WK Chow joined IBM Hong Kong in 1968 and has been appointed as General Manager of IBM Greater China Group since September 1995. Mr Chow is responsible for IBM's operations in the Greater China as well as 12 joint ventures of IBM in the region engaged in manufacturing, professional services and software development. Before the current position, Mr Chow had been the Director of Operations of IBM Hong Kong, General Manager of IBM Taiwan and General Manager of IBM's personal computer business in Asia Pacific South (ex Japan). He is a member of IBM's Worldwide Management Council which is made up of the top 50 senior executives worldwide. Mr Chow has not entered into any service contract with the Company and has not previously held any positions with the Company or any of its subsidiaries. Mr Chow has confirmed that he does not have any family relationships with any Director and senior management of the Company nor did he hold directorship in other listed public companies in the last three years. Mr Chow has confirmed that he did not have any interests in the shares of the Company within the meaning of Part XV of the SFO as of 30 April 2005.

Prior to Initial Closing, the executive Directors were Mr Liu Chuanzhi, Mr Yang Yuanqing and Ms Ma Xuezheng; the non-executive Director was Mr Zeng Maochao; and the independent non-executive Directors were Mr Wong Wai Ming, Professor Woo Chia-Wei and Mr Ting Lee Sen.

**Following Initial Closing, the executive Directors are Mr Yang Yuanqing, Mr Stephen Maurice Ward, Jr and Ms Ma Xuezheng; the non-executive Directors are Mr Liu Chuanzhi and Mr Zhu Linan; and independent non-executive Directors are Mr Wong Wai Ming, Professor Woo Chia-Wei, and Mr Ting Lee Sen.*

By order of the Board
Yang Yuanqing
Chairman*

Hong Kong, 30 April 2005

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