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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 licensed securities dealer, 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 to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)**

**CONTINUING CONNECTED TRANSACTIONS  
APPROVAL OF A DIRECTOR'S SERVICE CONTRACT**

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

 **R ROTHSCHILD**

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A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the Independent Board Committee is set out on page 25 of this circular.

A letter from N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 41 of this circular.

A notice convening the Extraordinary General Meeting to be held at 10:00 a.m., on Tuesday, 9 August 2005 (or immediately after the conclusion or adjournment of the annual general meeting of the Company convened for the same date and place at 9:30 a.m.) at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 54 to 56 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event no less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

23 July 2005

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# CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
Introduction .....	5
Continuing Connected Transactions .....	7
Reasons for, and Benefits of, the Continuing Connected Transactions .....	15
Information on the Group .....	16
Information on IBM .....	16
Approval of a Director's Service Contract .....	17
General .....	20
The Independent Board Committee .....	23
Extraordinary General Meeting .....	23
Poll Procedure .....	24
Recommendation .....	24
<b>Letter from the Independent Board Committee</b> .....	25
<b>Letter from Rothschild</b> .....	27
<b>Appendix – Statutory and General Information</b> .....	42
<b>Notice of Extraordinary General Meeting</b> .....	54

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## DEFINITIONS

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

“affiliate”	with respect to any person, any other person who directly or indirectly or who through one or more intermediaries, controls or is controlled by or is under common control with the person specified
“associate”	has the meaning set out in the Listing Rules
“Board”	the board of Directors of the Company
“Blue Express”	Changchun Blue Express Computer Engineering Technology Co., Ltd. which is held as to 51% by IBM as at the Latest Practicable Date
“China Services Agreement”	the services agreement entered into by IIPC and Blue Express on 27 April 2005, as amended by an amendment agreement dated 22 July 2005, details of which are set out in the section headed “China Services Agreement” in this circular
“Company”	Lenovo Group Limited, a company incorporated on 5 October 1993 with limited liability under the laws of Hong Kong, the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning set out in the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the China Services Agreement and the Reverse Transition Services Agreement
“controlling shareholder”	has the meaning set out in the Listing Rules
“Directors”	the directors of the Company
“Effective Date”	the later of (i) the Initial Closing Date; and (ii) the date on which all Stock Exchange’s regulatory requirements have been complied with and/or Independent Shareholders’ approval of the Continuing Connected Transactions has been obtained

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Continuing Connected Transactions and the Service Contract
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBM”	International Business Machines Corporation
“IBM Circular”	the circular of the Company in relation to the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM dated 31 December 2004
“IBM Liability Machines”	IBM logoed, other logoed and non-logoed Products sold by IBM prior to the Effective Date
“IIPC”	International Information Products (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company following Initial Closing
“Independent Board Committee”	the independent board committee comprising the independent non-executive directors of the Company for the purpose of advising the Independent Shareholders in connection with the Continuing Connected Transactions and the Shareholders (other than Mr Ward and his associates) in connection with the Service Contract
“Independent Shareholders”	shareholders other than IBM and its associates
“Initial Closing”	closing of the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM
“Initial Closing Date”	the date on which Initial Closing took place, being 30 April 2005 (Eastern Daylight Time)
“Latest Practicable Date”	20 July 2005, being the latest practicable date for ascertaining certain information contained in this circular

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## DEFINITIONS

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“Lenovo Liability Machines”	IBM logoed, other logoed and non-logoed Products sold by the Group after the Effective Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Major Shareholder”	Legend Holdings Limited, the controlling shareholder of the Company holding approximately 45.2% of all of the Shares as at the Latest Practicable Date
“PRC”	the People’s Republic of China (for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Products”	desktop personal computers and ThinkPad laptop personal computers and peripherals
“Reverse Transition Services”	collectively, the reverse transition services set forth in or contemplated by the Reverse TSA Service Description Attachments
“Reverse Transition Services Agreement”	the reverse transition services agreement entered into by the Company and IBM on 30 April 2005 as amended by an amendment agreement dated 2 May 2005, a second amendment agreement dated 12 May 2005 and a third amendment agreement dated 22 July 2005, details of which are set out in the section entitled the “Reverse Transition Services Agreement” in this circular
“Reverse TSA Service Description Attachments”	attachments to the Reverse Transition Services Agreement which document the Reverse Transition Services
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, a corporation licensed by the Securities and Futures Commission to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, and the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions

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## DEFINITIONS

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“Service Contract”	the service contract dated 30 April 2005 between the Company and Mr Stephen M Ward, Jr, an executive Director, President and Chief Executive Officer of the Company
“SFO”	the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of par value HK\$0.025 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning set out in the Listing Rules
“US\$”	United States Dollar, the lawful currency of USA
“USA”	the United States of America

*This circular contains translation between HK\$ and US\$ at HK\$7.8 = US\$1. The translation shall not be taken as representation that the HK\$ amount could actually be converted into US\$ at that rate, or at all.*

**lenovo** 联想

Lenovo Group Limited 联想集团有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0992)**

*Executive Directors:*

Mr Yang Yuanqing  
Mr Stephen M Ward, Jr  
Ms Ma Xuezheng

*Registered office:*

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

*Non-executive Directors:*

Mr Liu Chuanzhi  
Mr Zhu Linan  
Mr James G Coulter  
Mr William O Grabe  
Mr Shan Weijian  
Mr Justin T Chang (*alternative Director to James G Coulter*)  
Mr Vince Feng (*alternate Director to Mr William O Grabe*)  
Mr Daniel A Carroll (*alternate Director to Mr Shan Weijian*)

*Independent non-executive Directors:*

Mr Wong Wai Ming  
Professor Woo Chia-Wei  
Mr Ting Lee Sen

23 July 2005

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
APPROVAL OF A DIRECTOR'S SERVICE CONTRACT**

**INTRODUCTION**

Reference is made to the announcement made by the Company dated 8 December 2004 in relation to the very substantial acquisition by the Group of the global desktop computer and notebook computer business of IBM, the announcement made by the Company dated 30 April 2005 in relation to the Initial Closing and the announcement made by the Company dated 23 June 2005 in relation to the Continuing Connected Transactions and the Service Contract.

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## LETTER FROM THE BOARD

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IBM is now deemed a connected person of the Company by the Stock Exchange and IIPC is a wholly-owned subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence a connected person of the Company. The remaining 49% interest in Blue Express is held by a third party independent of and not connected with the Company or any of its connected persons. IBM has confirmed that save for its 51% interest in Blue Express, it is not connected with the independent third party.

Pursuant to Rules 14A.25 to 14A.27 of the Listing Rules, the Company considers that the Continuing Connected Transactions should be aggregated with the continuing connected transactions as set out in the Company's circular dated 31 December 2004 and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005. Accordingly, the Continuing Connected Transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules. The Company will comply with the continuing obligations under Rules 14A.36 to 14A.40 of the Listing Rules in respect of the Continuing Connected Transactions. In the event that any of the annual caps under the China Services Agreement or the Reverse Transition Services Agreement are exceeded or either agreement is renewed or materially varied, the Company will re-comply with the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

On 30 April 2005, the Company entered into the Service Contract with Mr Stephen M Ward, Jr, an executive Director, President and Chief Executive Officer of the Company. The Service Contract will require the approval of the Shareholders at a general meeting (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Shareholders (other than Mr Ward and his associates) in respect of the Service Contract.

Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions.

The purposes of this circular are (i) to provide the shareholders with information regarding the Continuing Connected Transactions and the Service Contract; (ii) to set out the letter of advice from Rothschild in respect of the Continuing Connected Transactions; (iii) to set out the recommendation of the Independent Board Committee in respect of the Continuing Connected Transactions and the Service Contract; and (iv) to give notice of the EGM to consider and, if thought fit, to approve the Continuing Connected Transactions and the Service Contract.

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## LETTER FROM THE BOARD

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### CONTINUING CONNECTED TRANSACTIONS

#### China Services Agreement

##### *Date*

27 April 2005, as amended by an amendment agreement dated 22 July 2005

##### *Parties*

International Information Products (Shenzhen) Co., Ltd. (“**IIPC**”) and Changchun Blue Express Computer Engineering Technology Co., Ltd. (“**Blue Express**”)

At the time of the IBM Circular, it was not contemplated that IBM would provide maintenance and warranty services in the PRC after Initial Closing. Subsequent to the extraordinary general meeting of the Company held on 27 January 2005, IBM restructured its Chinese Business Unit (as defined in the IBM Circular that is, IIPC). During that process, the Company considered that it would be more commercially viable to put in place a long-term agreement with Blue Express pursuant to which Blue Express would continue to provide maintenance and warranty services to IIPC in the PRC, instead of having a short-term transitional agreement, in order to ensure a smooth transition and to minimise customer attrition.

Accordingly, on 19 April 2005, IIPC and Blue Express entered into an extension agreement to extend the term of the original service agreement between IIPC and Blue Express (which would otherwise have expired on 30 April 2005) to 11 June 2005 pursuant to which Blue Express would continue to provide maintenance and warranty services to IIPC. On 10 June 2005, a second extension agreement was entered into which further extended the term of the agreement to 10 August 2005.

The Company considers that the warranty services provided by Blue Express to IIPC in the PRC were distinct from the services contemplated at the time of the IBM Circular as the latter relates primarily to areas outside the PRC. It was agreed at that time that a separate arrangement would be made in respect of warranty services in the PRC. As each of the percentage ratios undertaken pursuant to the two extension agreements is on an annual basis less than 0.1%, such transactions will fall under Rule 14A.33 of the Listing Rules. The value for transactions undertaken pursuant to the two extension agreements in the months of May and June 2005 is approximately US\$60,000 (approximately HK\$468,000).

##### *Maintenance and Warranty Services*

Blue Express will provide maintenance and warranty services to IIPC in the PRC on the Lenovo Liability Machines. The Lenovo Liability Machines are IBM logoed, other logoed and non-logoed Products (although it is currently contemplated that this will mainly be IBM-logoed Products) which will be sold by the Group after the Effective Date, that is, the date which is

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## LETTER FROM THE BOARD

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the later of the Initial Closing Date and the date on which all of the Stock Exchange's regulatory requirements have been complied with and/or Independent Shareholders' approval of the China Services Agreement has been obtained. In practice, the Effective Date will be the date on which the Independent Shareholders' approval has been obtained.

During the term of the China Services Agreement, the Company will have sufficient time to develop in-house capabilities or other plans to replace the services provided by Blue Express by the end of such period. Furthermore, during the term of the China Services Agreement and for so long as Blue Express is the service provider to IIPC in the PRC, Blue Express shall use commercially reasonable efforts (determined in good faith by Blue Express) to provide suggestions and recommendations to IIPC or the Company in the design and development of its maintenance and warranty services (other than base warranty services) in the PRC.

### *Consideration*

The China Services Agreement comprises different types of warranty services and a rate has been fixed in respect of each type of warranty service. The service fees payable will be the product of (i) the rate in respect of a particular type of service; and (ii) the actual number of Lenovo Liability Machines receiving that particular type of service in a particular year. The service fees charged by Blue Express are no less favourable to the Group than the terms offered by Blue Express to its independent customers in the PRC. It is not possible to compare the charges of Blue Express against charges of independent service providers as the Company is not aware of another service provider which provides the same geographical coverage in the PRC and which has the technical expertise to provide maintenance and warranty services specifically for Lenovo Liability Machines.

The service fees have been agreed upon between IIPC and Blue Express as a result of arm's length negotiations.

### *Term*

The China Services Agreement shall become effective on the Effective Date. The term of this agreement is five years from the Effective Date and, subject to compliance with the relevant Listing Rules then prevailing, will extend for a term of one or more additional periods of one year each unless either party gives written notice of termination at least six months prior to the then-scheduled expiration of the term. The Company will ensure compliance with the applicable Listing Rules then prevailing before the term of the China Services Agreement is extended after the initial five-year term. If the independent shareholders do not at that time vote in favour of extending the term of the China Services Agreement at the end of the initial 5-year term, the China Services Agreement will terminate at the end of the initial 5-year term.

The first annual review will be conducted jointly by IIPC and Blue Express in August 2006. Pursuant to Rule 14A.36(2) of the Listing Rules, the Company shall re-comply with Rules 14A.35(3) and (4) of the Listing Rules if there is a material change to the terms of the agreement. If the parties cannot agree on the scope of work, service level commitment (turn

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## LETTER FROM THE BOARD

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around time) and service fees by the end of September 2006, IIPC shall have the right, at its sole discretion, to terminate this agreement within 15 days after such date by serving six months' written notice on Blue Express (in practice, this date could not be later than 15 October 2006). Nevertheless, if IIPC does not exercise its right to terminate this agreement, Blue Express shall be obliged to continue to provide the services upon the same terms and conditions until the later of termination or expiration of this agreement.

In addition, the China Services Agreement may be terminated prior to its scheduled expiration if: (i) the parties so agree in writing; (ii) the non-defaulting party gives notice to the defaulting party if the latter fails to rectify a material breach; (iii) either party ceases business or suspends operations for a period exceeding 12 months; or (iv) either party is subject to insolvency proceedings.

The 5-year term of the China Services Agreement will enable IIPC to bargain for better rates and better service levels and more importantly, to ensure continuity and consistency of warranty services for the customers. An agreement with a longer term will also give Blue Express the incentive to continuously invest in and improve its service capability. Furthermore, as some of the Lenovo Liability Machines (which will be sold for a period of 18 months after Initial Closing) will have a warranty period of 3 years, a term of 5 years is desirable in order to cover the entire warranty period of such machines.

Pursuant to Rule 14A.35(1) of the Listing Rules, the independent financial adviser will explain why a term of 5 years is required and that it is normal business practice for contracts of this type to be of such duration in its letter of advice to the Independent Board Committee and the Independent Shareholders. The Directors are of the view that a term of 5 years is required and that, in view of IBM's leading market position, it is not unreasonable for the terms and conditions of agreements which IBM (and its subsidiaries) have entered into to be considered as the industry norm. Accordingly, it is normal business practice for contracts of this type to be of such duration.

### *Annual Caps*

The Company expects that the aggregate amount of fees payable by IIPC to Blue Express under the China Services Agreement for each of the three financial years ending on 31 March 2008 will be as follows:

<b>Annual Cap for the year ending</b>	<i>US\$</i>	<i>HK\$</i>
31 March 2006	8,800,000	68,640,000
31 March 2007	22,000,000	171,600,000
31 March 2008	13,600,000	106,080,000

The annual caps have been calculated by reference to: (i) the estimated sales of the Lenovo Liability Machines; (ii) the estimated failure rate of the Lenovo Liability Machines based on the historical failure rate in 2004; and (iii) the service fees charged by Blue Express

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## LETTER FROM THE BOARD

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for providing similar services to IIPC in the second to fourth quarters of 2004. As the service fees paid by IIPC in the years 2002, 2003 and the first quarter of 2004 were fixed (based on a certain percentage of the revenue of IIPC regardless of the number of machines which required the warranty services), it is not meaningful to compare the historical fees for the years 2002 and 2003 and the first quarter of 2004 against the annual caps under the China Services Agreement. Prior to 1 April 2004, the fees payable by IIPC to Blue Express were fixed as both IIPC and Blue Express were subsidiaries of IBM and their accounts were consolidated with IBM's group accounts. Since 1 April 2004, the fees payable under the China Services Agreement have been re-negotiated. The historical fees for the period from 1 April 2004 to 31 March 2005 were approximately US\$6,410,000 (approximately HK\$49,998,000) (the basis of charge is similar to that under the China Services Agreement).

The Lenovo Liability Machines are IBM logoed, other logoed and non-logoed Products (although it is currently contemplated that this will mainly be IBM-logoed Products) which will be sold by the Group after the Effective Date. As it is envisaged that there will be growth in the sales of the machines in the first 18 months after Initial Closing and certain services not previously provided by Blue Express will now be provided under the China Services Agreement, including post-warranty and warranty upgrade services, the annual cap for the year ending 31 March 2006 is more than the aggregate historical fees for the period from 1 April 2004 to 31 March 2005. As it is less likely that the Lenovo Liability Machines will require servicing in the first year of the warranty period and the accumulated sales in the second year after the Effective Date will be higher than that in the first year given the passage of time, there is an increase in the annual cap for the year ending 31 March 2007 from that in the year ending 31 March 2006.

As the Company will only have the right to use the IBM trademark and logo (solely and not jointly with any other trademark or logo) for a period of 18 months after Initial Closing and some of the Lenovo Liability Machines have a warranty period of one year (although some have a period of three years), it is expected that demand for servicing will be highest in the first and second year of the term of the China Services Agreement.

Prior to 31 March 2008, the Company shall propose annual caps for each of the three financial years ending 31 March 2011 and shall comply with the Listing Rules (including reporting, announcement and independent shareholders' approval requirements, to the extent applicable) then prevailing.

### **Reverse Transition Services Agreement**

#### *Date*

30 April 2005

#### *Parties*

The Company and IBM

The Reverse Transition Services Agreement was first entered into on 30 April 2005 and subsequently amended on 2 May 2005, 12 May 2005 and 22 July 2005. Pursuant to an

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## LETTER FROM THE BOARD

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assignment agreement between the Company and Lenovo (Singapore) Pte. Ltd. dated 30 April 2005, the Company has assigned its rights and obligations under the Reverse Transition Services Agreement to Lenovo (Singapore) Pte. Ltd.

The Reverse Transition Services were not contemplated at the time of the IBM Circular. The Company and IBM commenced discussions on the Reverse Transition Services after the despatch of the circular dated 31 December 2004. Furthermore, the Company and IBM needed time to discuss in detail the terms and conditions of the Reverse Transition Services Agreement. Whilst the Reverse Transition Services Agreement forms part of the transitional agreements which have to be put into place in relation to the very substantial acquisition, it is not a condition precedent to Initial Closing and hence will be approved separately in the EGM.

The Group will provide IBM and its affiliates with the Reverse Transition Services (documented in the Reverse TSA Service Description Attachments) which will include:

### *After sales services*

- (a) *Warranty services and support transition services* – management of day-to-day activities for customer satisfaction issues – for example, ensuring the availability of spare parts on a global level; designing and maintaining websites (to provide customers with service information in respect of the IBM Liability Machines); managing business partners to ensure that services are properly delivered to customers of the IBM Liability Machines; providing global support if certain technical problems cannot be resolved at a local level (initial term covering the period from the Effective Date until 30 April 2009 and IBM has the right to extend the term for one additional year to 30 April 2010);
- (b) *Legacy products services* – provision of services relating to product safety and compliance with relevant regulations – for example, providing information on product safety issues to IBM; ensuring product safety of the IBM Liability Machines; devising product recall plans if necessary (from the Effective Date to 30 April 2010);

((a) and (b) relate to services provided to IBM's authorised business partners in respect of the IBM Liability Machines.)

### *Procurement*

- (c) *Procurement and Lenovo ISC Engineering services* – provision of ongoing procurement and manufacturing functions to IBM for parts such as keyboard, mouse, hard disc, floppy disc and optical devices in relation to the x-series system (such parts may be used with the Products as well) (from the Effective Date to 30 April 2006);

### *Programming*

- (d) *Lenovo ISC Engineering services* – provision of programming support to IBM in relation to the x-series system, for example, code upgrades and provision of training if the codes are changed (from the Effective Date to 30 April 2006);

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## LETTER FROM THE BOARD

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### *Sales*

- (e) *Japan Lenovo Direct Alliance Corporation (“DAC”) support services* – provision of support services in relation to the x-series system (with effect from the Effective Date to 31 December 2005);

### *Marketing*

- (f) *Marketing database content management services* – maintenance of databases (covering day to day issues, administration duties, new requirements and testing of new template release with marketing guidelines from IBM) in relation to the x-series system and relevant marketing materials (from the Effective Date to 31 December 2005); and

### *Sharing of Global Market View (“GMV”) client data*

- (g) *Sharing of GMV client data between IBM and Lenovo* – provision of client information data which utilises data from outside consultants (from the Effective Date to 30 April 2008).

((c) to (g) relate to services provided by the Company to IBM.)

### *Consideration*

The Reverse Transition Services (save for the Japan Lenovo DAC support services and the sharing of GMV client data between IBM and the Company) will be provided by the Group to IBM and its affiliates on a cost basis.

The proportion which the cost of the warranty services and support transition services will bear to the total cost will be equivalent to the proportion which the number of IBM Liability Machines will bear to the total number of machines (that is, the IBM Liability Machines and the Lenovo Liability Machines) requiring such services in a particular year.

The costs of the Japan Lenovo DAC support services and sharing the GMV client data will be fixed. The Japan Lenovo DAC support services are services provided to IBM by an independent third party in connection with IBM’s x-series system pursuant to an agreement between IBM and DAC dated 28 March 2005 which will terminate on 31 December 2005. Under this agreement, other support services (which will be required by the Group after Initial Closing) unconnected with the x-series system are also provided to IBM. Upon Initial Closing, this agreement was assigned to the Company but IBM has agreed to reimburse US\$200,000 (representing the fees apportioned to services in connection with the x-series system based on estimated usage in terms of estimated sales of the x-series system) to the Company for services in connection with its x-series system which the Company has not acquired. The aggregate fees payable to the independent third party had been determined prior to the acquisition of IBM’s personal computer business by the Group between IBM and the independent third party and the fees apportioned to services in connection with the x-series system had been determined by IBM in accordance with the estimated usage in terms of estimated sales of the x-series system by the x-series system prior to December 2004.

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## LETTER FROM THE BOARD

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The cost of sharing the report on the information technology market is based on the estimated fees payable to a third party for analysing the raw data purchased by the Company regarding the personal computer industry. IBM will be directly responsible for the entire fee payable to the third party for analysing the data. The report (which will be used by both IBM and the Company) will be released to IBM by the Company but for the avoidance of doubt, the raw data purchased by the Company will not be released to IBM.

The cost of the other services will be based on the cost of the estimated manpower (inclusive of related overhead costs) required to perform the services.

All of the above service fees have been agreed upon as a result of arm's length negotiations.

As the Reverse Transition Services form part of the transitional arrangements which have been put into place between the Company and IBM in relation to the acquisition by the Group of the global desktop computer and notebook computer business of IBM, such services are unique in the context of the acquisition and accordingly, there are no market comparables against which the service fees may be compared.

### *Term*

The provision of the Reverse Transition Services will become effective on the Effective Date and range in duration from approximately 7 months to 5 years (please see above for the term of each Reverse Transition Service). The Reverse Transition Services Agreement will terminate upon the earliest to occur of: (i) the last date indicated for the termination of a Reverse Transition Service in the Reverse TSA Service Description Attachments (that is, 30 April 2010 assuming IBM has not requested for an extension – any such extension will be subject to compliance with the applicable Listing Rules then prevailing); (ii) the date on which all of the Reverse Transition Services have been terminated by IBM upon giving the Company at least 60 days' prior written notice. IBM may cancel any Reverse Transition Service or reduce the amount of any separately priced portion of a Reverse Transition Service at any time upon 60 days' prior written notice; and (iii) the date on which the Reverse Transition Services have been terminated by a non-defaulting party for a material breach by the defaulting party.

It is noted that the term of these Reverse Transition Services under the Reverse Transition Services Agreement is longer than the term of the transition services (ranging from 12 to 36 months following Initial Closing) to be provided by IBM to the Company as described in the IBM Circular. The Company believes that the Reverse Transition Services and such transition services are independent of each other. The transition services relate mainly to the provision of support services by IBM to the Company in respect of desktop and ThinkPad laptop computers and peripherals which have been acquired by the Group. The transition services to be provided by IBM to the Company after Initial Closing as described in the IBM Circular are required to enable the acquisition to complete as expediently as possible which the Company believes is in the best interests of the Company and the Shareholders as a whole. It is contemplated that the transition services will only be required by the Company for a shorter

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## LETTER FROM THE BOARD

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transitional period after Initial Closing during which time the Company will build up its own capability to perform such services in order to control cost and to establish the Company's own branding. The Reverse Transition Services Agreement, on the other hand, relates mainly to the provision of support services by the Company to IBM in respect of IBM Liability Machines and the x-series system as some support functions of the same were shared with the personal computing business prior to Initial Closing. The Reverse Transition Services set out under paragraphs (a) and (b) have to be for a term of approximately 5 years as this coincides with the normal product life cycle of the IBM Liability Machines. As the ex-employees of IBM's personal computing business were transferred to the Company upon Initial Closing, IBM no longer has the resources to perform the support services on the IBM Liability Machines. A term long enough to see through the normal product life cycle of the IBM Liability Machines is necessary to ensure a smooth transition which is important to the Company from a branding perspective.

In the Company's view, although the transition services to be provided by IBM to the Company after Initial Closing and the reverse transition services to be provided by the Company to IBM with effect from the Effective Date could be regarded as part and parcel of the same transaction, the rationale for each of them is very different (the former being forward-looking whilst the latter is more of a historical remnant).

Pursuant to Rule 14A.35(1) of the Listing Rules, the independent financial adviser will explain why a term of approximately 5 years is required in respect of the services described in paragraphs (a) and (b) above and that it is normal business practice for contracts of this type to be of such duration in its letter of advice to the Independent Board Committee and the Independent Shareholders. The Directors are of the view that a term of approximately 5 years is required in respect of the services described in paragraphs (a) and (b) above and that, in view of IBM's leading market position, it is not unreasonable for the terms and conditions of agreements which IBM has entered into to be considered as the industry norm. Accordingly, it is normal business practice for contracts of this type to be of such duration.

### *Annual Caps*

The Company expects that the aggregate amount of fees payable to the Group under the Reverse Transition Services Agreement for each of three financial years ending on 31 March 2008 will be as follows:

<b>Annual Cap for the year ending</b>	<i>US\$</i>	<i>HK\$</i>
31 March 2006	45,400,000	354,120,000
31 March 2007	29,800,000	232,440,000
31 March 2008	7,600,000	59,280,000

The annual caps have been determined by reference to the actual cost and the estimated number of machines requiring a particular reverse transition service in a particular year. As the number of machines sold by IBM prior to Initial Closing which are in use will decrease over time, it is expected that the demand for the Reverse Transition Services will decrease over time. Accordingly, the annual caps decrease by each financial year.

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## LETTER FROM THE BOARD

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Prior to 31 March 2008, the Company shall propose annual caps for each of the three financial years ending 31 March 2011 and shall comply with the Listing Rules (including reporting, announcement and independent shareholders' approval requirements, to the extent applicable) then prevailing.

### **REASONS FOR, AND BENEFITS OF, THE CONTINUING CONNECTED TRANSACTIONS**

#### **China Services Agreement**

Blue Express is widely regarded as one of the leading providers of after-sales services in the PRC and it is one of the few service providers which have extensive country wide coverage which is required by the Company's top enterprise customers and end users. Prior to the Effective Date, Blue Express had been providing maintenance and warranty services to IIPC's customers since 1996 and the employees of Blue Express are familiar with both the specifications of the IBM products and customers. It would be in the interests of the Company to maintain a close relationship with Blue Express after Initial Closing to help ensure a smooth transition and to minimise customer attrition as the Company will be able to continue to provide the quality warranty services to which IBM's customers are accustomed. A strategic partnership with Blue Express will also provide the Company with a competitive advantage in establishing and maintaining the premium image of the Company's product offerings in the PRC and to increase its credibility with enterprise customers.

Furthermore, under the China Services Agreement, Blue Express will provide IIPC with improved service levels (for example, next day on-site visit for most of the machines in major cities and ThinkPad two-hour express service in a number of cities) at lower service fees as compared to what Blue Express had been offering to IBM prior to the Effective Date. The Directors believe that the new services thereunder provide good value for money from the Company's perspective.

#### **Reverse Transition Services Agreement**

The Reverse Transition Services form part of the transitional arrangements which have been put into place in relation to the acquisition by the Group of the global desktop computer and notebook computer business of IBM. The terms of the Reverse Transition Services Agreement have been negotiated on an arm's length basis and in the same spirit as the transition services to be provided by IBM to the Company after Initial Closing as described in the IBM Circular.

Upon the Initial Closing, certain employees of the personal computing division of IBM were transferred to the Company. Under the Reverse Transition Services Agreement, the Company will be able to leverage on such employees' expertise in order to ensure a smooth transition and to minimise customer attrition as customers will continue to be served by essentially the same dedicated team. From a practical perspective, to the customers, there is no difference between a IBM-logged machine sold prior to Initial Closing and one that is sold

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## LETTER FROM THE BOARD

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thereafter, thus, from the Company's perspective, it is important that the IBM Liability Machines are serviced by the same team providing the same service standards in order to ensure the confidence of customers in machines with the IBM logo.

Furthermore, this arrangement will allow the Company to better utilise its resources acquired from IBM as well as having IBM share part of the cost (in proportion to the services performed under this agreement) for maintaining the relevant departments and personnel for which the Company would otherwise be solely liable. It is expected that the time that they will be required to spend in performing the Reverse Transition Services will only constitute a small portion of the Company's time cost and resources as a whole and accordingly, will not affect the time and resources which the Group will devote to its business going forward. Furthermore, in the Company's view, the maintenance of the IBM Liability Machines does on one level form part of the Group's business going forward as it is important to maintain the confidence of customers in machines with the IBM logo.

The Directors (including the independent non-executive directors) are of the view that so far as the Independent Shareholders are concerned, the China Services Agreement and the Reverse Transition Services Agreement and their respective terms (including the basis of the allocation of cost under the Reverse Transition Services Agreement) have been negotiated on an arm's length basis, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### INFORMATION ON THE GROUP

The principal activity of the Company is investment holding. Since the Initial Closing, the principal activity of the Group is 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.

IIPC mainly provides supply chain management, research support, sales support, technical support, procurement and logistics services. It is also a key production and distribution centre of notebooks as well as a key export and production base of desktop computers of the Group.

### INFORMATION ON IBM

IBM is the largest supplier of "hardware", "software" and information technology services, and pioneered the development and implementation of "e-business" solutions. Over the past decade, IBM has been a leader in the information technology market's shift of focus from selling hardware, software, and services, to the creation of solutions to clients' business problems. The common stock of IBM is listed on the New York, Chicago and Pacific stock exchanges and on other exchanges in the USA and around the world.

Blue Express was founded in January 1996 to handle primarily the after-sales services for IBM's personal computers in the PRC. As Blue Express expanded its geographical coverage in the PRC over the last few years, it has now extended its business scope to include the provision

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## LETTER FROM THE BOARD

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of after-sales services for IBM's low-end servers and the undertaking of out-tasking services for companies that wish to outsource their personal computer technical support function. Blue Express has 170 service centres covering over 2,000 cities and towns in the PRC.

### APPROVAL OF A DIRECTOR'S SERVICE CONTRACT

On 30 April 2005, the Company entered into the Service Contract with Mr Stephen M Ward, Jr, an executive Director, the President and Chief Executive Officer of the Company. The Service Contract will require the approval of the Shareholders at a general meeting (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules. Reference is made to the Company's announcement dated 30 April 2005 regarding his appointment and biography.

For the purposes of this section headed "Approval of a Director's Service Contract", "**Cause**" means, broadly speaking: (i) conviction of or committing a felony or any misdemeanour involving moral turpitude; (ii) gross negligence or gross misconduct resulting in material and demonstrable harm to the Company; (iii) embezzlement or other material acts of dishonesty; or (iv) a material breach of any provision of the Service Contract by Mr Ward; and "**Good Reason**" means, broadly speaking: (i) material reduction in Mr Ward's annual base salary, target annual bonus and other benefits; (ii) relocation of his principal place of employment; (iii) failure by the Company to pay compensation and other benefits to him; (iv) failure to elect or re-elect him to the positions of President, Chief Executive Officer and Director or removal from such positions; (v) material diminution in his duties and responsibilities; or (vi) a material breach of any provision of the Service Contract by the Company.

#### *Term and termination*

The Service Contract is for a term of three years and may be terminated by either party serving 30 days' written notice on the other (save for termination by the Company for Cause, termination by Mr Ward for Good Reason or Mr Ward's death or disability).

#### *Base salary, bonus and other emoluments*

Mr Ward's annual base salary is US\$600,000 (approximately HK\$4,680,000) and his annual target bonus is US\$1,000,000 (approximately HK\$7,800,000), the latter is only payable if the performance targets (such performance targets to be set by the Board as soon as practicable after the end of each financial year for the next financial year) for the relevant financial year have been met. In setting the performance targets indicators such as revenue, market share, profitability, cost savings, cash flow, customer satisfaction, returns to shareholders and achievement of strategic milestones would be taken into account.

If such performance targets have been exceeded, subject to (among other things) the recommendation of the remuneration committee (comprising a majority of independent non-executive directors of the Company at the relevant time) and the approval of the Board (at

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## LETTER FROM THE BOARD

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which board meeting Mr Ward shall abstain from voting), Mr Ward shall be entitled to an increased bonus, in the Company's discretion, of up to US\$3,000,000 (approximately HK\$23,400,000) for the relevant financial year (inclusive of the annual target bonus of US\$1,000,000). At present, there is no formula for the calculation of the increased bonus, this will be subject to the discretion of the Board taking into account the recommendation of the remuneration committee).

Mr Ward's base salary will be paid to him monthly in arrears and his annual bonus will be paid to him at the end of each financial year.

Pursuant to the Service Contract, within 12 months of the date of the Service Contract, the Company will grant to Mr Ward a one-off long-term equity and cash incentive award with a value of not less than approximately US\$4,850,000 (approximately HK\$37,830,000).

For each 12-month period beginning on the Effective Date, long-term equity and cash incentive awards with an annualised aggregate compensation value (based on market value of equity on the date of award) of not less than US\$3,000,000 (approximately HK\$23,400,000) will be given to Mr Ward, subject to the terms of such equity plans as may be established by the Company from time to time. Such long-term equity and cash incentive awards need not be granted every year but the annualised value of such awards should be no less than US\$3,000,000 (approximately HK\$23,400,000) a year. In other words, if an award the value of which is US\$6,000,000 (approximately HK\$46,800,000) is granted to Mr Ward in the first year, no further awards need to be granted to him in the second year. The equity-based incentives may be in the form of stock options, stock appreciation rights and other equity-based compensation or cash-based compensation which will be generally consistent with market practices.

In addition, he will be entitled to disability insurance, life insurance, a term life insurance policy, business expense reimbursement, retiree medical coverage, normal retirement benefits and supplemental retirement benefit (subject to rules which may be adopted by the Company from time to time).

### *Restrictive covenant*

Pursuant to the Service Contract, Mr Ward is bound by a restrictive covenant which provides that for 18 months (if the Service Contract is terminated by the Company for Cause or by Mr Ward without Good Reason) or for 12 months (if the Service Contract is terminated by the Company without Cause or by Mr Ward with Good Reason), Mr Ward shall not, among other things and subject to certain exceptions, directly or indirectly engage in any business primarily engaged in the development or manufacture or sale of general purpose personal computers anywhere that the Group engages in such business as at the date of termination of the Service Contract. The exceptions to the restrictive covenant are: (i) Mr Ward may own an equity interest of up to 3% in a competing business; (ii) he may continue to hold a directorship in a company (other than a member of the Group) which he holds on the date of termination; (iii) he may serve as a director of a company which is not a competing business; and (iv) he may provide services to a subsidiary of a company engaged in a competing business provided that such subsidiary is not itself engaged in a competing business.

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## LETTER FROM THE BOARD

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### *Termination compensation*

Certain provisions of the Service Contract provide that upon termination of the Service Contract, Mr Ward may be entitled to compensation and other payments (primarily consisting of one year's base salary and annual bonus, continued health and welfare coverage for one year, accelerated vesting of equity-based incentives and payment of cash-based long-term incentives) equivalent to more than one year's emoluments depending on a number of factors including his length of service, the performance of the Company, the amount of his unvested equity awards and the amount of his annual bonus (which could be up to his increased bonus) (the "**Relevant Provisions**").

The basis of calculating the compensation and other payments payable to Mr Ward upon termination of the Service Contract depends largely on the circumstances surrounding the termination – whether the Service Contract has been terminated by the Company with or without Cause or by Mr Ward with or without Good Reason.

If the Service Contract is terminated for any reason, Mr Ward will be entitled to: (i) his pro-rated base salary from the beginning of the relevant financial year up to the date of termination; (ii) amounts earned up to the date of termination or due which remain unpaid (for example, any long-term cash-based long-term incentive awards and any unreimbursed business expenses); (iii) retirement and retiree medical benefits (as prescribed in the plan rules to be adopted by the Company); and (iv) any accrued or applicable benefits under any benefit plans which may be established by the Company from time to time.

However, if the Service Contract is terminated by the Company without Cause or by Mr Ward for Good Reason, in addition to the payments above, he will be entitled to: (i) one year's base salary; (ii) target annual bonus for the year in which his termination occurs (that is, no less than US\$1,000,000) regardless of whether the performance targets have been met; (iii) pro-rated annual target bonus for the year of such termination (calculated based on the actual number of days elapsed from the beginning of the relevant financial year through to the date of termination and a 365-day year); (iv) disability insurance for one year after such termination (or an amount which will enable Mr Ward to purchase equivalent insurance coverage); (v) all unvested equity awards (whether settled in cash or equity) will become fully vested on the date of termination and, to the extent applicable, all vested stock appreciation rights will remain exercisable in accordance with the terms of the award, but for no less than 90 days following such termination; and (vi) cash payment equivalent to the actual value of all vested and unvested cash-based long-term incentive awards. Such payments may exceed his one year's emoluments under the Service Contract.

The compensation and other payments payable to Mr Ward upon termination of the Service Contract will be calculated in accordance with the Relevant Provisions, to this extent, the amount will be set according to objective criteria. However, certain components of the compensation package (mainly the increased bonus) will be subject to the recommendation of the remuneration committee and approval of the board of directors of the Company at the end of each financial year.

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## LETTER FROM THE BOARD

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There will not be a cap on the compensation and other payments payable to Mr Ward upon termination of the Service Contract. Compensation will not be payable by Mr Ward if he terminates the Service Contract during its term.

### *Approval at the EGM*

Accordingly, the Service Contract including the Relevant Provisions will require approval of the Shareholders at a general meeting of the Company (at which Mr Ward and his associates shall not vote on the matter) pursuant to Rule 13.68 of the Listing Rules. According to the register maintained by the Company pursuant to Part XV of the Securities and Futures Ordinance and having made all reasonable enquiries, as at the Latest Practicable Date, Mr Ward holds 1,000,000 Shares and none of his associates holds any Shares.

In the event that the Service Contract is not approved by the Shareholders, the Relevant Provisions shall forthwith become null and void and any payments which may be made to Mr Ward upon termination of the Service Contract will not exceed one year's emoluments (that is, his base salary, annual target bonus, his increased bonus (subject to the Company's discretion and inclusive of the annual target bonus), long-term equity and cash-based incentives of no less than US\$3,000,000 a year). Nevertheless, the remaining provisions of the Service Contract (including the provisions which will entitle Mr Ward to receive compensation not exceeding one year's emoluments upon termination thereof) shall remain in effect.

The Independent Board Committee will advise the independent Shareholders as to whether the terms of the Service Contract (including the provision therein providing that the Relevant Provisions shall become null and void and any payments to Mr Ward will not exceed one year's emoluments) are fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole and advise the independent Shareholders on how to vote.

### **GENERAL**

IBM is deemed a connected person of the Company by the Stock Exchange and IIPC is a subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence a connected person of the Company. Accordingly, the transactions contemplated under the China Services Agreement and the Reverse Transition Services Agreement will constitute continuing connected transactions of the Company under Rule 14A.14 of the Listing Rules. Such transactions will be subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

IBM and its associates shall abstain from voting on resolutions in connection with the Continuing Connected Transactions at the EGM. The Directors are of the view that the Major Shareholder and its associates do not have any interest in the Continuing Connected Transactions which is different from the interest of the other Shareholders (excluding IBM and its associates).

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## LETTER FROM THE BOARD

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On 30 April 2005, the Major Shareholder and IBM entered into a voting undertaking agreement pursuant to which the Major Shareholder has, subject to any applicable laws or regulations, the Listing Rules and the requirements and decisions of any applicable authority, undertaken and agreed with IBM to vote (or procure to be voted) at any general meeting of the Shareholders (or any adjournment thereof) in favour of resolutions in respect of, inter alia, the Continuing Connected Transactions.

Mr Ward and IBM have reached an understanding that IBM will vote in favour of the resolution to approve the Service Contract at the EGM. The Stock Exchange has confirmed that IBM is eligible to vote on the Service Contract at the EGM.

Mr Ward 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. Upon Initial Closing, Mr Ward resigned from his employment with IBM and was appointed as an executive Director, President and Chief Executive Officer of the Company. Following termination of his employment with IBM, IBM remains liable to pay certain employment compensation and benefits to Mr Ward which will not be affected by the outcome of the vote on the resolution regarding the Service Contract at the EGM. IBM is obliged to make these payments irrespective of whether or not the Service Contract is approved by the independent Shareholders. IBM is not a party to the Service Contract and the terms of the Service Contract do not confer on IBM any benefit which is not available to the Independent Shareholders.

Save for IBM's liability to pay certain employment compensation and benefits to Mr Ward as mentioned above and Mr Ward and his associates' beneficial shareholding interest of less than 0.005% in IBM, there is no relationship or allegiance between Mr Ward and IBM.

Pursuant to an undertaking dated 30 April 2005, the Major Shareholder has, subject to the Listing Rules, undertaken to Mr Ward vote in favour of the resolution approving the terms of the Service Contract at a general meeting of the Company. This voting undertaking has been entered into with a view to securing Mr Ward's services to the Company which the Major Shareholder considers to be invaluable to the Company. The Major Shareholder and its associates' interest in the Service Contract is no different from that of any other Shareholder. The Major Shareholder and its associates have confirmed that they do not have any connection with Mr Ward and his associates other than the voting undertaking above.

The Stock Exchange has confirmed that the Major Shareholder is eligible to vote on the Continuing Connected Transactions and the Service Contract at the EGM.

As at the Latest Practicable Date, IBM held 931,870,515 Shares and 811,000,513 Non-voting Shares representing approximately 18.90% of the issued ordinary share capital (including Shares and Non-voting Shares but excluding Convertible Preferred Shares) and approximately 9.90% of the total voting rights. IBM and its associates shall abstain from voting at the EGM on the resolutions in relation to the Continuing Connected Transactions. As at the Latest Practicable Date, as far as the Company is aware, having made all reasonable enquiries:

- (a) IBM controlled or was entitled to exercise control over the voting rights in respect of its Shares;

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## LETTER FROM THE BOARD

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- (b) (i) save for the voting agreement with the Major Shareholder dated 7 December 2004, the voting undertakings with 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 (“**Investors**”) dated 29 April 2005, the voting undertaking agreement with the Major Shareholder dated 30 April 2005 and the voting understanding with Mr Ward in respect of the Service Contract as described in this letter from the Board, there were no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon IBM; and
- (ii) save as provided for under the voting undertaking described in (b)(i) above, there were no obligations on or entitlements of IBM as at the Latest Practicable Date,

whereby IBM had 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; and

- (c) there were no discrepancies between the beneficial shareholding interest of IBM 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.

For the purposes of the paragraph above, “**Non-voting Shares**” means ordinary unlisted shares of nominal value HK\$0.025 each in the ordinary share capital of the Company, which carry the same rights as the Shares save that the Non-voting Shares do not carry any voting rights until they are converted into Shares; and “**Convertible Preferred Shares**” means Series A cumulative convertible preferred shares of nominal value HK\$9.175 each and stated value of HK\$1,000 each in the share capital of the Company.

As at the Latest Practicable Date, Mr Ward held 1,000,000 Shares in the Company. Mr Ward and his associates shall abstain from voting at the EGM on the resolution in relation to the Service Contract. As at the Latest Practicable Date, as far as the Company is aware, having made all reasonable enquiries:

- (a) Mr Ward controlled or was entitled to exercise control over the voting rights in respect of his Shares;
- (b) (i) save for the voting undertaking with the Major Shareholder dated 30 April 2005 and the understanding with IBM in respect of the Service Contract, there were no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon him; and

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## LETTER FROM THE BOARD

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- (ii) save as provided for under the voting arrangements described in (b)(i) above, there were no obligations on or entitlements of Mr Ward as at the Latest Practicable Date,

whereby Mr Ward had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of his Shares to third parties, either generally or on a case-by-case basis; and

- (c) there were no discrepancies between the beneficial shareholding interests of Mr Ward in the Company as disclosed in this circular and the number of Shares in respect of which he will control or will be entitled to exercise control over the voting rights at the EGM.

### THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the independent shareholders in respect of the Service Contract.

Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions.

### EXTRAORDINARY GENERAL MEETING

A notice convening an EGM is set out on pages 54 to 56 of this circular. The EGM is being convened for the purpose of considering and, if thought fit, passing ordinary resolutions to approve the Continuing Connected Transactions and the Service Contract.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event no less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

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## LETTER FROM THE BOARD

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### POLL PROCEDURE

Votes taken at the EGM to seek approval of the Continuing Connected Transactions (together with the annual caps thereunder) and the Service Contract will be taken by poll.

Pursuant to Article 73 of the Articles of Association, a poll may be demanded by the Chairman or:

- (a) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (b) by any Shareholder present in person or by proxy and representing no less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (c) by any Shareholder present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to and not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (d) as required by the applicable Listing Rules.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular, and the letter from Rothschild set out on pages 27 to 41 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the ordinary resolutions approving the Continuing Connected Transactions and the Service Contract.

By order of the Board  
**Yang Yuanqing**  
*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)**

*To the Independent Shareholders*

**CONTINUING CONNECTED TRANSACTIONS  
APPROVAL OF A DIRECTOR'S SERVICE CONTRACT**

Dear Sir or Madam,

We refer to the circular of the Company dated 23 July 2005 issued to the Shareholders (the "Circular") of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, the terms of the China Services Agreement and the Reverse Transition Services Agreement (and the annual caps thereunder) and the terms of the Service Contract are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions. Your attention is drawn to the letter of advice from Rothschild as set out on pages 27 to 41 of the Circular.

Having taken into account the advice of Rothschild, we consider that the terms of the China Services Agreement and the Reverse Transition Services Agreement (and the annual caps thereunder for each of the three years ending 31 March 2008) are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Having taken into account the advice of Towers Perrin, an international human resources consultancy firm, we consider that the terms of the Service Contract (including the provision therein providing that the Relevant Provisions shall become null and void and any payments to Mr Ward will not exceed one year's emoluments) are fair and reasonable and in the interests of the Company and the shareholders as a whole. We have taken into account the factors considered by Towers Perrin, for example, the terms of the Service Contract would be market competitive with respect to practices of companies similar to the Company including companies in the personal computer-related industry and those with similar size and geographic operations; the terms would be consistent with those provided to other comparable Chief Executive Officers participating in the US labour market; the terms are at least equal to the emoluments which Mr Ward would have otherwise been eligible to receive from IBM; the terms would fairly and appropriately reflect Mr Ward's experience in the personal computer-related industry, his track record and his experience with recently acquired international

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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operations of the Company and would support the Company's objective with respect to promoting its long term performance by providing a significant portion of reward in the form of variable and at risk compensation.

We therefore recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Continuing Connected Transactions and the independent shareholders to vote in favour of the resolution in relation to the Service Contract.

Yours faithfully,  
*Independent Board Committee*  
**Mr Wong Wai Ming**  
**Professor Woo Chia-Wei**  
**Mr Ting Lee Sen**

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## LETTER FROM ROTHSCHILD

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*Set out below is the text of a letter from Rothschild to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions prepared for inclusion in this circular.*



23 July 2005

*To the Independent Board Committee and  
the Independent Shareholders of Lenovo Group Limited*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the continuing connected transactions between the Company and IBM, and between IIPC and Blue Express (together as the “Continuing Connected Transactions”), details of which are contained in the circular issued by the Company dated 23 July 2005 (the “Circular”) of which this letter forms a part. Rothschild has been retained as the independent financial adviser by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Continuing Connected Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to explain why a longer period for the China Services Agreement, the warranty services and transition support services and the legacy products services under the Reverse Transition Services Agreement is required and to confirm whether it is normal business practice for contracts of these types to be of such duration.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

On 27 April 2005, IIPC and Blue Express entered into the China Services Agreement which was subsequently amended on 22 July 2005 and on 30 April 2005, the Company and IBM entered into the Reverse Transition Services Agreement which was subsequently amended on 2 May 2005, 12 May 2005 and 22 July 2005. Following the Initial Closing on 30 April 2005, IBM has been deemed a connected person of the Company by the Stock Exchange and IIPC has become a wholly-owned subsidiary of the Company. As IBM has a shareholding interest of 51% in Blue Express, Blue Express is an associate of IBM and hence, a connected person of the Company. Pursuant to Rules 14A.25 to 14A.27 of the Listing Rules, the Company considers that the Continuing Connected Transactions should be aggregated with the continuing connected transactions as set out in the IBM Circular and approved by the independent shareholders at the extraordinary general meeting of the Company held on 27 January 2005. Accordingly, the transactions contemplated under the China Services Agreement



and the Reverse Transition Services Agreement will constitute continuing connected transactions of the Company under Rule 14A.14 of the Listing Rules. Such transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate, incomplete or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Board. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that, in order to provide a reasonable basis for our advice, we have taken reasonable steps and performed sufficient work in compliance with Rule 13.80 of the Listing Rules (including the notes thereto). We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group or its respective subsidiaries or associated companies.

## **PRINCIPAL FACTORS AND REASONS**

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

### **1. Rationale for the Continuing Connected Transactions**

On 7 December 2004, the Company announced its acquisition of IBM's global desktop computer and notebook computer business (the "IBM Acquisition"). In order to facilitate the smooth transition of the IBM Acquisition and to ensure the respective customers of both the Company and IBM continue to enjoy the same quality services which they are accustomed to whilst at the same time allow the other party to build up its own capabilities, if applicable, which will require time and resources, both parties believe it is essential and have agreed, as an interim measure, to provide certain ancillary services to each other. The IBM Acquisition



together with certain of the ancillary services (including the transition services to be provided to the Company by IBM after the Initial Closing as described in the IBM Circular) that are subject to independent shareholders' approval were approved at the extraordinary general meeting of the Company held on 27 January 2005. The Initial Closing took place on 30 April 2005. Please refer to the IBM Circular for further details about the IBM Acquisition and the ancillary services.

As noted in the "Letter from the Board" in the Circular, Blue Express had been providing maintenance and warranty services to IIPC's customers since 1996 and the employees of Blue Express are familiar with both the specifications of the IBM products and customers. Furthermore, based on our discussion with the management of the Company, the Company is not aware of another service provider in the PRC that has the same geographical coverage and the technical expertise to provide maintenance and warranty services specifically for the Lenovo Liability Machines. As such, in order to ensure a smooth transition and to minimise customer attrition, we concur with the Directors that it would be in the interest of the Company to maintain a continuous relationship with Blue Express after the Initial Closing by entering into the China Services Agreement with Blue Express. A strategic partnership with Blue Express should also provide the Company with a competitive advantage in establishing and maintaining the premium image of the Company's product offerings in the PRC and to increase its credibility with enterprise customers.

We note that the Reverse Transition Services Agreement forms part of the transitional arrangements which have been put into place in relation to the IBM Acquisition and it is in similar spirit to the transition services to be provided to the Company by IBM after the Initial Closing as described in the IBM Circular and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005. As noted in the "Letter from the Board" in the Circular, the Reverse Transition Services were not contemplated at the time of the IBM Circular. The Company and IBM commenced discussions on the Reverse Transition Services after the despatch of the IBM Circular. Furthermore, the Company and IBM needed time to discuss in details the terms and conditions of the Reverse Transition Services Agreement. From a practical perspective, to the customers, there is no difference between a IBM-logoed machine sold prior to the Initial Closing and one that is sold thereafter, thus, from the Company's perspective, it is important for the IBM Liability Machines to continue to be serviced by the same team in order to ensure the confidence of customers in the machines with the IBM logo. On this basis, we concur with the Directors that the Reverse Transition Services are supporting functions essential to the operations of the Company after the Initial Closing to ensure a smooth transition and to minimise customer attrition as customers will continue to be served by essentially the same dedicated team.



## 2. China Services Agreement

Pursuant to the China Services Agreement, Blue Express will provide maintenance and warranty services in the PRC on the Lenovo Liability Machines (comprising the IBM-logoed, other-logoed and non-logoed Products) sold after the Effective Date. These Lenovo Liability Machines will be sold by IIPC after the Effective Date for its own account and will contribute to the sales of the Group. We understand from the Company that the services contemplated under the China Services Agreement do not apply to the Lenovo-logoed machines.

During the term of the China Services Agreement, the Company will have sufficient time to develop in-house capabilities or other plans to replace the services provided by Blue Express at the end of such period. Furthermore, for the term of the China Services Agreement and for so long as Blue Express is the service provider in the PRC, Blue Express shall use commercially reasonable efforts (determined in good faith by Blue Express) to provide suggestions and recommendations to IIPC or Lenovo to assist IIPC or Lenovo in its design and development of its maintenance and warranty service (other than base warranty service) offerings for the PRC market.

### *(i) Consideration*

The China Services Agreement comprises different types of warranty services and a rate has been fixed in respect of each type of warranty service after arm's length negotiation between IIPC and Blue Express. The service fees payable by IIPC under the China Services Agreement will be the product of (a) the rate in respect of a particular type of service (including base warranty services and post-warranty and warranty upgrade services) and (b) the actual number of the Lenovo Liability Machines receiving that particular type of service in a particular year. We note that Blue Express has other independent customers in the PRC and the service fees charged by Blue Express will be no less favourable to the Group than the terms offered by Blue Express to its independent customers in the PRC.

The Company advised that it is not possible to compare the charges of Blue Express against charges of independent service providers in the PRC as the Company is not aware of another service provider which provides the same geographical coverage in the PRC and which has the technical expertise to provide maintenance and warranty services specifically for the Lenovo Liability Machines. Hence, in assessing the service fees, we have reviewed the rates with those charged to the Company by IBM in other Asia Pacific countries, including Australia, Hong Kong, India, Japan, Singapore and Taiwan for the transition services to be provided to the Company by IBM after the Initial Closing as



described in the IBM Circular and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005 whereby the Company has engaged IBM as its preferred service provider to perform similar services under the China Services Agreement to the Company's products outside the PRC. As noted in the "Letter from the Board" in the IBM Circular, "The service fees for the first year will be the "best" fee, by each geographical location, that IBM offers for substantially similar services in the same geographical location (including products and delivery terms) in respect of any service provider customer contracts, in each geographical location, that are the top three closest in volume". Although the service level offered by IBM in other Asia Pacific countries are not entirely the same as the services provided by Blue Express in the PRC, nevertheless, given the substantially similar nature of the services and the lack of another service provider which can provide the same geographical coverage in the PRC and which has the technical expertise to provide maintenance and warranty services specifically for the Lenovo Liability Machines, we believe our review are comparable in the circumstance. We note from our review the rates offered to IIPC by Blue Express to be amongst the lowest when compared with the rates offered to the Company by IBM in other Asia Pacific countries.

Historically, the service fees paid by IIPC in the years 2002, 2003 and the first quarter of 2004 were fixed based on a certain percentage of the revenue of IIPC regardless of the number of machines which required the warranty services. As such, it is not meaningful to make comparison with the historical service fees for the years 2002, 2003 and the first quarter of 2004. Since 1 April 2004, the service fees were re-negotiated and the basis of charge is similar to that under the China Services Agreement. The historical service fees for the period from 1 April 2004 to 31 March 2005 were approximately US\$6,410,000 (approximately HK\$49,998,000), representing approximately 0.26% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005.

*(ii) Term*

The term of the China Services Agreement is five years from the Effective Date and subject to the compliance with the relevant Listing Rules, will automatically extend for one or more additional periods of one year each unless either party gives written notice of termination at least six months prior to the then-scheduled expiration of the term. The first annual review will be conducted jointly by IIPC and Blue Express in August 2006.



We understand that the Lenovo Liability Machines will be sold for a period of 18 months after the Initial Closing and these machines will have a warranty of up to three years. As it is normal market practice that the basic warranty services period for new personal computers of equivalent quality to that of the Lenovo Liability Machines sold is of a period of up to three years and taking into account that the Company is allowed to continue to sell the Lenovo Liability Machines under the IBM logo during the 18 months after the Initial Closing, we consider that the term of the China Services Agreement of five years to be fair and reasonable as this will provide certainty and continuity of services for the customers for the entire warranty period. Furthermore, as discussed above, the Company is not aware of another service provider in the PRC that has the same geographical coverage and the technical expertise to provide maintenance and warranty services specifically for the Lenovo Liability Machines, it would be difficult to find a quality service provider to assume Blue Express' role in providing those services bearing in mind of the declining number of Lenovo Liability Machines still remaining in the market place at that time. According to figures published by the International Data Corporation, IBM was the third largest personal computer provider in the world in term of total number of personal computers sold in the first quarter of 2005. In view of IBM's leading market position, the terms and conditions of various service contracts under which IBM (and its subsidiaries) entered into could be viewed as the industry norm. The five-year term of the China Services Agreement will also enable IIPC to bargain for better rates and service levels and give Blue Express the incentive to continuously invest in and improve its service capability which, in turn, is in the interest of the customers of the Company. We also note that the IBM Acquisition together with certain transition services with a term of five years were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005. In view of the above, we consider the proposed duration of five years under the China Services Agreement to be fair and reasonable, and it is required and a normal business practice for contracts of this type to be of such duration on the basis that (a) the Lenovo Liability Machines will be sold for 18 months after the Initial Closing and these machines will have a warranty period of up to three years; and (b) it is in the Company's interest to ensure certainty and continuity of services for the customers of the Lenovo Liability Machines for the entire warranty period.



(iii) *Annual cap*

The annual cap for service fees payable by IIPC to Blue Express under the China Services Agreement for the three financial years ending 31 March 2008 will not exceed:

- (a) US\$8,800,000 (approximately HK\$68,640,000) for the financial year ending 31 March 2006, representing approximately 0.36% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005;
- (b) US\$22,000,000 (approximately HK\$171,600,000) for the financial year ending 31 March 2007, representing approximately 0.89% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005;
- (c) US\$13,600,000 (approximately HK\$106,080,000) for the financial year ending 31 March 2008, representing approximately 0.55% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005.

The annual cap for service fees payable by IIPC to Blue Express for the remaining term after the financial year ending 31 March 2008 under the China Services Agreement will be considered at a later stage and in compliance with the relevant Listing Rules.

We have discussed with the management of the Company the basis upon which the above annual caps have been determined and noted that such caps were calculated by reference to:

- (a) the estimated sales of the Lenovo Liability Machines during the 18-month period after the Initial Closing. Such sales estimates have taken into account the anticipated increase in the volume resulting from the increase in business activities. Taking into consideration the Company's extensive distribution network in the PRC, the sales of the Lenovo Liability Machines are expected to increase and we consider that the estimation is reasonable;



- (b) the estimated failure rate of the Lenovo Liability Machines based on the historical failure rate in 2004. We have reviewed the historical failure rate of the relevant machines provided by the Company in relation to the percentage of products which required warranty service during their respective warranty period and consider the estimation to be in line; and
- (c) the service fees charged by Blue Express for providing similar services to IIPC in the second to fourth quarters of 2004. In comparison, we note that the China Services Agreement offers IIPC with improved terms as compared to those offered by Blue Express to IIPC in 2004. As discussed above, we have also compared the rates with those charged to the Company by IBM in other Asia Pacific countries for the provision of similar services under the China Services Agreement to the Company after the Initial Closing and considered that rates offered to IIPC by Blue Express to be amongst the lowest when compared with the rates offered by IBM in other Asia Pacific countries in the circumstance.

The annual cap will be at its highest during the financial year ending 31 March 2007 as the Directors expect that the total number of outstanding Lenovo Liability Machines subject to warranty services remaining in the market place to be highest. The number of Lenovo Liability Machines subject to warranty services will start to decline when the Company stops selling the Lenovo Liability Machines 18 months after the date of the Initial Closing and the warranty period for those machines with 3-year warranty begin to expire three years after the date of the Initial Closing.

On the basis that (a) the China Services Agreement is essential to ensure a smooth transition and to minimise customer attrition as a result of the IBM Acquisition, (b) it is normal market practice that the basic warranty service period for new personal computers of equivalent quality to that of the Lenovo Liability Machines sold to be of a period of up to three years and taking into account that the Company is allowed to continue to sell the Lenovo Liability Machines during the 18 months after the Initial Closing resulting in a term of five years, and (c) the basis used to determine the proposed annual cap are reasonable, we consider the terms of the China Services Agreement (including the proposed annual caps for the three financial years ending 31 March 2008) to be fair and reasonable, and it is required and a normal business practice for contracts of this type to be of such duration given that it is to ensure certainty and continuity of services for the customers of the Lenovo Liability Machines for the entire warranty period.



### **3. Reverse Transition Services Agreement**

Pursuant to the Reverse Transition Services Agreement, the Company (which rights and obligations have been assigned to Lenovo (Singapore) Pte. Ltd pursuant to an assignment agreement dated 30 April 2005) shall provide, or shall cause the third parties designated by it to provide the Reverse Transaction Services to IBM on a global basis. The Reverse Transition Services Agreement relates mainly to the provision of support services by the Company to IBM in respect of the IBM Liability Machines and which have not been acquired by the Group. The Reverse Transition Services can be broadly classified into six categories (please refer to the “Letter from the Board” in the Circular for further details) and can be regarded as a reciprocal arrangement to the transition services to be provided to the Company by IBM after the Initial Closing as described in the IBM Circular and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005 whereby IBM will provide certain supporting services to the Company to ensure minimum disruption to both the Company and IBM after the Initial Closing.

As the ex-employees of IBM’s personal computer division, including those in relation to the provision of Reverse Transition Services, have been transferred to the Company upon the Initial Closing, IBM no longer has the necessary resources to perform the support services on IBM Liability Machines. By providing these services to IBM, the Company will be able to better utilise its resources as well as having IBM sharing part of the cost (in proportion to the services performed under the Reverse Transition Services Agreement as further discussed below) for maintaining the relevant departments and personnel which the Company is solely liable for. The Reverse Transition Services are unique to IBM and the Company will not be able to find another customer who will require those services.

*(i) Consideration*

The Reverse Transition Services (save for the Japan Lenovo Direct Alliance Corporation (“DAC”) support services and sharing of Global Market View (“GMV”) client data between IBM and Lenovo) will be provided by the Group to IBM and its affiliate on a cost basis.

The proportion which the cost of the warranty services and support transition services will bear to the total cost will be equivalent to the proportion which the number of the IBM Liability Machines will bear to the total number of machines requiring such services in a particular year. In respect of the other Reverse Transition Services, the consideration will be calculated based on the estimated manpower cost (inclusive of related overhead costs) required to perform the services.



As the Reverse Transition Services form part of the transitional arrangements which have been put into place between the Company and IBM in relation to the IBM Acquisition, such services are unique in the context of the IBM Acquisition, there are no market comparables against which the service fees may be compared. On this basis, we are of the view that it is reasonable to determine the fees on a cost basis as these services are to be provided for the transitional period to ensure minimum disruption to both the Company and IBM after the Initial Closing and having IBM sharing part of the cost for maintaining the relevant departments and personnel which the Company is solely liable for.

In respect of the Japan Lenovo DAC support services, IBM will pay a fixed fee to the Company for services provided to IBM by a third party in connection with IBM's x-series system pursuant to an agreement which will terminate on 31 December 2005. Pursuant to this agreement, other support services not in connection with the x-series system are also provided to IBM. After the Initial Closing, this agreement has been assumed by the Company but IBM has agreed to reimburse US\$200,000 (representing the fees apportioned to services in connection with the x-series system) to the Company for services in connection with its x-series which the Company did not acquire. We understand the overall fees were determined prior to the IBM Acquisition between IBM and the independent third parties and the fees apportioned to services in connection with the x-series system were determined by IBM in accordance with the estimated usage in term of estimated sales of the x-series system as a percentage of the total estimated sales of x-series and personal computers. We note that there is no breakdown provided in the agreement as to the amount attributable to the x-series. We have reviewed and considered the historical data provided by the Company in relation to the sales of the x-series system as a percentage of the total sales of x-series and personal computers and consider that such estimations have been reasonably made. On the basis that the Company is merely an intermediary and such fee will be paid by IBM to the Company as reimbursement to the Company from IBM for service provided by a third party with no additional cost incurred by the Company and in this connection, we consider the arrangement to be fair and reasonable.

The cost of sharing the report on analysis of the information technology market ("Sharing of GMV client data between IBM and Lenovo") is based on the estimated fee payable to a third party for analysing the raw data regarding personal computer industry purchased by the Company. IBM will be responsible for the entire fee payable to the third party for analysing the data and in return, the Company will release the report to IBM but not the raw data purchased by the Company. The report will provide IBM with information regarding the latest trend in the personal computers industry. As the entire fee



under the Sharing of GMV client data between IBM and Lenovo is borne by IBM, we consider the arrangement to be fair and reasonable and in the interest of the Company and its Shareholders.

The annual fees payable under the Reverse Transition Services Agreement will be reduced significantly after the second year when most of the services will be expired pursuant to its terms. As the Reverse Transition Services form part of the transitional arrangements which have been put in place in relation to the IBM Acquisition, we concur with the Directors that such services are unique in the context of the IBM Acquisition. As such, we have not been able to compare the services fees against market comparables. In the absence of market comparables, we consider the use of a cost basis to be fair and reasonable on the basis that the provision of the Reverse Transition Services (other than the Japan Lenovo DAC support services) form part of the transitional arrangement in relation to the IBM Acquisition. In respect of the Japan Lenovo DAC support services, as the fixed fee was determined prior to the IBM Acquisition and the Company is merely an intermediary, we consider the basis to be fair and reasonable since such fee is a form of reimbursement to the Company from IBM for service provided by a third party.

*(ii) Term*

The Reverse Transition Services Agreement will become effective on the Effective Date and continue for periods ranging from five months to five years. The tenor of each of the services to the Reverse Transition Services is set out below:

	<b>Term (beginning from the Effective Date)</b>
(a) Warranty services and support transition services	To 30 April 2009 ( <i>Note</i> )
(b) Legacy products services	To 30 April 2010
(c) Procurement and Lenovo ISC Engineering services	To 30 April 2006
(d) Lenovo ISC Engineering services	To 30 April 2006
(e) Japan Lenovo DAC support services	To 31 December 2005
(f) Marketing database content management services	To 31 December 2005
(g) Sharing of GMV client data between IBM and Lenovo	To 30 April 2008

*Note: IBM has the right to extend the term for one additional year to 30 April 2010.*



The Reverse Transition Services Agreement will terminate upon the earlier to occur of: (a) the last date indicated for the termination of a Reverse Transition Service in the Reverse TSA Service Description Attachments; and (b) the date on which all of the Reverse Transition Services have been terminated. In addition, IBM may cancel any of the Reverse Transition Service or reduce the amount of any separately priced portion of a Reverse Transition Service at any time upon 60 days' prior written notice.

Of the Reverse Transition Services, the warranty services and support transition services and the legacy products services (together referred to as the "After Sales Services") have a term of more than three years. The After Sales Services only cover the IBM Liability Machines sold prior to the Initial Closing. As informed by the Company, the normal useful life of a computer is around three to five years, which we note corresponds with the general accounting depreciation policy for computers. As such, the proposed term for the After Sales Services should be able to cover the useful life of the last IBM Liability Machine sold immediately before the Initial Closing in order to ensure minimum disruption to both the Company and IBM after the Initial Closing. Furthermore, it is normal market practice for the warranty services and support transition services and the legacy products services to be provided by the same service provider throughout the useful life of a computer as it would be difficult for IBM to find a replacement service provider with similar ranking to assume the Group's obligation under the After Sales Services pursuant to the Reverse Transition Services Agreement for the remaining period if the After Sales Services have a term of only three years considering the time remaining and in view of the declining number of IBM Liability Machines in the market. According to figures published by the International Data Corporation, IBM is the third largest personal computer provider in the world in term of total number of personal computers sold in the first quarter of 2005. In view of IBM's leading market position, the terms and conditions of various service contracts under which IBM entered into could be viewed as the industry norm. The existing owners of IBM Liability Machines are also the likely potential customers of the Company when they need to upgrade or replace their existing IBM Liability Machines and hence it is in the best interest of the Company that these customers continue to enjoy the same quality supporting service without any interruption.

On the basis that:

- (a) the normal useful life of a computer is around three to five years;
- (b) it is important to ensure minimum disruption to both the Company and IBM after the Initial Closing;
- (c) the normal market practice for the warranty services and support transition services and the legacy products services to be provided by the same service provider throughout the useful life of a computer; and



- (d) the existing owners of IBM Liability Machines are also the likely potential customers of the Company when they need to upgrade or replace their existing IBM Liability Machines and hence it is in the best interest of the Company that these customers continue to enjoy the same quality supporting service without any interruption,

we consider the proposed duration for the After Sales Services to be fair and reasonable, and it is required and a normal business practice for contracts of these types to be of such duration given that the normal useful life of a computer is around three to five years and it is in the best interest of the Company that these customers continue to enjoy the same quality supporting service without any interruption.

*(iii) Annual cap*

The annual cap for service fees payable by IBM to the Group under the Reverse Transition Services Agreement for the three financial years ending 31 March 2008 will not exceed:

- (a) US\$45,400,000 (approximately HK\$354,120,000) for the financial year ending 31 March 2006, representing approximately 1.84% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005;
- (b) US\$29,800,000 (approximately HK\$232,440,000) for the financial year ending 31 March 2007, representing approximately 1.21% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005;
- (c) US\$7,600,000 (approximately HK\$59,280,000) for the financial year ending 31 March 2008, representing approximately 0.31% of the cost of sales of the Company of approximately HK\$19.2 billion for the financial year ended 31 March 2005;

The annual cap for service fees payable by IBM to the Group for the remaining term after the financial year ending 31 March 2008 under the Reverse Transition Services Agreement will be considered at a later stage and in compliance with the relevant Listing Rules.



We have discussed with the management of the Company the basis upon the above annual caps have been determined and noted that such caps were calculated by reference to:

- (a) the actual cost of providing the services in a particular year; and
- (b) the estimated number of IBM Liability Machines requiring a particular Reverse Transition Service in a given year.

Based on our review of the information provided by the Company, we note that the bulk of the proposed annual caps for the two financial years ending 31 March 2007 and all of the proposed annual caps for the remaining periods represent fees payable for the After Sales Services. The proposed annual caps are significantly higher for the two financial years ending 31 March 2007 as the number of IBM Liability Machines that will remain in use are at its highest during such periods. As the number of IBM Liability Machines in use will decrease over time, the proposed annual cap decrease by each financial year.

We have reviewed and considered the historical data provided by the Company in relation to the number of IBM Liability Machines requiring a particular Reverse Transition Service and consider that such estimations have been reasonably made. The proposed annual caps have been determined by reference to the estimated cost multiplied by the estimated number of IBM Liability Machines requiring the particular service apart from the “Japan Lenovo DAC support services” and “Sharing of GMV client data between IBM and Lenovo” which have fixed fees.

On the basis that (a) the Reverse Transition Agreement forms part of the transitional arrangements which have been put into place in relation to the IBM Acquisition and it is in the same spirit as the transition services to be provided to the Company by IBM after the Initial Closing as described in the IBM Circular and approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 27 January 2005, (b) the normal useful life of a computer is around three to five years, (c) the existing owners of IBM Liability Machines are the likely potential customers of the Company when they need to upgrade or replace their existing IBM Liability Machines and should not be prejudiced as a result of the IBM Acquisition and it is essential that they continue to enjoy the same quality supporting services, (d) it is normal market practice for the warranty services and support transition services and the legacy products services to be provided by the same service provider throughout the usual life of a computer, and (e) the basis used to determined the cap are reasonable, we consider the terms of the Reverse Transition Agreement (including the proposed annual caps for the three financial years ending 31 March 2008) to be fair and reasonable, and



it is required and a normal business practice for contracts of this type to be of such duration given that it is to ensure certainty and continuity of services for the customers of the IBM Liability Machines for the entire warranty period.

**RECOMMENDATION**

Having considered the above principal factors and reasons, we consider the terms of the Continuing Connected Transactions (including the proposed annual caps for the three financial years ending 31 March 2008) to be on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders taken as a whole. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions, as detailed in the notice of EGM set out at the end of the Circular.

Yours very truly,

For and on behalf of

**N M Rothschild & Sons (Hong Kong) Limited**

**Kelvin Chau**

*Director*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of providing information with regard to the Group. 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, the opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company and 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 therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules 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
			Personal interests	Family interests	Trust	
Mr Yang Yuanqing	Long Position	Shares	10,200,000	–	–	10,200,000
	Long Position	Share options	11,250,000	–	–	<u>11,250,000</u>
						21,450,000
Mr Stephen M Ward, Jr	Long Position	Shares	1,000,000	–	–	1,000,000
Ms Ma Xuezheng	Long Position	Shares	15,834,000	–	7,240,000	23,074,000
	Long Position	Share options	6,120,000	–	–	<u>6,120,000</u>
						29,194,000
Mr Liu Chuanzhi	Long Position	Shares	16,010,000	976,000	–	16,986,000
	Long Position	Share options	5,250,000	–	–	<u>5,250,000</u>
						22,236,000
Mr Zhu Linan	Long Position	Shares	3,720,000	–	–	3,720,000

*Note:* The above-mentioned share options are options granted by the Company pursuant to its share option schemes.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective concert parties or their associates 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 therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

**Substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10% or more of the nominal value of the issued ordinary share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

*(i) Interests in the Shares and underlying Shares of the Company*

As at the Latest Practicable Date

**(A) Shares**

Name	Nature of interest in long position	Capacity and number of Shares/underlying Shares held		
		Beneficial owner	Corporate interests	Aggregate interests
Legend Holdings Limited <i>(note 1)</i>	Shares	2,700,976,724	1,469,311,247 <i>(note 2)</i>	4,170,287,971
Employees' Shareholding Society of Legend Holdings Limited <i>(note 3)</i>	Shares	–	4,170,287,971	4,170,287,971
International Business Machines Corporation <i>(note 4)</i>	Shares and Non- voting Shares	1,742,871,028	–	1,742,871,028
TPG Advisors IV, Inc	underlying Shares	–	439,217,834	439,217,834
TPG GenPar IV, L.P.	underlying Shares	–	439,217,834	439,217,834
TPG Partners IV, L.P.	underlying Shares	–	439,217,834	439,217,834
TPG IV Acquisition Company LLC <i>(note 5)</i>	underlying Shares	439,217,834	–	439,217,834
Mr David Bonderman <i>(note 6)</i>	underlying Shares	–	885,180,238	885,180,238

## (B) Convertible Preferred Shares

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held		
		Beneficial owner	Corporate interests	Aggregate interests
GAP (Bermuda) Limited	Convertible Preferred Shares	–	655,114	655,114
General Atlantic Partners (Bermuda), L.P. <i>(note 7)</i>	Convertible Preferred Shares	655,114	–	655,114
GAP Coinvestments III, LLC	Convertible Preferred Shares	42,566	–	42,566
GAP Coinvestments IV, LLC	Convertible Preferred Shares	11,100	–	11,100
General Atlantic LLC	Convertible Preferred Shares	–	70,001	70,001
GapStar, LLC <i>(note 8)</i>	Convertible Preferred Shares	9,750	–	9,750
General Atlantic Partners 81, L.P. <i>(note 9)</i>	Convertible Preferred Shares	60,251	–	60,251
GAPCO Management GmbH	Convertible Preferred Shares	–	1,219	1,219
GAPCO GmbH & Co. KG <i>(note 10)</i>	Convertible Preferred Shares	1,219	–	1,219
Tarrant Advisors, Inc.	Convertible Preferred Shares	–	390,000	390,000
Newbridge Asia Advisors III, Inc.	Convertible Preferred Shares	–	390,000	390,000
Newbridge Asia GenPar III, L.P.	Convertible Preferred Shares	–	390,000	390,000

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held		
		Beneficial owner	Corporate interests	Aggregate interests
Newbridge Asia III, L.P.	Convertible Preferred Shares	–	390,000	390,000
Newbridge Asia Acquisition Company LLC ( <i>note 11</i> )	Convertible Preferred Shares	390,000	–	390,000
TPG Advisors III, Inc	Convertible Preferred Shares	–	312,000	312,000
TPG GenPar III, L.P.	Convertible Preferred Shares	–	312,000	312,000
TPG Partners III, L.P.	Convertible Preferred Shares	–	312,000	312,000
TPG III Acquisition Company, LLC ( <i>note 12</i> )	Convertible Preferred Shares	312,000	–	312,000
T <sup>3</sup> Advisors II, Inc.	Convertible Preferred Shares	–	280,429	280,429
T <sup>3</sup> GenPar II, L.P.	Convertible Preferred Shares	–	280,429	280,429
T <sup>3</sup> Partners II, L.P.	Convertible Preferred Shares	–	280,429	280,429
T <sup>3</sup> II Acquisition Company, LLC ( <i>note 13</i> )	Convertible Preferred Shares	280,429	–	280,429
TPG Advisors IV, Inc.	Convertible Preferred Shares	–	967,571	967,571
TPG GenPar IV, L.P.	Convertible Preferred Shares	–	967,571	967,571

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held		
		Beneficial owner	Corporate interests	Aggregate interests
TPG Partners IV, L.P.	Convertible Preferred Shares	–	967,571	967,571
TPG IV Acquisition Company LLC	Convertible Preferred Shares	967,571	–	967,571
Mr David Bonderman (note 6)	Convertible Preferred Shares	–	1,950,000	1,950,000

*Notes:*

1. The English company name “Legend Holdings Limited” is a direct transliteration of its Chinese company name.
2. The Shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
3. Employees’ Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested, or has short positions, in any Shares in which they are interested or have short positions.
4. As at the Latest Practicable Date, IBM had an interest in an aggregate of 1,742,871,028 Shares and Non-voting Shares, comprising 931,870,515 Shares and 811,000,513 Non-voting Shares. IBM was issued 821,234,569 Shares and 921,636,459 Non-voting Shares on 30 April 2005. On 1 May 2005, IBM entered into the Repurchase Agreement with the Company for the sale of 435,717,757 Non-voting Shares. On 17 May 2005, IBM converted 110,635,946 Non-voting Shares into an equal number of Shares. Save as disclosed above, IBM has not dealt in any Shares since 30 April 2005.
5. TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.
6. Mr David Bonderman had an interest in underlying Shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisors III, Inc. T<sup>3</sup> Advisors II, Inc. and Tarrant Advisors, Inc. (Tarrant Advisors, Inc. owns 50% of the Shares of Newbridge Asia Advisors III, Inc.).
7. GAP (Bermuda) Limited is the general partner of General Atlantic Partners (Bermuda), L.P.
8. GapStar, LLC is directly wholly owned by General Atlantic LLC.
9. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.
10. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.
11. Newbridge Asia Acquisition Company LLC is indirectly wholly owned by Newbridge Asia Advisors III, Inc.
12. TPG III Acquisition Company, LLC is indirectly wholly owned by TPG Advisors III, Inc.
13. T<sup>3</sup> II Acquisition Company, LLC is indirectly wholly owned by T<sup>3</sup> Advisors II, Inc.

*(ii) Interest in shares of subsidiaries of the Company*

<b>Name of subsidiary</b>	<b>Name of substantial shareholder</b>	<b>Percentage of holding</b>
Shenzhen Legend Computer Co., Ltd.	Legend Holdings Limited	20%
	Shenzhen Science and Industry Park Corporation	10%
Legend Creat Holdings Limited	Nanchang Creat Group Co., Ltd.	45%
Lenovo Mobile Communication Co., Ltd.	Xiamen Overseas Chinese Electronic Co., Ltd.	19.2%
Lenovo AI Computer Technology Co., Ltd.	A.I. Software Co., Ltd.	30%

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued ordinary share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or any options in respect of such capital.

**MATERIAL CHANGES**

*Capitalised terms used in this section shall have the same meanings as those used in the announcements made by the Company dated 30 April 2005 and 30 March 2005, respectively.*

Since 31 March 2005, the following events, which the Directors consider may result in or have a material effect to the financial, trading position or prospects of the Company, have occurred:

**(a) Acquisition of the personal computer business of IBM**

At Initial Closing on 30 April 2005, the Company acquired the personal computing business of IBM and paid IBM cash consideration of US\$650 million (equivalent to approximately HK\$5.07 billion). The Company also allotted and issued to IBM 821,234,569 Shares and 921,636,459 Non-voting Shares credited as fully paid up at an issue price of HK\$2.675 per share. Immediately following the Initial Closing, IBM held approximately 18.9% of the total issued ordinary share capital of the Company (including

Shares and Non-voting Shares) and approximately 9.9% of the total voting rights of the Company. The personal computing business would be consolidated in the financial accounts of the Company from Initial Closing. As the IBM Acquisition has only been recently completed the financial and trading impact on the Company cannot be reasonably ascertained.

**(b) Raising of term loan**

In connection with the IBM Acquisition, the Company entered into a facility agreement on 26 April 2005 with certain banks to arrange a term loan of US\$500 million (equivalent to approximately HK\$3,900 million) partly for settlement of cash consideration at the Initial Closing of the IBM Acquisition.

The term loan is guaranteed unconditionally jointly and severally by the Company and certain subsidiaries of the Group, bearing interest at the London Interbank Offered Rate plus 0.825% per annum and repayable by instalments in five years.

**(c) Issue of the Convertible Preferred Shares and Warrants**

Pursuant to the terms of the CPS Subscription which are described in the CPS Subscription Circular, upon the satisfaction of certain conditions and the resolutions passed at the extraordinary general meeting of the Company held on 13 May 2005, the Company issued 2,730,000 Convertible Preferred Shares at an issue price of HK\$1,000 (“Stated Value”) per share, together with Warrants to subscribe for an aggregate of 237,417,474 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 (equivalent to approximately HK\$2,730 million) on 17 May 2005.

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 Company may defer the payment of cash dividends if it is unable to make such payments by law or under the Company’s bank credit facility in effect on the date on which the Convertible Preferred Shares were first issued. 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 Ordinary Shares, until all such deferred dividends shall have been paid in full. If the Company fails to pay cash dividends when accumulated or deemed to accumulate, the convertible preferred shareholders will have the right to receive additional interest at the rate of 4.5% per annum on the amount of such cash dividend payment that was not paid when accumulated or deemed to accumulate. No additional Convertible Preferred Shares will be issued in respect of unpaid dividends.

Each Convertible Preferred Share is convertible, at the option of its holder 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 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 before the record date for which precedes the conversion date.

Each Warrant carries the right to subscribe for one Share at the initial exercise price of HK\$2.725, subject to certain anti-dilution adjustments, at any time during the five years from 17 May 2005.

The Directors confirmed that there has been no material change in the financial, trading position or prospects of the Company since 31 March 2005 up to the Latest Practicable Date other than those changes arising from the events described above including the impact arising from combining the personal computing business of IBM into the Group.

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

- (a) As at the Latest Practicable Date, none of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31 March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), 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.
- (b) As at the Latest Practicable Date, none of the Directors or their associates 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' SERVICE CONTRACTS**

Mr Stephen M Ward, Jr, an Executive Director, the President and Chief Executive Officer of the Company entered into a service contract with the Company for a term of three years on 30 April 2005. Upon termination of the Service Contract, Mr Ward may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on, among other things, his length of service, the performance of the Company, the amount of his unvested equity awards and the amount of his annual bonus. The Service Contract will require approval of the Shareholders at a general meeting of the Company (at which Mr Ward and his associates shall abstain from voting) pursuant to Rule 13.68 of the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors had any existing or proposed service agreement with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

## EXPERTS

The following is the qualification of the expert who has given opinions or advice, which is contained or referred to in this circular:

Name	Qualification	Date of opinion	Nature of opinion or advice
N M Rothschild & Sons (Hong Kong) Limited	licenced by the Securities and Futures Commission to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined under the SFO	23 July 2005	Letter of advice to the Independent Board Committee and the Independent Shareholders
Towers Perrin	an international human resources consultancy firm	17 July 2005	Advice to the Independent Board Committee

Rothschild has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name, in the form and context in which they appear.

Towers Perrin has given and has not withdrawn its written consent to the references to its name in the letter from the Independent Board Committee.

Each of Rothschild and Towers Perrin has no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Neither Rothschild nor Towers Perrin has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2005, being the date up to which the latest published audited consolidated financial statements of the Group 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 secretary of the Company is Ms Look Pui Fan who is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (c) The qualified accountant of the Company is Mr Wong Wai Kwong who is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.
- (d) The share registrar of the Company is Abacus Share Registrars Limited, situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, 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 registered office of the Company from the date of this circular up to and including 9 August 2005:

- (a) the China Services Agreement entered into between IIPC and Blue Express on 27 April 2005 as amended by an amendment agreement dated 22 July 2005 together with the extension agreement between IIPC and Blue Express dated 19 April 2005 and the second extension agreement between IIPC and Blue Express dated 10 June 2005;
- (b) the Reverse Transition Services Agreement entered into between the Company and IBM on 30 April 2005 and subsequently amended on 2 May 2005, 12 May 2005 and 22 July 2005;
- (c) the Service Contract entered into between Mr Ward and the Company on 30 April 2005;
- (d) the agreement between IBM and Direct Alliance Corporation dated 28 March 2005;
- (e) letter from the Independent Board Committee as set out on pages 25 to 26 of this circular;
- (f) letter from Rothschild as set out on pages 27 to 41 of this circular;

- (g) letter of consent from Rothschild dated 23 July 2005;
- (h) letter of consent from Towers Perrin dated 22 July 2005;
- (i) voting undertaking agreement entered into between the Major Shareholder and IBM on 30 April 2005;
- (j) voting undertaking agreement given by the Major Shareholder to Mr Ward on 30 April 2005;
- (k) voting understanding between IBM and Mr Ward on 29 April 2005;
- (l) voting agreement between IBM and the Major Shareholder dated 7 December 2004;  
and
- (m) voting undertakings between IBM and the Investors dated 29 April 2005.



Lenovo Group Limited 聯想集團有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 0992)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Lenovo Group Limited (the “**Company**”) will be held at 10:00 a.m. on Tuesday, 9 August 2005 (or immediately after the conclusion or adjournment of the annual general meeting of the Company convened for the same date and place at 9:30 a.m.) at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purposes of considering and, if thought fit, passing with or without modification the following resolutions as ordinary resolutions of the Company:

**ORDINARY RESOLUTIONS**

(1) “**THAT:**

- (a) the China Services Agreement dated 27 April 2005 entered into between International Information Products (Shenzhen) Co., Ltd (“**IIPC**”) and Changchun Blue Express Computer Engineering Technology Co., Ltd. (“**Blue Express**”), pursuant to which Blue Express will provide maintenance and warranty services to IIPC (a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purposes) and the proposed annual caps thereunder for each of the three years ending 31 March 2008, be and is hereby approved, ratified and confirmed;
- (b) any one Director, or any two Directors if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company and/or its subsidiaries to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/ them to be incidental to, ancillary to or in connection with the matters contemplated in the China Services Agreement.”

(2) “**THAT:**

- (a) the Reverse Transition Services Agreement dated 12 May 2005 entered into between the Company and International Business Machines Corporation (“**IBM**”), pursuant to which the Company and its subsidiaries will provide IBM and its affiliates with the Reverse Transition Services (as defined therein) (a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purposes) and the proposed annual caps thereunder for each of the three years ending 31 March 2008, be and is hereby approved, ratified and confirmed;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) any one Director, or any two Directors if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company and/or its subsidiaries to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Reverse Transition Services Agreement.”
- (3) “**THAT:**
- (a) the Service Contract dated 30 April 2005 entered into between the Company and Mr Stephen M Ward. Jr, an executive Director, President and Chief Executive Officer of the Company (a copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purposes), be and is hereby approved, ratified and confirmed; and
- (b) any one Director, or any two Directors if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company and/or its subsidiaries to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Service Contract.”

By Order of the Board of  
**Lenovo Group Limited**  
**Yang Yuanqing**  
*Chairman*

Hong Kong, 23 July 2005

*Registered office:*

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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Executive Directors:*

Mr Yang Yuanqing  
Mr Stephen M Ward, Jr  
Ms Ma Xuezheng

*Non-executive Directors:*

Mr Liu Chuanzhi  
Mr Zhu Linan  
Mr James G Coulter  
Mr William O Grabe  
Mr Shan Weijian  
Mr Justin T Chang (*alternative Director to James G Coulter*)  
Mr Vince Feng (*alternative Director to Mr William O Grabe*)  
Mr Daniel A Carroll (*alternative Director to Mr Shan Weijian*)

*Independent Non-executive Directors:*

Mr Wong Wai Ming  
Professor Woo Chia-Wei  
Mr Ting Lee Sen

*Notes:*

1. A member entitled to attend and vote at the Extraordinary General Meeting 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, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time for holding the Extraordinary General Meeting or any adjournment thereof.
3. A form of proxy for use at the meeting is enclosed. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting 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 Extraordinary General Meeting, 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 Extraordinary General Meeting 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. The votes to be taken in the Extraordinary General Meeting will be taken by way of poll.