Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS WITH NEC

THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Announcements in relation to, amongst others, the continuing connected transactions under the Products and Brand Agreements, the Transitional Services Agreement and the annual caps for the transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement for the periods from May 25, 2017 to March 31, 2020.

The Products and Brand Agreements and the Transitional Services Agreement are renewed to facilitate the operation of the joint venture business of the JVCo in Japan and are consistent with the established business relationship between the Company and NEC and the mutual business development needs and goals. Accordingly, the Directors set the Proposed Annual Caps 2021-2023.

LISTING RULES IMPLICATIONS

The highest applicable percentage ratio in relation to the Proposed Annual Caps 2021-2023 exceeds 5% but is less than 25%. As NEC, NEC Fielding and NESIC are connected persons of the Company at the subsidiary level, the transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement are connected transactions between the Group and connected persons at the subsidiary level.

Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the Continuing Connected Transactions are subject to annual review, reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements.

INTRODUCTION

Reference is made to the Announcements in relation to, amongst others, the continuing connected transactions under the Products and Brand Agreements, the Transitional Services Agreement and the annual caps for the transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement for the periods from May 25, 2017 to March 31, 2020.

The Products and Brand Agreements and the Transitional Services Agreement are renewed to facilitate the operation of the joint venture business of the JVCo in Japan and are consistent with the established business relationship between the Company and NEC and the mutual business development needs and goals. Accordingly, the Directors set the Proposed Annual Caps 2021-2023.

CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of the material terms of the Products and Brand Agreements (including the Supply Agreement, the NEC Fielding Agreement, the NESIC Agreement and the NEC Newco Brand Licence Agreement) and the Transitional Services Agreement:

I. Supply Agreement

Parties

1. NEC;

2. NECP (the rights and obligations of which were transferred to NEC Newco on and following July 1, 2011); and

3. NEC Newco (as a party to the Supply Amendment Agreement).

Scope

Under the Supply Agreement, NEC must submit quarterly orders for certain "NEC" branded personal computer products to NEC Newco, a wholly-owned subsidiary of JVCo. Based on those orders, the parties will determine the details (including quantity, unit price, quality level and delivery arrangements and other terms and obligations) of such Products delivered to NEC and conclude an individual agreement for each specific order.

Pricing

NEC and NEC Newco shall discuss in good faith and agree on an arms' length basis the price of Products every quarter. The standard pricing of Products shall be a specified discount to the prospective average sales price of the Product sold by NEC for the relevant quarter, determined with reference to: (i) the change in the average sales price of the Product in the same quarter of the previous year; (ii) the change in the average sales price of personal computer products equivalent to the Product in the Japanese market with respect to the same quarter of the preceding year; (iii) the change in the average sales prices in the immediately preceding quarter; (iv) the expected number of units of the Products for the relevant quarter required by NEC; (v) the average exchange rate between Japanese Yen and US dollars during the immediately preceding quarter; and (vi) NEC's achievement ratio against the quarterly purchase volume targets.

Term

The Supply Agreement commenced from July 1, 2011 and continues until the earlier of the final date of the Joint Venture Period or the fifth anniversary of July 1, 2011, subject to Automatic Renewal thereafter.

II. NEC Fielding Agreement

Parties

1. NEC Fielding; and

2. NECP (the rights and obligations of which were transferred to NEC Newco on and following July 1, 2011).

Scope

Pursuant to the NEC Fielding Agreement, NEC Fielding agrees to provide NEC Newco with maintenance and other services for the following products: (i) computer equipment and other ancillary equipment and facilities that are sold or leased by NEC Newco; and (ii) computer equipment, communication facilities, network facilities and other ancillary equipment and facilities that are used by NEC Newco. The service fees are separately agreed in writing between the parties on normal commercial terms.

Pricing

The service fees are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the costs of such services from time to time and the operating costs (including administrative costs and labour costs, etc.) incurred by NEC Fielding for supplying the services.

In considering the quotations of the service fees, the Group makes reference to fees of similar services with comparable nature, scale or scope offered normally by two or three independent third parties. The Group also makes reference to the service fees offered by NEC Fielding to other customers. If the service fees offered by NEC Fielding are higher than fees offered by independent third parties, the Group is not obliged to engage NEC Fielding in providing the relevant services.

The service department of the Group regularly supervises and monitors (i) the fees of similar services to ensure that such fees are no less favourable to the Group than those provided to independent third parties in comparable transactions; and (ii) the transactions under the NEC Fielding Agreement are conducted in accordance with their respective terms on normal commercial terms and will not be prejudicial to the interests of the Company and its shareholders as a whole.

Term

The NEC Fielding Agreement commenced from November 1, 2003 and ended on March 31, 2004, subsequent to which the term of the NEC Fielding Agreement has been automatically renewed for an additional year until the fifth anniversary of July 1, 2011, subject to Automatic Renewal thereafter.

III. NESIC Agreement

Parties

1. NESIC; and

2. NECP (the rights and obligations of which were transferred to NEC Newco on and following July 1, 2011).

Scope

Under the NESIC Agreement, NESIC agrees to provide NEC Newco with operation and maintenance services for intranet and other internal communication systems of NEC Newco. Detail terms of the sale of products, such as price, quantity, date and place of delivery shall be determined under individual agreements to be separately entered into between the parties on normal commercial terms.

Pricing

The service fees are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the costs of such services from time to time and the operating costs (including administrative costs and labour costs, etc.) incurred by NESIC for supplying the services.

In considering the quotations of the service fees, the Group makes reference to fees of similar services with comparable nature, scale or scope offered normally by two or three independent third parties. The Group also makes reference to the service fees offered by NESIC to other customers. If the fees offered by NESIC are higher than fees offered by independent third parties, the Group is not obliged to engage NESIC in providing the relevant services.

The IT department of the Group regularly supervises and monitors (i) the fees of similar services to ensure that such fees are no less favourable to the Group than those provided to independent third parties in comparable transactions; and (ii) the transactions under the NESIC Agreement are conducted in accordance with their respective terms on normal commercial terms and will not be prejudicial to the interests of the Company and its shareholders as a whole.

Term

The NESIC Agreement commenced from August 18, 2003 and ended on March 31, 2004, subsequent to which the term of the NESIC Agreement has been automatically renewed for an additional year until the fifth anniversary of July 1, 2011, subject to Automatic Renewal thereafter.

IV. NEC Newco Brand Licence Agreement

Parties

1. NEC; and

2. NEC Newco.

Scope

Under the NEC Newco Brand Licence Agreement, NEC agrees to grant NEC Newco a licence to use "NEC" as part of its trade and company name, to use the "NEC" logo as a company logo for NEC Newco, and to use "NEC" logos on the NEC Newco Licensed Products.

Pricing

NEC Newco agrees to pay NEC a royalty based on an agreed formula, being the sum of:

(i) 0.21% of the total gross sales amount of NEC Newco; and

(ii) 0.21% of the gross sales amount of NEC Newco to customers other than NEC and/or NEC's consolidated subsidiaries.

The royalty rates are determined with reference to the rates which NEC charges its Affiliates and are no less favourable than the rates charged by other licensors to the Group for similar transactions.

If some of those products are provided by NEC Newco without using the "NEC" name, NEC Newco shall notify NEC in advance, and both parties shall discuss in good faith as to the treatment of gross sales of those products in calculating the amount of the royalty payable by NEC Newco to NEC.

Term

The NEC Newco Brand Licence Agreement commenced from July 1, 2011 to June 30, 2018, and subject to Automatic Renewal until June 30, 2026.

V. Transitional Services Agreement

Parties

1. The Company; and

2. NEC.

Scope

Pursuant to the Transitional Services Agreement, NEC agrees to provide (or cause to be provided) certain services to JVCo, and the Company agrees to provide (or cause to be provided) certain services to the NEC Group. The services include business infrastructure related services, development and production services, sales related services, maintenance and support services, real estate services and information technology services. Such services shall be provided substantially in the same manner and on the same terms and at the same costs as the services provided between members of the NEC Group in respect of NEC's personal computer business in Japan prior to July 1, 2011 (i.e. the date of completion of the transfer of NEC Newco to JVCo by NEC and certain ancillary transactions in accordance with the Business Combination Agreement).

Pricing

The costs for the services provided under the Transitional Services Agreement shall be calculated on the same basis as they were prior to July 1, 2011 and shall not be calculated in a manner which is less favourable to the provider and/or recipient of the services than the manner in which they were calculated prior to July 1, 2011.

The existing services are provided at a cost in line with historical cost, i.e. the base charging rate is consistent with the applicable rate prior to July 1, 2011. For new services, such services will be provided on market competitive rates proposed by the provider of the services and the service department of the Group regularly supervises and monitors the fees of similar services to ensure that such fees are no less favourable to the Group than those provided by/to independent third parties in comparable transactions.

Term

The Transitional Services Agreement commenced on July 1, 2011 and expired after June 30, 2016. In light of the mutual development needs and goals, the Company and NEC had extended the Transitional Services Agreement by entering into the TSA Side Letter on June 30, 2016 to extend the term of the Transitional Services Agreement for one year until June 30, 2017, subject to Automatic Renewal thereafter.

ANNUAL CAPS

Historical Transaction Amounts

The historical transaction amounts of the Continuing Connected Transactions were as follows:

	Financial year ended March 31,		**For 8 months ended**
	2018	**2019**	**November 30, 2019**
	(JPY million)	*(JPY million)*	*(JPY million)*
Revenue generated from sale of Products to NEC pursuant to the Supply Agreement	75,538 (approximately US$687,396,000)	95,347 (approximately US$867,659,000)	93,796 (approximately US$853,544,000)
Expenses incurred from use of services provided by NEC Fielding pursuant to the NEC Fielding Agreement	1,245 (approximately US$11,330,000)	874 (approximately US$7,953,000)	795 (approximately US$7,235,000)
Expenses incurred from use of services provided by NESIC pursuant to the NESIC Agreement	102 (approximately US$928,000)	71 (approximately US$646,000)	36 (approximately US$328,000)
Royalty paid pursuant to the NEC Newco Brand Licence Agreement	198 (approximately US$1,802,000)	215 (approximately US$1,957,000)	261 (approximately US$2,375,000)
Expenses incurred from use of services provided by NEC Group pursuant to the Transitional Services Agreement	12,717 (approximately US$115,725,000)	11,977 (approximately US$108,991,000)	8,889 (approximately US$80,890,000)
Revenue generated from provision of services to NEC Group pursuant to the Transitional Services Agreement	527 (approximately US$4,796,000)	656 (approximately US$5,970,000)	420 (approximately US$3,822,000)

Proposed Annual Caps

The Proposed Annual Caps 2021-2023 are as follows:

	Financial year ending March 31,		
	2021	**2022**	**2023**
	(JPY million)	*(JPY million)*	*(JPY million)*
Revenue to be generated from sale of Products to NEC pursuant to the Supply Agreement	167,606 (approximately US$1,525,216,000)	167,606 (approximately US$1,525,216,000)	167,606 (approximately US$1,525,216,000)
Expenses to be incurred from use of services to be provided by NEC Fielding pursuant to the NEC Fielding Agreement	3,009 (approximately US$27,382,000)	3,009 (approximately US$27,382,000)	3,009 (approximately US$27,382,000)
Expenses to be incurred from use of services to be provided by NESIC pursuant to the NESIC Agreement	123 (approximately US$1,119,000)	123 (approximately US$1,119,000)	123 (approximately US$1,119,000)
Royalty to be paid pursuant to the NEC Newco Brand Licence Agreement	338 (approximately US$3,076,000)	338 (approximately US$3,076,000)	338 (approximately US$3,076,000)
Expenses to be incurred from use of services to be provided by NEC Group pursuant to the Transitional Services Agreement	17,779 (approximately US$161,789,000)	17,779 (approximately US$161,789,000)	17,779 (approximately US$161,789,000)
Revenue to be generated from provision of services to NEC Group pursuant to the Transitional Services Agreement	824 (approximately US$7,498,000)	824 (approximately US$7,498,000)	824 (approximately US$7,498,000)

Basis for the Proposed Annual Caps 2021-2023

In determining the Proposed Annual Caps 2021-2023, the Directors took into account the following factors:

(i) the increasing scale of the Group's operation in Japan;

(ii) the historical transaction amounts of the Continuing Connected Transactions for the two financial years ended March 31, 2018 and 2019 and the eight months ended November 30, 2019 and the utilization of the annual caps for the periods from May 25, 2017 to March 31, 2020;

(iii) the anticipated increase in the sales of the Products to NEC pursuant to the Supply Agreement in the next few years;

(iv) the potential spike in the provision of maintenance and other services under the NEC Fielding Agreement due to epidemic failure incidents, for example, expenses of JPY2,295 million were incurred under the NEC Fielding Agreement in the financial year ended March 31, 2015 primarily as a result of such irregular incidents;

(v) a cyclic maintenance and investment pattern of two to three years has been recognized in the provision of operation and maintenance services for NEC Newco under the NESIC Agreement, in particular, to take into consideration the actual transaction amount under NESIC Agreement in financial year ended March 31, 2018;

(vi) the Company continues to reduce NEC Newco's dependency on services provided by NEC Group, as a result, the volume of services to be provided by NEC Group to NEC Newco under the Transitional Services Agreement is expected to remain stable, amidst growing scale of operation and recovering personal computer market in Japan; and

(vii) a 25% buffer to allow further flexibility to effectively and efficiently carrying out the Continuing Connected Transactions, and to account for unforeseeable factors and future events (such as emergence of new operating software(s), upgrade or migration of computer operating system and launch of new products embedded with new technology) or any change to the business environment which may potentially cause a significant growth in sales of products as well as the demand for supporting services from the parties to cope with the growth of business.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Based on the established business relationship between the Company and NEC, and the fact that the parties to the Products and Brand Agreements and the Transitional Services Agreement have the necessary expertise and efficiency to provide the relevant services and products, the Directors believe that the Continuing Connected Transactions can ensure the smooth operation of the joint venture with NEC, hence beneficial to the growth of the business of the joint venture and the Company.

INFORMATION OF THE COMPANY AND THE GROUP

The Company is a limited liability company incorporated in Hong Kong and shares of which have been listed on the Stock Exchange since 1994. The principal activities of the Group are 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.

As at the date of this announcement, the single largest shareholder of the Company, Legend Holdings Corporation, the shares of which are listed on the Stock Exchange, is holding 29.1% interests in the Company. Legend Holdings Corporation is a leading diversified investment holding group in the People's Republic of China and has developed an innovative, two-wheel-driven synergy business model by "strategic investments + financial investments". Its strategic investments business diversifies into five segments: IT, financial services, innovative consumption and services, agriculture and food, and advanced manufacturing and professional services. Its financial investments business primarily consists of angel investments, venture capital investments, private equity investments and other investments that cover all stages of a company's life cycle.

INFORMATION OF NEC, NEC FIELDING AND NESIC

NEC is a leader in the integration of IT and network technologies that benefit businesses and people around the world. By providing a combination of products and solutions that cross utilize its experience and global resources, NEC's advanced technologies meet the complex and ever-changing needs of its customers. NEC brings more than 100 years of expertise in technological innovation to empower people, businesses and society. NEC is a company incorporated under the laws of Japan and shares of which have been listed on the Tokyo Stock Exchange since 1949.

NEC Fielding is primarily engaged in the provision of computer network system support services and is a subsidiary of NEC.

NESIC engages in the provision of information and communications technology services for enterprises, telecommunication carriers and government agencies. The shares of NESIC have been listed on the Tokyo Stock Exchange since 1983 and it is currently held as to 38.49% by NEC.

As at the date of this announcement, the single largest shareholder of NEC is The Master Trust Bank of Japan, Ltd., which holds approximately 7.88% of NEC and is principally engaged in the asset administration business.

LISTING RULES IMPLICATIONS

The Company (through Lenovo BV, an indirect wholly-owned subsidiary of the Company) owns 66.6% of the issued share capital of JVCo and NEC owns 33.4% of the issued share capital of JVCo. As NEC is a substantial shareholder of JVCo, which in turn is an indirect subsidiary of the Company, hence NEC and its associates (as defined under the Listing Rules) are connected persons of the Company. Accordingly, the transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The highest applicable percentage ratio in relation to the Proposed Annual Caps 2021-2023 exceeds 5% but is less than 25%. As NEC, NEC Fielding and NESIC are connected persons of the Company at the subsidiary level, the transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the Continuing Connected Transactions and the Proposed Annual Caps 2021-2023 and confirmed that (i) the Products and Brand Agreements, the Transitional Services Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and are on normal commercial terms, and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (ii) the Proposed Annual Caps 2021-2023 are fair and reasonable and in the interests of the Company and its shareholders as a whole. As none of the Directors had a material interest in the above transactions, none of them was required to abstain from voting on the relevant resolutions approving the above transactions.

Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the Continuing Connected Transactions are subject to annual review, reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"**Affiliate**"	any direct or indirect subsidiary or parent company of a company and any direct or indirect subsidiary of any such parent company, in each case from time to time;
"**Announcements**"	the announcements of the Company dated April 21, 2011, October 7, 2014 and May 25, 2017;
"**Automatic Renewal**"	subject to compliance with the Listing Rules (if applicable) at the relevant time, the automatic renewal of the term of the relevant agreement for an additional year until a prescribed date or unless either party gives notice to the other of its intention to terminate such relevant agreements at a prescribed time prior to the expiry of the term;

"**Business Combination Agreement**"	the business combination agreement entered into between the Company, Lenovo BV, NEC and NECP on January 27, 2011 (the rights and obligations of NECP thereunder were transferred to NEC Newco on and following July 1, 2011), as amended by an amendment agreement entered into between the Company, Lenovo BV, NEC and NEC Newco on October 7, 2014;
"**Company**"	Lenovo Group Limited, a company incorporated on October 5, 1993 with limited liability under the laws of Hong Kong, the ordinary shares of which are listed on the Stock Exchange;
"**connected person(s)**"	has the meaning ascribed to it under the Listing Rules;
"**Continuing Connected Transactions**"	transactions contemplated under the Products and Brand Agreements and the Transitional Services Agreement;
"**Director(s)**"	the director(s) of the Company;
"**Group**"	the Company and its subsidiaries subsisting from time to time;
"**Hong Kong**"	Hong Kong Special Administrative Region of the People's Republic of China;
"**IT**"	information technology;
"**Joint Venture Period**"	the period from July 1, 2011 until the date on which NEC no longer holds any shares in JVCo;
"**JPY**"	Japanese Yen, the lawful currency of Japan;
"**JVCo**"	Lenovo NEC Holdings B.V., an indirect non wholly-owned subsidiary of the Company incorporated pursuant to the Business Combination Agreement;

"**Lenovo BV**"	Lenovo International Coöperatief U.A. (formerly known as Lenovo (International) B.V.), a 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;
"**NEC**"	NEC Corporation, a company incorporated under the laws of Japan (TSE: 6701);
"**NEC Fielding**"	NEC Fielding, Ltd. a subsidiary of NEC incorporated under the laws of Japan;
"**NEC Fielding Agreement**"	the agreement for the supply of services between NEC Fielding and NECP dated January 15, 2004 (the rights and obligations of NECP thereunder were transferred to NEC Newco on and following July 1, 2011);
"**NEC Group**"	NEC and its Affiliates from time to time;
"**NEC Newco**"	NEC Personal Computers, Ltd., a company incorporated under the laws of Japan and a wholly-owned subsidiary of JVCo;
"**NEC Newco Brand Licence Agreement**"	the brand licence agreement between NEC and NEC Newco dated July 1, 2011, as amended by an amendment agreement dated October 7, 2014;
"**NEC Newco Licensed Products**"	certain products and/or services of NEC's personal computer business in Japan bearing the "NEC" brand and subject to the brand licensing arrangements under the NEC Newco Brand Licence Agreement;
"**NECP**"	NEC Embedded Products, Ltd. (formerly known as NEC Personal Products, Ltd before July 1, 2011), a wholly-owned subsidiary of NEC incorporated under the laws of Japan;
"**NESIC**"	NEC Networks & System Integration Corporation, an associate of NEC incorporated under the laws of Japan;

"**NESIC Agreement**"	the agreement for the supply of operation and maintenance services for intranet and other internal communication systems of NECP between NESIC and NECP dated August 18, 2003 (the rights and obligations of NECP thereunder were transferred to NEC Newco on and following July 1, 2011);
"**Products**"	certain "NEC" branded personal computer products to be supplied to NEC under the Supply Agreement;
"**Products and Brand Agreements**"	the Supply Agreement, the NEC Fielding Agreement, the NESIC Agreement and the NEC Newco Brand Licence Agreement;
"**Proposed Annual Caps 2021-2023**"	the annual caps for the Continuing Connected Transactions during the three financial years ending March 31, 2021, 2022 and 2023;
"**Stock Exchange**"	The Stock Exchange of Hong Kong Limited;
"**Supply Agreement**"	the supply agreement entered into between NEC and NECP on February 28, 2011 (the rights and obligations of NECP thereunder were transferred to NEC Newco on and following July 1, 2011), as amended by the Supply Amendment Agreement;
"**Supply Amendment Agreement**"	the amendment agreement entered into between NEC and NEC Newco on October 7, 2014 in relation to amendments to the Supply Agreement;
"**Transitional Services Agreement**"	the transitional services agreement entered into between the Company and NEC on July 1, 2011, as amended by the TSA Side Letter;
"**TSA Side Letter**"	the side letter entered into between the Company and NEC on June 30, 2016 in relation to amendments to the Transitional Services Agreement;
"**US$**"	United States dollars, the lawful currency of the United States of America; and
"**%**"	per cent.

For the purpose of this announcement, the translation of Japanese Yen into United States dollars is based on the exchange rate of JPY1.00 to US$0.0091. Such translation should not be construed as representations that the relevant amounts have been, could have been, or could be, converted at these or any other rates or at all.

By Order of the Board of

LENOVO GROUP LIMITED

Yang Yuanqing

Chairman and
Chief Executive Officer

February 21, 2020

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. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr and Mr. Woo Chin Wan Raymond.