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lenovo 联想

Lenovo Group Limited 联想集团有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

DISCLOSEABLE TRANSACTION

**ACQUISITION OF THE X86 SERVER HARDWARE AND RELATED MAINTENANCE
SERVICES BUSINESS OF
INTERNATIONAL BUSINESS MACHINES CORPORATION**

AND

RESUMPTION OF TRADING

CREDIT SUISSE 

Financial Advisor

**Goldman
Sachs**

Financial Advisor

(In alphabetical order)

The Board is pleased to announce that on January 23, 2014, the Company entered into the Master Asset Purchase Agreement with IBM in respect of the Acquisition, pursuant to which the Company agreed to acquire certain assets and assume certain liabilities in connection with the X86 Server hardware and related maintenance services business of IBM.

As one or more of the applicable percentage ratios (as set out and calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on January 23, 2014, pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the Shares with effect from 9:00 a.m. on January 24, 2014.

BACKGROUND

On January 23, 2014, the Company entered into, among others, the Master Asset Purchase Agreement with IBM in respect of the Acquisition, pursuant to which the Company agreed to acquire from IBM certain assets and assume certain liabilities in connection with the Business.

MASTER ASSET PURCHASE AGREEMENT

The principal terms of the Master Asset Purchase Agreement are set out below:

Date

January 23, 2014

Parties

- (a) IBM as the seller; and
- (b) the Company as the purchaser.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, IBM and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

Assets to be acquired and liabilities to be assumed

Subject to the terms and conditions of the Master Asset Purchase Agreement, the Company will acquire certain assets (the "**Transferred Assets**") which include, among other things, the following assets at the Initial Closing and Subsequent Closings:

- (a) certain enumerated hardware products (including "System x", "BladeCenter", "Blade", "Flex System", "Pure Flex" products and system networking products including "Blade Network Technology" and certain other related tangible properties);
- (b) certain intellectual property rights in connection with the Business;
- (c) certain transferred contracts that are related to the Business; and
- (d) inventory of the Business consisting of System x products, including the "System x", "BladeCenter", "Blade", "Flex System" and "Pure Flex" products and certain other system networking products including "Blade Network Technology".

The Company will assume certain liabilities associated with the Business (the "**Assumed Liabilities**"), which include, without limitation, the following as of the Initial Closing and Subsequent Closings:

- (a) the liabilities under the contracts assigned to the Company (other than liabilities attributable to the period prior to the transfer of contracts);
- (b) any deferred revenue liability attributable to the Business as of the Initial Closing Date;
- (c) liabilities with respect to warranty obligations related to acquired products of the Business that are required to be performed to satisfy such warranty obligations after the Initial Closing; and
- (d) liabilities related to transferred maintenance contracts or other transferred maintenance assets.

Consideration

The Consideration payable by the Company under the Master Asset Purchase Agreement is US\$2,300,000,000 (equivalent to approximately HK\$17,864,100,000) which will be satisfied by:

- (a) a Cash Consideration of US\$2,070,000,000, to be paid at the Initial Closing, which, as described below, is subject to adjustments with reference to the book value of the inventories constituting the Transferred Assets and the deferred revenue liability attributable to the Business as of the Initial Closing Date;
- (b) Consideration Shares, being 182,000,000 Shares to be issued to IBM (or its designee) at the Initial Closing.

The Consideration has been negotiated and determined on an arm's length basis between the parties. The Company has taken into account various factors, including the historical financial performance and the growth prospects of the Business, the scope and the quality of the Transferred Assets, the scope and nature of the Assumed Liabilities and other relevant valuation benchmarks.

The Directors consider that the terms of the Master Asset Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Cash Consideration payable by the Company is expected to be funded by a combination of the Company's existing cash on its balance sheet and additional bank borrowings.

The Consideration Shares will be issued to IBM in satisfaction for the remaining consideration in the sum of US\$230,000,000. Assuming no new Shares will be issued by the Company prior to the Initial Closing Date, the Consideration Shares will represent approximately 1.75% of the total issued share capital of the Company immediately prior to the Initial Closing.

The Consideration Shares will be allotted and issued pursuant to the general mandate to allot Shares granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on July 16, 2013 (as may be renewed or refreshed from time to time) and will rank *pari passu* with the Shares in issue on the date of their issue. The issuance of the Consideration Shares will not result in a change of control of the Company.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Adjustments to the Consideration and post-closing arrangements

The Consideration is subject to certain upward and downward adjustments at the Initial Closing Date based on (a) the inventory of the Business as of the Initial Closing Date compared to a target inventory amount; and (b) the book value of the deferred revenue liability attributable to the Business as of the Initial Closing Date as compared to a target deferred revenue amount.

Following the Initial Closing Date, if the actual warranty obligations of the Business in respect of products sold before the Initial Closing exceed the accrual of such obligations, the Company may receive warranty maintenance services from IBM at no cost for a specified period. On the other hand, if the actual warranty obligations of the Business in respect of products sold before the Initial Closing are less than the accrual of such obligations in respect of a specified period following the Initial Closing, the Company may be required to pay to IBM a cash amount equal to such excess.

Conditions precedent in respect of the Acquisition

The Initial Closing of the Acquisition contemplated by the Master Asset Purchase Agreement is conditional upon certain conditions customary to transactions of this nature having been fulfilled or waived, which include, but are not limited to, the following:

- (a) (i) clearance with respect to the Acquisition having been obtained from the Committee on Foreign Investment in the US, (ii) the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 having expired or been terminated and to the extent necessary, (iii) to the extent a filing is necessary, the European Commission and MOFCOM having issued a decision approving the Acquisition; and (iv) approval under the Canada Competition Act;
- (b) there is no pending claim, suit, action or proceeding brought or threatened by any governmental authority challenging or seeking to restrain the transactions contemplated by the Master Asset Purchase Agreement;
- (c) there is no applicable law or legal restraint that would prohibit the transactions contemplated by the Master Asset Purchase Agreement;
- (d) certain fundamental representations of the Company and IBM remain true and correct in all respects, certain other limited representations of IBM remain true and correct in all material respects and all other representations of the Company and IBM remain true and correct other than as would not have a material adverse effect on the Business;
- (e) there has been no event that, individually or in combination with any other event, has or would reasonably be expected to have a material adverse effect on the Business; and

- (f) the Stock Exchange shall have granted the listing of and permission to deal in the Consideration Shares and such listing and permission shall not have been subsequently revoked prior to the issue of the Consideration Shares.

The Subsequent Closings of the Acquisition contemplated by the Master Asset Purchase Agreement are conditional upon certain conditions customary to transactions of this nature having been fulfilled or waived.

Completion

The acquisition of the Transferred Assets and the assumption of the Assumed Liabilities by the Company from IBM in the Initial Covered Territories will be completed at the Initial Closing. The Initial Closing shall take place on the earliest date that is the last day of a calendar month and is no earlier than the third Business Day following the first date on which such conditions precedent are satisfied or waived, or at such other time as may be agreed by the Company and IBM.

The acquisition of the Transferred Assets and the assumption of the Assumed Liabilities by the Company from IBM in the Subsequent Covered Territories will be completed at the Subsequent Closings, which will take place on the earliest date that is the last day of a calendar month and is no earlier than the fifth Business Day following the first date on which such conditions precedent to the Subsequent Closings are satisfied or waived, or at such other time as may be agreed by the Company and IBM.

INFORMATION ON THE COMPANY

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.

INFORMATION ON IBM

IBM is one of the largest suppliers of information technology services and pioneers the development and implementation of “e-business” solutions. IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. It helps clients to become more innovative, efficient and competitive through the application of business insight and IT solutions. The common stock of IBM is listed on the New York and Chicago stock exchanges and on other exchanges outside the US.

FINANCIAL INFORMATION OF THE BUSINESS

IBM adopts a financial year end date of December 31. As of December 31, 2012, the unaudited net book value of the Business under US GAAP was approximately *negative* US\$644.0 million.

The unaudited results of the Business for (1) the twelve-month period ended March 31, 2013 which corresponds with the latest financial reporting period of the Company, and (2) the financial year ended December 31, 2013, under US GAAP are as follows:

	Twelve-month period ended March 31, 2013 <i>US\$ million</i>	Twelve-month period ended December 31, 2013 <i>US\$ million</i>
Net profit/loss before taxation	180.0	(37.4)
Net profit/loss after taxation	187.0	(26.4)

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Business is one of the leading x86 server players globally in terms of its scale, global reach, product portfolio, innovation capabilities and brand strength and will provide the Company with end-to-end capabilities to serve enterprise customers and explore new growth segments in the enterprise hardware market. The Business offers a comprehensive and competitive portfolio of server products including towers, racks, blades and converged systems, as well as associated maintenance services. In addition, the Acquisition offers assets and strategic relationships with IBM beyond servers, in areas such as storage, networking, software and services.

The Company believes that demand for more computing power and recovery of global enterprise spending are expected to drive further growth in the x86 server market. The Acquisition presents a unique opportunity for the Company to gain immediate scale and credibility in this market, creating an additional profit pool and fulfilling its “Protect & Attack” strategy.

The Acquisition also presents attractive synergistic opportunities for cost savings in supply chain management, which include procurement synergies from economies of scale, and sharing of best practices. Additional cost savings opportunities will arise from leveraging the Company’s competitive infrastructure to reduce overall operational cost of the Business.

The combination of the Company and the Business will enhance the Company’s position as a global PC player with an extensive distribution network and superior product innovation in both consumer electronics and enterprise hardware markets.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as set out and calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

TRADING HALT AND RESUMPTION

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on January 23, 2014, pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the Shares with effect from 9:00 a.m. on January 24, 2014.

DEFINITIONS

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

“Acquisition”	the acquisition of the Transferred Assets and the assumption of the Assumed Liabilities by the Company from IBM in the Covered Territories pursuant to the Master Asset Purchase Agreement
“Board”	the board of Directors of the Company
“Business”	the business of developing, manufacturing, distributing, operating and providing warranty and maintenance services for the x86-based server products and related networking products of IBM, as more specifically defined in the Master Asset Purchase Agreement
“Business Day”	any day other than (a) a Saturday or Sunday, or (b) any day on which commercial banks in New York City of the US are authorized or required by law to close
“Cash Consideration”	US\$2,070,000,000 subject to adjustments pursuant to the terms set out in the Master Asset Purchase Agreement
“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
“connected person”	has the meaning set out in the Listing Rules
“Consideration”	the Cash Consideration and the Consideration Shares
“Consideration Shares”	182,000,000 Shares to be allotted and issued by the Company at the Initial Closing
“Covered Territories”	certain enumerated jurisdictions in which the Business operates as more specifically defined in the Master Asset Purchase Agreement
“Directors”	the directors of the Company
“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, a company incorporated in the State of New York (NYSE: IBM)
“Initial Closing”	initial closing of the acquisition of the Transferred Assets and the assumption of the Assumed Liabilities by the Company from IBM in the Initial Covered Territories in accordance with the provisions of the Master Asset Purchase Agreement
“Initial Closing Date”	the day on which Initial Closing occurs in accordance with the provisions of the Master Asset Purchase Agreement
“Initial Covered Territories”	the US, Canada and the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Asset Purchase Agreement”	the agreement dated January 23, 2014 entered into between the Company and IBM in relation to the Acquisition
“MOFCOM”	The Ministry of Commerce of the PRC
“NYSE”	New York Stock Exchange
“PRC”	the People’s Republic of China and for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Shares”	ordinary shares of a par value of HK\$0.025 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsequent Closings”	subsequent closings of the acquisition of the Transferred Assets and the assumption of the Assumed Liabilities by the Company from IBM in the Subsequent Covered Territories in accordance with the provisions of the Master Asset Purchase Agreement
“Subsequent Covered Territories”	the Covered Territories that are not Initial Covered Territories
“US”	the United States of America
“US\$”	United States Dollar, the lawful currency of US

This announcement contains translation between HK\$ and US\$ at HK\$7.767 = 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.

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

January 23, 2014

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 Mr. Ting Lee Sen, Dr. Tian Suning; Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown and Ms. Ma Xuezheng.