lenovo 联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0992)

CONNECTED TRANSACTION
ACQUISITION OF A 19.2% EQUITY INTEREST IN A JOINT VENTURE

SUMMARY

On December 19, 2005, Lenovo BJ, a wholly-owned subsidiary of the Company, entered into a Share Transfer Agreement with Xoceco to acquire 19.2% of the entire equity interest in the JV at a cash consideration of RMB72 million (approximately HK$68 million).

The JV is principally engaged in the manufacturing and sale of mobile handsets in the PRC.

The JV will become a wholly-owned subsidiary of the Company following the completion of the Acquisition. Taking into account of the positive business results of the JV recorded in the first half of the financial year 2005/06 and its improving market share position, the Acquisition represents an attractive opportunity for the Company to enhancing control over this business.

As Xoceco is a substantial shareholder of the JV and thus a connected person of the Company under the Listing Rules, the entering into of the Share Transfer Agreement by Lenovo BJ would constitute a connected transaction of the Company and requires disclosure by way of a press announcement and details to be included in the next published annual report of the Company.

A. SHARE TRANSFER AGREEMENT

1. Date : December 19, 2005

2. Parties

Vendor : Xoceco, a substantial shareholder of the JV
Purchaser : Lenovo BJ, a wholly-owned subsidiary of the Company

3. Details of the Share Transfer Agreement

The JV is currently owned by Lenovo BJ and Lenovo Manufacturing Limited as to 10.8% and 70% respectively (both companies are wholly-owned by the Company), while the remaining 19.2% is held by Xoceco.

Pursuant to the Share Transfer Agreement, Lenovo BJ has agreed to acquire the remaining 19.2% equity interest in the JV from Xoceco at a cash consideration of RMB72 million (approximately HK$68 million). Lenovo BJ has also agreed to waive the obligation of Xoceco to repurchase from the JV certain inventories of flash memory in the amount as recorded in the latest accounts of the JV of approximately RMB8 million (approximately HK$7.55 million). Such inventories were provided by Xoceco to the JV upon arm's length negotiation at a consideration of RMB8 million pursuant to an agreement of sale and purchase of inventory dated April 28, 2002 and as provided in the joint venture contract dated October 22, 2004 as capital contribution in kind for use in the production of electronic products. It has been agreed that if such inventories are not utilized by the JV, the JV may exercise a right to require the Vendor to repurchase from it such inventories. As such inventories have not been utilized by the JV, at the request of the Vendor, the Purchaser agreed to waive the obligation of the Vendor to repurchase such inventories as a term of the Acquisition.

Upon completion of the Acquisition, the Company will be indirectly interested in 100% of the equity interest in the JV.

4. The Consideration

The consideration of RMB72 million (approximately HK$68 million) will be financed by the internal resources of the Group and payable in cash within 3 working days after signing of the Share Transfer Agreement. The consideration was determined after arm's length negotiations with reference to the unaudited net asset value of the JV. Having considered the improving financial performance of this business during the six months ended September 30, 2005 that was reflected by the growing shipments of more than 92% year-on-year in this period, the Company considers the consideration to be fair and reasonable.

5. Completion

Completion of the Acquisition is conditional upon the approval of the Share Transfer Agreement by the relevant authorities in the PRC, which is currently expected to be available within two months from the date of the Share Transfer Agreement. The Company will make further announcement if the Acquisition is not completed as scheduled on or before February 18, 2006.

B. CONNECTED TRANSACTION

As Xoceco is a substantial shareholder of the JV and thus a connected person of the Company under the Listing Rules, the entering into of the Share Transfer Agreement by Lenovo BJ would constitute a connected transaction of the Company and is subject to the disclosure requirements under the Listing Rules. Xoceco is a company established in the PRC, the shares of which are listed on the Shanghai Stock Exchange. Save as mentioned above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Xoceco and its ultimate beneficial owner are independent from, and not connected to, the Company or any of its connected person(s) as defined under the Listing Rules.

The Company will include details of the Acquisition in the next published annual report of the Company.

C. INFORMATION ON THE JV

The JV is a Sino-foreign equity joint venture established in the PRC and its principal business is the manufacturing and sale of mobile handsets in the PRC.

The audited financial information of the JV for the years ended December 31, 2003 and December 31, 2004 was as follows:

	2003 (in RMB)	2004 (in RMB)
Profits (Loss) before and after taxation	(72.32 million)	14.53 million
Net Asset Value	121.31 million	135.84 million
Total Asset Value	641.87 million	570.54 million
Total Net Revenue	1,521.75 million	2,319.39 million

D. REASONS FOR THE ACQUISITION

Upon completion of the Acquisition, the JV will become a wholly-owned subsidiary of the Company. Taking into account of the positive business results of the JV recorded in the first half of the financial year 2005/06 and its improving market share position, the Acquisition represents an attractive opportunity for the Company to enhancing control over this business.

E. GENERAL

Given the above, the Directors (including the independent non-executive Directors) consider that the terms (including the waiver of the obligation of the Vendor to repurchase inventories mentioned above) of the Share Transfer 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 desktop and notebook computers in worldwide markets. The Group also provides information technology products including mobile handsets, servers, peripherals and digital entertainment products in the PRC.

Xoceco Group is principally engaged in the manufacturing and sale of televisions, set-top boxes, monitors, fax machines, other telecommunication products and electronic components.

F. TERMS USED IN THIS ANNOUNCEMENT

"Acquisition"	the acquisition by Lenovo BJ of 19.2% of the entire equity interest in the JV from Xoceco pursuant to the Share Transfer Agreement
"Company"	Lenovo Group Limited, a company incorporated in Hong Kong with limited liability and shares of which are listed on the Stock Exchange
"Director(s)"	the director(s) 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
"JV"	聯想移動通信科技有限公司(Lenovo Mobile Communication Technology Limited), a company established in the PRC
"Lenovo BJ"	聯想（北京）有限公司(Lenovo (Beijing) Limited), a company established in the PRC and is a wholly-owned subsidiary of the Company
"Listing Rules"	Rules Governing The Listing of Securities on the Stock Exchange
"PRC"	People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Share Transfer Agreement"	the agreement dated December 19, 2005 entered into between Lenovo BJ and Xoceco in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Xoceco"	廈門華僑電子股份有限公司(Xiamen Overseas Chinese Electronic Company Limited), a company incorporated and listed in the PRC
"Xoceco Group"	Xoceco and/or its associates (as defined in the Listing Rules)

By order of the Board
Yuanqing Yang
Chairman

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

New York, December 20, 2005

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

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