Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

ANNOUNCEMENT

COMPLETION OF FORMATION OF JOINT VENTURE AND CONTINUING CONNECTED TRANSACTIONS

Reference is made to the JV Announcement made by the Company on 2 November 2017. The Board is pleased to announce that all of the conditions precedent in the SPA have been satisfied and completion of the sale and purchase of 51% of the total issued share capital of FCCL took place on 2 May 2018.

As set out in the JV Announcement, at or prior to Completion, FCCL will enter into the CCT Agreements with members of the Fujitsu Group in respect of the provision of certain services and products to or by FCCL to facilitate the operation of its business, conditional upon Completion taking place.

The Board is pleased to announce that on 2 May 2018, FCCL entered into (i) the Transitional Services Agreement; (ii) Secondment Agreement; (iii) Services Agreement; (iv) Manufacturing Agreement (FPE); (v) Manufacturing Agreement (FIT); (vi) Sales and Distribution Agreement; (vii) Fujitsu Trademark and Brand License Agreement; (viii) Manufacturing and Services Agreement; and (ix) R&D Services Agreement.

Immediately following Completion, the Company (through Lenovo International), owns 51% of the total issued share capital of FCCL and Fujitsu owns 44% of the total issued share capital of FCCL and accordingly, Fujitsu (and its associates (as defined under the Listing Rules)) become connected persons of the Company and the transactions contemplated under the CCT Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As Fujitsu is a connected person of the Company at the subsidiary level, the transactions between FCCL and members of the Fujitsu Group contemplated under the CCT Agreements are connected transactions between the Company's Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the transactions contemplated under the CCT Agreements and confirmed that the CCT Agreements and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Company's Group and are on normal commercial terms, and the terms thereof (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the CCT Agreements are subject to annual review, reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements.

None of the Directors has a material interest in the CCT Agreements and the transactions contemplated thereunder, and hence no Director has to abstain from voting on the relevant board resolutions approving the annual caps of the CCT Agreements and the transactions contemplated thereunder.

Pursuant to Rule 14A.52 of the Listing Rules, as the terms of some of the CCT Agreements contemplated under the CCT Agreements exceed three years, the Company has appointed Alliance Capital Partners Limited as its Independent Financial Adviser, to explain why such CCT Agreements are required to be of a period exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

Details of the CCT Agreements will be disclosed in the annual report of the Company for financial year ending 31 March 2019 in accordance with Rules 14A.71 and 14A.72 of the Listing Rules.

1. INTRODUCTION

Reference is made to the JV Announcement made by the Company on 2 November 2017 which disclosed the entry by the Company into (i) the SPA with Fujitsu in respect of the Transaction, pursuant to which the Company conditionally agreed to purchase, and Fujitsu conditionally agreed to sell, the Sale Shares, representing 51% of the total issued share capital of FCCL, and (ii) the JVA with Lenovo International and Fujitsu for the purpose of regulating the management of FCCL and the relationship with each other as shareholders in FCCL. The effectiveness of the JVA is conditional upon Completion under the SPA occurring. Completion under the SPA took place on 2 May 2018.

Immediately following Completion, the Company (through Lenovo International), owns 51% of the total issued share capital of FCCL and Fujitsu retains 44% of the total issued share capital of FCCL and accordingly, Fujitsu (and its associates (as defined under the Listing Rules)) become connected persons of the Company. Pursuant to an agreement between Fujitsu and Development Bank of Japan Inc. ("**DBJ**"), DBJ is entitled to hold 5% of the total issued share capital of FCCL. Immediately following Completion, DBJ holds 5% of the total issued share capital of FCCL.

The Board is pleased to announce that on 2 May 2018, the Company entered into (i) the Transitional Services Agreement; (ii) Secondment Agreement; (iii) Services Agreement; (iv) Manufacturing Agreement (FPE); (v) Manufacturing Agreement (FIT); (vi) Sales and Distribution Agreement; (vii) Fujitsu Trademark and Brand License Agreement; (viii) Manufacturing and Services Agreement; and (ix) R&D Services Agreement.

2. PRINCIPAL TERMS OF THE CCT AGREEMENTS

(i) Transitional Services Agreement

Date

2 May 2018

Parties

1. Fujitsu

2. FCCL

Scope

Fujitsu will, through individual contracts with FCCL, provide to FCCL with various transitional services including research and development of hardware and software, sales and marketing, information technology support, development and management, customer care support, quality control, manufacturing support, supply chain management, procurement and corporate management.

FCCL will, through individual contracts with Fujitsu, provide Fujitsu with various transitional services including research and development of software, supply chain management, information technology support, development and management, sales management and support, customer care support and corporate management.

Term

The term of the Transitional Services Agreement shall commence on the Completion Date and shall expire on the earlier of (i) the last date on which either FCCL or Fujitsu is obliged to provide any service to the other in accordance with the terms of the Transitional Services Agreement and (ii) the fifth anniversary of the Completion Date.

The term may be extended under the same terms and conditions by mutual agreement between the parties.

Pricing of Services

The existing services should be provided at a cost in line with historical cost, i.e. the base charging rate should be consistent with the applicable rate in FY16. For new services, such services shall be provided on market competitive rates proposed by the provider of the services on the understanding that the provider of the services is not required to benchmark the rates against other service providers.

(ii) Secondment Agreement

Date

2 May 2018

Parties

1. Fujitsu

2. FCCL

Scope

Secondment by Fujitsu to FCCL of certain employees of Fujitsu (the "**Seconded Employees**") on the same terms as applied to the current secondment arrangement currently in place between FCCL and Fujitsu.

Term

The term of the Secondment Agreement shall commence from Completion Date until the earlier of (i) employment of all the Seconded Employees being transferred from Fujitsu to FCCL (or otherwise terminated), or (ii) termination in accordance with the terms of the JVA; or (iii) the fifth anniversary of the Completion Date.

Secondment Charges

FCCL shall pay/reimburse Fujitsu, in respect of the secondment period, in accordance with the remuneration policies of Fujitsu as applied immediately prior to the commencement date of the secondment arrangement of the relevant Seconded Employees: (i) the salary, allowance, bonus and any other incentives; (ii) the retirement allowance accrued; and (iii) health, pension, long-term care insurances.

(iii) Services Agreement

Date

2 May 2018

Parties

1. FCCL

2. FTS

3. FTS IP

Scope

FTS shall provide to FCCL product management services, VAT support services, purchasing and supply chain management services and IP support services (which will be provided by FTS IP).

Term

The term of the Services Agreement shall commence from Completion Date and shall continue for a period of five years. The term may be extended by mutual agreement between the parties.

Pricing of Services

Charges payable by FCCL to FTS shall be based on the costs of performing the services as set out in the Services Agreement plus a 5% mark-up.

(iv) Manufacturing Agreement (FPE)

Date

2 May 2018

Parties

1. FCCL

2. FPE

Scope

FPE shall provide to FCCL manufacturing services of (a) PCs (desktop personal computers, notebook personal computers and tablet personal computers); (b) edge computing; (c) certain spare parts, accessories, peripherals, printers and software associated with the (a) and (b) above.

FCCL shall provide component sourcing services for items agreed to be procured and provided by FCCL to FPE.

Term

The term of the Manufacturing Agreement (FPE) shall commence from Completion Date and shall continue for a period of five years. The term may be extended under the same terms and conditions by agreement between the parties. Either party may terminate the Manufacturing Agreement (FPE) by giving not less than 12 months' written notice at any date after the Initial Business Plan Period. Such termination will be subject to mutual agreement between the parties.

Pricing of Services

The services should be provided at a cost in line with the base charging rate consistent with historical rates in FY17 plus a margin which is consistent with historical rates in FY17. Charges for components procured by FCCL to FPE shall be at cost. Payment of charges shall be on a monthly basis.

After the Initial Business Plan Period, if FCCL can show concrete and reasonable evidence that FCCL or other third party manufacturer can manufacture equivalent products with substantially more competitive terms, FPE shall either (i) sell at substantially more competitive terms, or (ii) discuss with FCCL in good faith to explore alternative means.

(v) Manufacturing Agreement (FIT)

Date

2 May 2018

Parties

1. FCCL

2. FIT

Scope

FIT shall provide to FCCL manufacturing services of (a) PCs (desktop personal computers, notebook personal computers and tablet personal computers); (b) edge computing; (c) certain spare parts, accessories, peripherals, printers and software associated with the (a) and (b) above.

FCCL shall provide component sourcing services for items agreed to be procured and provided by FCCL to FIT.

Term

The term of the Manufacturing Agreement (FIT) shall commence from Completion Date and shall continue for a period of five years. The term may be extended under the same terms and conditions by agreement between the parties. Either party may terminate the Manufacturing Agreement (FIT) by giving not less than 12 months' written notice at any date after the Initial Business Plan Period. Such termination will be subject to mutual agreement between the parties.

Pricing of Services

The services should be provided at a cost in line with the base charging rate consistent with historical rates in FY17 plus a margin which is consistent with historical rates in FY17, Charges for components procured by FCCL to FIT shall be at cost. Payment of charges shall be on a monthly basis.

After the Initial Business Plan Period, if FCCL can show concrete and reasonable evidence that FCCL or other third party manufacturer can manufacture equivalent products with substantially more competitive terms, FIT shall either (i) sell at substantially more competitive terms, or (ii) discuss with FCCL in good faith to explore alternative means.

(vi) Sales and Distribution Agreement

Date

2 May 2018

Parties

1. Fujitsu

2. FCCL

Scope

FCCL shall, via individual agreements, supply to Fujitsu (a) Fujitsu-branded (i) notebook personal computers, desktop personal computers and tablet personal computers, (ii) edge computing, (iii) accessories, peripherals, printers and software related to (i) and (ii); (b) such other products as may be agreed between the parties; and (c) services relating to the foregoing (collectively, "**Products**").

Term

The term of the Sales and Distribution Agreement shall commence from Completion Date and shall continue for a period of five years. The term may be extended under the same terms and conditions by agreement between the parties.

Pricing of Products

For the purpose of calculating prices of the Products, costs of goods sold shall be agreed between FCCL and Fujitsu, which shall include, amongst others, materials costs (including original design manufacturing purchases), production costs, running royalty, warranty expenses, recycling expenses, depreciation of owned mold, and any other items included in costs for FY15 and FY16.

For Products to be sold and distributed in Enterprise Market in Japan, Fujitsu shall pay FCCL an amount which is 19% mark-up over costs of goods sold.

For Products to be sold and distributed in Enterprise Market outside of Japan, Fujitsu shall pay FCCL an amount which is 6% mark-up over costs of goods sold.

Payment of charges shall be on a monthly basis.

(vii) Fujitsu Trademark and Brand License Agreement

Date

2 May 2018

Parties

1. Fujitsu

2. FCCL

Scope

Fujitsu grants to FCCL, under Fujitsu's rights in "Fujitsu" or "富士通" (the "**Licensed Name**"), a non-transferable, non-sublicenseable (subject to the right to sublicense to its subsidiaries), non-exclusive and restricted license, during the JV Term and the first year of the Transitional Period.

Fujitsu grants to FCCL, under Fujitsu's rights in certain trademarks (the "**Fujitsu Trademarks**") a non-transferable, non-sublicensable (subject to the right to sublicense to its subsidiaries and sub-contractors), and restricted license during the JV Term and the Transitional Period.

Term

The term of the Fujitsu Trademark and Brand License Agreement shall commence from Completion Date and continue for a period of five years. The term may be extended under the same terms and conditions (i) by mutual agreement between the parties, or (ii) for a period of three years at FCCL's option.

Royalties

During the JV Term, FCCL shall pay Fujitsu (i) in respect of the Licensed Name – 0.05% on the consolidated revenue of the Target Group calculated on a quarterly basis; (ii) in respect of the Fujitsu Trademarks – 0.45% on sales of licensed products not made or conducted via or by Fujitsu or its affiliates.

During the Transitional Period, FCCL shall pay Fujitsu (i) first year – 1% on the consolidated revenue of the Target Group calculated on a quarterly basis; (ii) second year – 2% sales of products bearing the Fujitsu Trademarks.

Payment of royalties shall be on a semiannual basis.

(viii) Manufacturing and Services Agreement

Date

2 May 2018

Parties

1. FCCL

2. FTS

Scope

FTS will manufacture products including desktop personal computers, notebook personal computers, certain spare parts and components (including system boards) associated with desktop personal computers and notebook personal computers and accessories for FCCL. FTS shall also provide the purchasing and supply chain management services to FCCL.

FCCL shall provide component sourcing services for items agreed to be procured and provided by FCCL to FTS.

Term

The term of the Manufacturing and Services Agreement shall commence from Completion Date and shall continue for a period of five years. The term may be extended under the same terms and conditions by agreement between the parties. Either party may terminate the Manufacturing and Services Agreement by giving not less than 12 months' written notice at any date after the Initial Business Plan Period. Such termination will be subject to mutual agreement between the parties.

Pricing of Services

The charges for products manufactured by FTS shall be at a base charging rate consistent with historical rates in FY17 plus 5% mark-up on the manufacturing value add. Charges for components procured by FCCL to FTS shall be at cost.

Payment of charges shall be on a monthly basis.

After the Initial Business Plan Period, if FCCL can show concrete and reasonable evidence that FCCL or other third party manufacturer can manufacture equivalent products with substantially more competitive terms, FTS shall either (i) sell at substantially more competitive terms, or (ii) discuss with FCCL in good faith to explore alternative means.

(ix) R&D Services Agreement

Date

2 May 2018

Parties

1. FCCL

2. FTS

Scope

FTS shall, via individual agreements, provide research and development services to FCCL based on current practices, including hardware (motherboard), firmware and software (such as BIOS drivers and bit images), system integration, quality assurance, project and product management for client products and other services as may be agreed upon by the parties.

Term

The term of the R&D Services Agreement shall commence from Completion Date and remain in force for the Initial Business Plan Period. After the Initial Business Plan Period, the term shall be automatically renewed annually and shall expire at the end of the fifth year after the Completion Date, unless either party gives written notice to terminate the R&D Services Agreement within the first three months of each renewal period. After the expiry of the five-year term, the term may be further extended for a period of three years under the same terms and conditions by mutual agreement between the parties.

Pricing of Services

The charges payable by FCCL to FTS under the R&D Services Agreement shall be based on FTS' historical costs of performing the services, plus 5% mark-up.

3. PROPOSED ANNUAL CAPS

Historical Transaction Amounts

The table below sets out the historical transaction accounts paid and payable by or to FCCL under the historical agreements for each of the CCT Transactions for FY16, and FY17 (estimated)[1], respectively:

	FY16 *(JPY in 100 million)*	**FY17** *(JPY in 100 million)*
Income generated from the provision of transitional services to Fujitsu pursuant to the Transitional Services Agreement	JPY10 (approximately USD9 million)	JPY10 (approximately USD9 million)
Expenses incurred from the use of transitional services provided by Fujitsu pursuant to the Transitional Services Agreement	JPY176 (approximately USD161 million)	JPY171 (approximately USD157 million)
Expenses incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement	JPY52 (approximately USD48 million)	JPY52 (approximately USD48 million)
Expenses incurred from the use of services provided by FTS and FTS IP pursuant to the Services Agreement	JPY4 (approximately USD4 million)	JPY4 (approximately USD4 million)
Expenses incurred from the manufacturing services provided by FPE pursuant to the Manufacturing Agreement (FPE)[2]	0	0
Income received from FPE for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FPE)[2]	0	0
Expenses incurred from the manufacturing services provided by FIT pursuant to the Manufacturing Agreement (FIT)	JPY391 (approximately USD359 million)	JPY410 (approximately USD376 million)
Income received from FIT for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FIT)	JPY162 (approximately USD149 million)	JPY170 (approximately USD156 million)

Notes:

1 Actual amounts for FY17 not available as at the date of this announcement.

2 Historical transaction amounts under Manufacturing Agreement (FPE) are zero due to rounding, as the amounts are below JPY100 million.

	FY16 *(JPY in 100 million)*	FY17 *(JPY in 100 million)*
Income generated from the sale of products to Fujitsu pursuant to the Sales and Distribution Agreement	JPY2,585 (approximately USD2,372 million)	JPY2,647 (approximately USD2,428 million)
Royalty paid to Fujitsu pursuant to the Fujitsu Trademark and Brand License Agreement	JPY5 (approximately USD5 million)	JPY5 (approximately USD5 million)
Expenses incurred from the manufacturing services provided by FTS pursuant to the Manufacturing and Services Agreement	JPY961 (approximately USD882 million)	JPY901 (approximately USD827 million)
Income received from FTS for procurement services provided by FCCL pursuant to the Manufacturing and Services Agreement	JPY384 (approximately USD352 million)	JPY360 (approximately USD330 million)
Expenses incurred from the R&D services provided by FTS pursuant to the R&D Services Agreement	JPY20 (approximately USD18 million)	JPY21 (approximately USD19 million)

Proposed Annual Caps

The table below sets out the proposed annual caps for each of the CCT Transactions for each of the five years after Completion (where applicable) (the "**Proposed Annual Caps**"), respectively:

	Financial year ending 31 March				
	2019 *(JPY in 100 million)*	2020 *(JPY in 100 million)*	2021 *(JPY in 100 million)*	2022 *(JPY in 100 million)*	2023 *(JPY in 100 million)*
Income generated from the provision of transitional services to Fujitsu pursuant to the Transitional Services Agreement	JPY13 (approximately USD12 million)	JPY13 (approximately USD12 million)	JPY13 (approximately USD12 million)	JPY13 (approximately USD12 million)	JPY13 (approximately USD12 million)
Expenses incurred from the use of transitional services provided by Fujitsu pursuant to the Transitional Services Agreement	JPY213 (approximately USD195 million)	JPY213 (approximately USD195 million)	JPY213 (approximately USD195 million)	JPY213 (approximately USD195 million)	JPY213 (approximately USD195 million)
Expenses incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement	JPY65 (approximately USD60 million)	JPY65 (approximately USD60 million)	JPY65 (approximately USD60 million)	JPY65 (approximately USD60 million)	JPY65 (approximately USD60 million)

	Financial year ending 31 March				
	2019	**2020**	**2021**	**2022**	**2023**
	(JPY in 100 million)	*(JPY in 100 million)*	*(JPY in 100 million)*	*(JPY in 100 million)*	*(JPY in 100 million)*
Expenses incurred from the use of services provided by FTS and FTS IP pursuant to the Services Agreement	JPY4 (approximately USD4 million)	JPY4 (approximately USD4 million)	JPY4 (approximately USD4 million)	JPY4 (approximately USD4 million)	JPY4 (approximately USD4 million)
Expenses incurred from the manufacturing services provided by FPE pursuant to the Manufacturing Agreement (FPE)	JPY3 (approximately USD3 million)	JPY3 (approximately USD3 million)	JPY3 (approximately USD3 million)	JPY3 (approximately USD3 million)	JPY3 (approximately USD3 million)
Income received from FPE for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FPE)	JPY1 (approximately USD1 million)	JPY2 (approximately USD2 million)	JPY1 (approximately USD1 million)	JPY1 (approximately USD1 million)	JPY1 (approximately USD1 million)
Expenses incurred from the manufacturing services provided by FIT pursuant to the Manufacturing Agreement (FIT)	JPY532 (approximately USD488 million)	JPY557 (approximately USD511 million)	JPY492 (approximately USD451 million)	JPY508 (approximately USD466 million)	JPY524 (approximately USD481 million)
Income received from FIT for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FIT)	JPY220 (approximately USD202 million)	JPY231 (approximately USD212 million)	JPY204 (approximately USD187 million)	JPY210 (approximately USD193 million)	JPY217 (approximately USD199 million)
Income generated from the sale of products to Fujitsu pursuant to the Sales and Distribution Agreement	JPY3,338 (approximately USD3,062 million)	JPY3,376 (approximately USD3,097 million)	JPY3,256 (approximately USD2,987 million)	JPY3,360 (approximately USD3,083 million)	JPY3,467 (approximately USD3,181 million)
Royalty paid to Fujitsu pursuant to the Fujitsu Trademark and Brand License Agreement	JPY5 (approximately USD5 million)	JPY5 (approximately USD5 million)	JPY5 (approximately USD5 million)	JPY5 (approximately USD5 million)	JPY5 (approximately USD5 million)
Expenses incurred from the manufacturing services provided by FTS pursuant to the Manufacturing and Services Agreement	JPY1,304 (approximately USD1,196 million)	JPY1,397 (approximately USD1,282 million)	JPY1,257 (approximately USD1,153 million)	JPY1,297 (approximately USD1,190 million)	JPY1,339 (approximately USD1,228 million)
Income received from FTS for procurement services provided by FCCL pursuant to the Manufacturing and Services Agreement	JPY524 (approximately USD481 million)	JPY555 (approximately USD509 million)	JPY456 (approximately USD418 million)	JPY470 (approximately USD431 million)	JPY485 (approximately USD445 million)

	Financial year ending 31 March				
	2019	**2020**	**2021**	**2022**	**2023**
	(JPY in 100 million)	*(JPY in 100 million)*	*(JPY in 100 million)*	*(JPY in 100 million)*	*(JPY in 100 million)*
Expenses incurred from the R&D services provided by FTS pursuant to the R&D Services Agreement	JPY26 (approximately USD24 million)	JPY26 (approximately USD24 million)	JPY26 (approximately USD24 million)	JPY26 (approximately USD24 million)	JPY26 (approximately USD24 million)
Aggregated Income	JPY4,096 (approximately USD3,758 million)	JPY4,177 (approximately USD3,832 million)	JPY3,930 (approximately USD3,606 million)	JPY4,054 (approximately USD3,719 million)	JPY4,183 (approximately USD3,838 million)
Aggregated Expenses	JPY2,152 (approximately USD1,974 million)	JPY2,270 (approximately USD2,083 million)	JPY2,065 (approximately USD1,894 million)	JPY2,121 (approximately USD1,946 million)	JPY2,179 (approximately USD1,999 million)
Aggregate Annual Caps	JPY6,248 (approximately USD5,732 million)	JPY6,447 (approximately USD5,915 million)	JPY5,995 (approximately USD5,500 million)	JPY6,175 (approximately USD5,665 million)	JPY6,362 (approximately USD5,837 million)

Basis for the Proposed Annual Caps

In determining the Proposed Annual Caps, the Directors took into account the following factors:

1. Business case was derived from historical performance of FCCL and its subsidiary together with the outlook of the industry (the "**Derived Business Case**"). With this projection of the future business of FCCL, amounts under each CCT Agreement were calculated by using (i) historical allocation amount; and (ii) applying a fixed growth rate that corresponds to the average market growth of the industry.

2. The average real economic growth of Japan is projected by market research companies to be 1.8% for the next five years. International Data Corporation projects the compounded annual growth rate of Japan's overall personal mobile and overall computer market to be 0.4% and 0.2% respectively until end of 2022. Same growth rate was projected for 2023.

3. To ensure the Proposed Annual Caps remain in line with the business of FCCL and its subsidiary, each service line item provided under each CCT Agreement was reviewed and adjusted, where necessary, by calculating the true potential cost under the Derived Business Case.

4. To capture cost-saving and operational efficiency synergies that are normally present in joint ventures of the personal computers market, the following agreements were assumed to have flat cost for its corresponding term:

   a. Secondment Agreement;

   b. Services Agreement;

   c. Manufacturing Agreement (FPE);

   d. Fujitsu Trademark and Brand License Agreement;

   e. Transitional Service Agreement; and

   f. R&D Services Agreement.

5. The Proposed Annual Caps of the following CCT Agreements took into account the synergy currently planned in the financial year commencing 1 April 2021:

   a. Manufacturing Agreement (FIT);

   b. Manufacturing and Services Agreement; and

   c. Sales and Distribution Agreement.

6. The Proposed Annual Caps of the other CCT Agreements were derived using the growth rate of the Derived Business Case mentioned above.

7. A buffer of 25% was added to the initial caps for each year to account for unforeseen future events, changes to the business environment that was used for arriving at the initial annual cap, and to allow further flexibility to effectively and efficiently carry out the CCT Transactions.

4. REASONS FOR AND BENEFITS OF THE CCT TRANSACTIONS

The Completion of the Transaction as more particularly set out in the JV Announcement will give the Company a majority stake in a joint venture that will bring efficiencies and economies of scale to benefit the development, manufacture and distribution of Fujitsu-branded personal computer products, while enabling improved global penetration of the Fujitsu personal computer brand for the benefit of both consumer and enterprise market customers.

The Transaction will bring together the complementary strengths of the Company and Fujitsu and enhance the competitiveness of FCCL. Benefiting from the Company's global platform and scale, FCCL will be in a better position to supply Fujitsu with highest quality, cost competitive personal computers as part of Fujitsu's enterprise solutions portfolio. At the same time, FCCL will leverage Fujitsu's strengths in development and manufacturing, as well as strong brand recognition, to meet customer needs, particularly in Japan.

The transactions contemplated under the CCT Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Company's Group. The services provided under the CCT Agreements have been negotiated on arms' length basis.

The Directors (including the independent non-executive Directors) have approved the transactions contemplated under the CCT Agreements and confirm that the CCT Agreements and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Company's Group and are on normal commercial terms, and the terms thereof (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

Under Rule 14A.52 of the Listing Rules, the term of an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances. As the respective terms of certain CCT Agreements exceed three years, the Company has appointed Alliance Capital Partners Limited as its Independent Financial Adviser to explain why such CCT Agreements are required to be of a period exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

In arriving at its opinion of why a term longer than three years is required, the Independent Financial Adviser has considered the following:

Under the JVA, for a period of five years from the Completion Date, neither the Company, Lenovo International nor Fujitsu shall transfer or otherwise dispose of any of their shares in FCCL or any interest in any share in FCCL without the prior written consent of the non-transferring shareholder. In this connection, FCCL is expected to be operated as a joint venture for at least five years. The CCT Agreements are therefore designed to fit within this expected time frame. Termination of the CCT Agreements after only three years would have a significant impact on the operation of the FCCL and would be inconsistent with the proposal that the joint venture be operated for at least five years.

In particular, the CCT Agreements are core components of the commercial arrangements agreed between Fujitsu and the Company for the anticipated five years lifetime of the joint venture arrangement. Certain of the services to be provided by the members of the Fujitsu Group under the CCT Agreements relate to manufacturing of products of FCCL in the premises of the Fujitsu Group. The termination of this arrangement after three years would be potentially prejudicial to the Company's and/or Fujitsu's interests as the manufacture of products of FCCL may be disrupted.

Additionally, it is in the interest of the FCCL to leverage on the brand awareness of the Fujitsu brand in Japan for achieving sales targets of personal computer products in Japan during the joint venture period. As such, the Fujitsu Trademark and Brand License Agreement shall also be executed for a term of five years from the Completion Date.

It is noted that in 2006, the Company and IBM entered into a master services agreement in relation to certain information technology services provided by IBM with a tenor of five years. The continuing connected transactions contemplated under the master services agreement between the Company and IBM arose as a result of the acquisition of the personal computer business of IBM by the Company and the need for certain information technology services to be provided by IBM to the acquired business which was to be merged with that of the Company during a transitional period of five years. In 2011, the Company and NEC entered into Business Combination Agreement and the transaction between the Company involves personal computer businesses of a substantial scale, and deal structure involving only part of the total businesses of NEC merging into the businesses of the joint venture partner. The relevant joint venture was proposed to operate for five years, and the relevant agreements governing the continuing connected transactions of the joint venture company were also with a tenor of five years.

Considering the nature, context and scale of the transactions between the Company and IBM and NEC respectively, and also the transactions contemplated under and the CCT Agreements, the Independent Financial Adviser is of the view that the continuing connected transactions contemplated under the respective continuing connected transaction between the Company and IBM, and between the Company and NEC, are relevant precedents for reference.

The Independent Financial Adviser has also conducted searches for IT services and business process outsourcing transactions between IT services/business process outsourcing providers and their customers. It is noted that there were certain transactions with contract duration of five years.

Under the context, the Independent Financial Adviser considers that it is reasonable for arrangements between two business partners of such nature and scale to have a tenor of at least five years, and as such it is normal business practice for the CCT Agreements to have a tenor of five years.

6. INFORMATION ON THE COMPANY AND FCCL

The Company is a limited liability company incorporated in Hong Kong and its shares have been listed on the Stock Exchange since 1994. The Company and its subsidiaries are principally engaged in the sales and manufacture of personal computers, tablets, smartphones, servers and related information technology products and the provision of advanced information services across the world.

FCCL is principally engaged in the business of developing, manufacturing, distributing and selling desktop personal computers, laptop personal computers and tablet personal computers, and their related products.

7. INFORMATION ON FUJITSU

Fujitsu is a leading Japanese information and communication technology ("**ICT**") company offering a full range of technology products, solutions and services. Fujitsu employs approximately 155,000 people who support customers in more than 100 countries. Fujitsu uses its experience and the power of ICT to shape the future of society with its customers.

8. IMPLICATIONS UNDER THE LISTING RULES

Immediately following Completion, the Company (through Lenovo International), owns 51% of the total issued share capital of FCCL and Fujitsu owns 44% of the total issued share capital of FCCL and accordingly, Fujitsu (and its associates (as defined under the Listing Rules)) become connected persons of the Company and the transactions contemplated under the CCT Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As Fujitsu is a connected person of the Company at the subsidiary level, the transactions between FCCL and members of the Fujitsu Group contemplated under the CCT Agreements are connected transactions between the Company's Group and connected persons at the subsidiary level.

Pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the CCT Agreements are subject to annual review, reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements.

Pursuant to Rule 14A.52 of the Listing Rules, as the terms of some of the CCT Agreements contemplated under the CCT Agreements exceed three years, the Company has appointed Alliance Capital Partners Limited as its Independent Financial Adviser, to explain why such CCT Agreements are required to be of a period exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

Details of the CCT Agreements will be disclosed in the annual report of the Company for financial year ending 31 March 2019 in accordance with Rules 14A.71 and 14A.72 of the Listing Rules.

9. DEFINITIONS

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

"Board"	the board of Directors of the Company
"CCT Agreements"	collectively, the following agreements: (i) Transitional Services Agreement; (ii) Secondment Agreement; (iii) Services Agreement; (iv) Manufacturing Agreement (FPE); (v) Manufacturing Agreement (FIT); (vi) Sales and Distribution Agreement;

	(vii) Fujitsu Trademark and Brand License Agreement; (viii) Manufacturing and Services Agreement; and (ix) R&D Services Agreement, each as more particularly set out in paragraph 2
“CCT Transactions”	collectively, the transactions contemplated under the CCT Agreements
“Company”	Lenovo Group Limited, a company incorporated with limited liability under the laws of Hong Kong, the shares of which are listed on the main board of the Stock Exchange
“Company’s Group”	the Company or a company which is, at the relevant time, a subsidiary company of the Company and includes, for the avoidance of doubt, each Target Group Company after Completion
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms of the SPA
“Completion Date”	the date on which Completion takes place
“connected person”	has the meaning set out in the Listing Rules
“Directors”	the directors of the Company
“Enterprise Market”	the market in which marketing and sales activities are conducted through channels other than (i) sales through retailers; (ii) sales through resellers that onsell to retailers; and (iii) direct sales to consumers, including online sales
“FCCL”	Fujitsu Client Computing Limited, a company incorporated under the laws of Japan
“FIT”	Fujitsu Isotec Limited, a company incorporated in Japan
“FPE”	Fujitsu Peripherals Limited, a company incorporated in Japan
“FTS”	Fujitsu Technology Solutions GMBH, a company incorporated in Germany
“FTS IP”	Fujitsu Technology Solutions IP GMBH, a company incorporated in Germany
“Fujitsu”	Fujitsu Limited, a company incorporated under the laws of Japan

"Fujitsu Group"	Fujitsu and its affiliates
"FY15"	financial year ended 31 March 2016
"FY16"	financial year ended 31 March 2017
"FY17"	financial year ended 31 March 2018
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Financial Adviser"	Alliance Capital Partners Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities with the Securities and Futures Commission
"Initial Business Plan Period"	the period commencing from Completion Date to 31 March 2020
"JPY"	Japanese yen, the lawful currency of Japan
"JV Announcement"	the announcement made by the Company on 2 November 2017 in respect of the Transaction
"JVA"	the joint venture agreement in relation to FCCL entered into on 2 November 2017 by the Company, Fujitsu and Lenovo International, as amended by an amended and restated agreement dated 8 February 2018
"JV Term"	duration of the JVA until terminated in accordance with the JVA
"Lenovo International"	Lenovo International Coöperatief U.A., an indirect wholly-owned subsidiary of the Company incorporated under the laws of The Netherlands
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Sale Shares"	4,080 fully-paid common shares of FCCL, representing 51% of the total issued share capital of FCCL
"Shareholders"	shareholders of the Company
"SPA"	The sale and purchase agreement with respect to the Sale Shares entered into on 2 November 2017 between the Company and Fujitsu, as amended by an amended and restated agreement dated 8 February 2018

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group Company"	Each of FCCL and Shimane Fujitsu Limited, and upon Completion, each subsidiary of FCCL and Shimane Fujitsu Limited (and all such entities collectively, the "**Target Group**")
"Transaction"	the proposed joint venture in respect of FCCL, comprising the purchase of Sale Shares by the Company from Fujitsu pursuant to the SPA and the entry into of the JVA among the Company, Lenovo International and Fujitsu in respect of FCCL
"Transitional Period"	The period of two years from the date of termination of the JVA where Fujitsu and Lenovo have agreed to extend the term of the Fujitsu Trademark and Brand License Agreement for such period in accordance with the JVA
"USD"	United States Dollar, the lawful currency of the United States of America

This announcement contains translation between USD and JPY at USD1 = JPY109 (as at 30 April 2018). The translation shall not be taken as representation that the JPY amount could actually be converted into USD at that rate, or at all.

By Order of the Board
Yang Yuanqing
Chairman and Chief Executive Officer

2 May 2018

As at the date of this announcement, the executive Director is Mr. Yang Yuanqing; the non-executive Directors are Mr. Zhu Linan and Mr. Zhao John Huan; and the independent non-executive Directors are Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng, Mr. Yang Chih-Yuan Jerry and Mr. Gordon Robert Halyburton Orr.