Lenovo Group Limited 聯想集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 992)

ANNOUNCEMENT

REVISION OF EXISTING ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS WITH FUJITSU

REVISION OF EXISTING ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the JV Announcement made by the Company on November 2, 2017 and the CCT Announcement made by the Company on May 2, 2018. Capitalized terms used herein shall have the same meanings as defined in the CCT Announcement unless otherwise defined.

The Directors (including the independent non-executive Directors) have approved to revise the annual caps of the Relevant CCT Agreements for the four financial years ending March 31, 2020, 2021, 2022 and 2023 in light of the growth in FCCL’s revenue and the Company’s overall commercial strategy for its PC business.

LISTING RULES IMPLICATIONS

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. Accordingly, Fujitsu (and its associates (as defined under the Listing Rules)) are connected persons of the Company and the Continuing Connected Transactions constitute continuing connected transactions of the Company 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 Relevant CCT Agreements are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the Revised Annual Caps and the Continuing Connected Transactions and confirmed that the Revised Annual Caps, the Relevant CCT Agreements and the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and the terms thereof (including the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.
Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the Revised Annual Caps and 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.

None of the Directors has a material interest in the Relevant CCT Agreements and the Continuing Connected Transactions, and hence no Director was required to abstain from voting on the relevant board resolutions approving the Revised Annual Caps of the Relevant CCT Agreements and the Continuing Connected Transactions.

INTRODUCTION

Reference is made to the JV Announcement made by the Company on November 2, 2017 and the CCT Announcement made by the Company on May 2, 2018. Capitalized terms used herein shall have the same meanings as defined in the CCT Announcement unless otherwise defined.

The Directors (including the independent non-executive Directors) have approved to revise the annual caps of the Relevant CCT Agreements for the four financial years ending March 31, 2020, 2021, 2022 and 2023 in light of the growth in FCCL’s revenue and the Company’s overall commercial strategy for its PC business.

For the avoidance of doubt, save for the Revised Annual Caps, none of the terms of the Relevant CCT Agreements and the Continuing Connected Transactions have been amended.

EXISTING ANNUAL CAPS AND THE REVISED ANNUAL CAPS

Existing Annual Caps

<table>
<thead>
<tr>
<th>Expenses incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement</th>
<th>65 (approximately US$59 million)</th>
<th>65 (approximately US$59 million)</th>
<th>65 (approximately US$59 million)</th>
<th>65 (approximately US$59 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income received from FIT for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FIT)</td>
<td>231 (approximately US$210 million)</td>
<td>204 (approximately US$186 million)</td>
<td>210 (approximately US$191 million)</td>
<td>217 (approximately US$197 million)</td>
</tr>
<tr>
<td>Royalties paid to Fujitsu pursuant to the Fujitsu Trademark and Brand License Agreement</td>
<td>5 (approximately US$5 million)</td>
<td>5 (approximately US$5 million)</td>
<td>5 (approximately US$5 million)</td>
<td>5 (approximately US$5 million)</td>
</tr>
</tbody>
</table>
Revised Annual Caps

For the reasons described in this announcement below, the Directors (including the independent non-executive Directors) have approved the Revised Annual Caps as follows:

<table>
<thead>
<tr>
<th>Financial year ending March 31,</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
</tr>
<tr>
<td>Expenses incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement</td>
<td>73.5 (approximately US$67 million)</td>
<td>83.5 (approximately US$76 million)</td>
<td>83.5 (approximately US$76 million)</td>
<td>83.5 (approximately US$76 million)</td>
</tr>
<tr>
<td>Income received from FIT for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FIT)</td>
<td>275.0 (approximately US$250 million)</td>
<td>312.5 (approximately US$284 million)</td>
<td>312.5 (approximately US$284 million)</td>
<td>312.5 (approximately US$284 million)</td>
</tr>
<tr>
<td>Royalties paid to Fujitsu pursuant to the Fujitsu Trademark and Brand License Agreement</td>
<td>6.05 (approximately US$6 million)</td>
<td>6.85 (approximately US$6 million)</td>
<td>6.85 (approximately US$6 million)</td>
<td>6.85 (approximately US$6 million)</td>
</tr>
</tbody>
</table>

As a result of the Revised Annual Caps, the aggregate income, expenses and annual caps of all the CCT Agreements (including the Relevant CCT Agreements) are revised as follows:

<table>
<thead>
<tr>
<th>Financial year ending March 31,</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing</td>
<td>Revised</td>
<td>Existing</td>
<td>Revised</td>
</tr>
<tr>
<td></td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
<td>(JPY in 100 million)</td>
</tr>
<tr>
<td>Aggregate income</td>
<td>4,177 (approximately US$3,801 million)</td>
<td>4,221 (approximately US$3,841 million)</td>
<td>4,038.5 (approximately US$3,675 million)</td>
<td>4,054 (approximately US$3,689 million)</td>
</tr>
<tr>
<td>Aggregate expenses</td>
<td>2,270 (approximately US$2,066 million)</td>
<td>2,279.55 (approximately US$2,074 million)</td>
<td>2,065 (approximately US$1,879 million)</td>
<td>2,085.35 (approximately US$1,930 million)</td>
</tr>
<tr>
<td>Aggregate annual caps</td>
<td>6,447 (approximately US$5,867 million)</td>
<td>6,500.55 (approximately US$5,916 million)</td>
<td>5,995 (approximately US$5,455 million)</td>
<td>6,123.85 (approximately US$5,573 million)</td>
</tr>
</tbody>
</table>

Apart from the Revised Annual Caps in respect of the Relevant CCT Agreements, the annual caps of the rest of the CCT Agreements are not revised and remain the same as those disclosed in the CCT Announcement.

**REASONS FOR REVISIONING THE EXISTING ANNUAL CAPS**

FCCL’s business in Japan market has been performing well since the completion of FCCL’s formation in May 2018, and FCCL has recorded significant revenue growth in the Relevant Period.
Such increase in the revenue of FCCL has led to increases in expenses, income and royalties incurred under the Relevant CCT Agreements:

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Reason for increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondment Agreement</td>
<td>In accordance with the terms of the Secondment Agreement, 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. Under this arrangement, FCCL is required to pay the Seconded Employees bonuses in proportion to the revenue of FCCL and part of the Seconded Employees’ salary is also positively correlated to the revenue of FCCL. Hence, the increase in FCCL’s revenue has resulted in higher amount of bonus and salary paid to the relevant Seconded Employees.</td>
</tr>
<tr>
<td>Manufacturing Agreement (FIT)</td>
<td>With the increased revenue of FCCL, the manufacturing service provided by FIT to FCCL has been increased and more components were needed for the purpose of manufacturing the relevant products under the Manufacturing Agreement (FIT). As a result, the amount involved in the component sourcing services for items agreed to be procured and provided by FCCL to FIT has been increased accordingly.</td>
</tr>
<tr>
<td>Fujitsu Trademark and Brand License Agreement</td>
<td>According to the Fujitsu Trademark and Brand License Agreement, FCCL shall pay Fujitsu certain royalties for using the Licensed Name and Fujitsu Trademarks for the sales of certain licensed products. Given the correlation between the royalties to be paid under the Fujitsu Trademark and Brand License Agreement and the revenue of FCCL, as the revenue of FCCL increases, its expenses incurred under the Fujitsu Trademark and Brand License Agreement also increases.</td>
</tr>
</tbody>
</table>

In light of the historical performance and the growth trend of FCCL’s business in Japan, and taking into account the Company’s overall commercial strategy of investing in high-growth and premium segments and driving more profitable product mix for the PC business, the Existing Annual Caps will be insufficient to cater for the current expected increase in revenue of FCCL and the increasing amount of expenses, income or royalties in respect of the respective Relevant CCT Agreements. Further, the actual expenses and royalties payable and income receivable under the Relevant CCT Agreements are subject to the final sales of FCCL, which may be affected by various factors under normal business operations such as urgent additional orders and shipment arrangement and can only be confirmed upon completion of the financial year by the end of March 2020. Hence, the Directors have approved to increase the Existing Annual Caps for the four financial years ending March 31, 2020, 2021, 2022 and 2023 in this regard.

The Company will continue to carry out adequate supervision over the transaction amounts in respect of the Revised Annual Caps going forward with a view to ensuring that necessary measures and appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.
BASIS FOR THE REVISED ANNUAL CAPS

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

(i) The significant growth in the revenue of FCCL in the Relevant Period;

(ii) The expected increase in the bonus and remuneration payable to the employees of Fujitsu who are seconded to FCCL, taking into account the actual increased expenses incurred in the Relevant Period and the current remuneration policy in force;

(iii) The expected increase in the royalties to be paid by FCCL to Fujitsu pursuant to the Fujitsu Trademark and Brand License Agreement, taking into account the actual increased expenses incurred in the Relevant Period and the expected expenses to be incurred in the last three months of the financial year ending on March 31, 2020 and going forward;

(iv) The expected increase in needs of procurement services provided to FIT by FCCL due to transactional structure change whereby FCCL has been sourcing more components for FIT while other companies from Fujitsu group have been sourcing less components for FIT since August 2019, taking into account the actual increased income recorded in the Relevant Period, the orders already placed by FIT and projections made based on past records;

(v) Additional buffers of:

a) 10% for the revised annual caps of the Relevant CCT Agreements for the financial year ending on March 31, 2020; and

b) 25% for the revised annual caps of the Relevant CCT Agreements for each of the financial years ending on March 31, 2021, 2022 and 2023,

were added to account for unforeseen future events, changes to the business environment that was used for arriving at the initial revised annual cap including the increase in consumption tax by the Japan Government, and to allow further flexibility to effectively and efficiently carry out the Continuing Connected Transactions.

INFORMATION OF THE COMPANY, THE GROUP AND FCCL

The Company is a limited liability company incorporated in Hong Kong, 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.

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

Fujitsu is a leading Japanese ICT company offering a full range of technology products, solutions and services, the shares of which are listed on the first section of the Tokyo Stock Exchange. Fujitsu employs approximately 132,000 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.

The largest shareholder of Fujitsu is Ichigo Trust Pte. Ltd., which holds approximately 7% of Fujitsu’s shares as of September 30, 2019 and is principally engaged in investment holding.

LISTING RULES IMPLICATIONS

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. Accordingly, Fujitsu (and its associates (as defined under the Listing Rules)) are connected persons of the Company and the Continuing Connected Transactions constitute continuing connected transactions of the Company 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 Relevant CCT Agreements are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the Revised Annual Caps and the Continuing Connected Transactions and confirmed that the Revised Annual Caps, the Relevant CCT Agreements and the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and the terms thereof (including the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the Revised Annual Caps and 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.

None of the Directors has a material interest in the Relevant CCT Agreements and the Continuing Connected Transactions, and hence no Director was required to abstain from voting on the relevant board resolutions approving the Revised Annual Caps of the Relevant CCT Agreements and the Continuing Connected Transactions.

DEFINITIONS

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

“CCT Announcement” the announcement made by the Company on May 2, 2018 in respect of the CCT transactions;

“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 Relevant CCT Agreements;

“Director(s)” the director(s) of the Company;

“Existing Annual Caps” the existing annual caps of the Secondment Agreement, Manufacturing Agreement (FIT) and the Fujitsu Trademark and Brand License Agreement for the four financial years ending 31 March 2020, 2021, 2022 and 2023;

“FCCL” Fujitsu Client Computing Limited, a company incorporated under the laws of Japan;

“FIT” Fujitsu Isotec Limited, a company incorporated in Japan;

“Fujitsu” Fujitsu Limited, a company incorporated under the laws of Japan;

“Fujitsu Group” Fujitsu and its affiliates;

“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;

“JPY” Japanese yen, the lawful currency of Japan;

“Lenovo International” 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 of Hong Kong Limited;

“Shareholders” shareholders of the Company;
“Stock Exchange” The Stock Exchange of Hong Kong Limited;

“Relevant CCT Agreements” the Secondment Agreement, Manufacturing Agreement (FIT) and the Fujitsu Trademark and Brand License Agreement;

“Relevant Period” first nine months of the financial year ending on March 31, 2020;

“Revised Annual Caps” the revised annual caps of the Secondment Agreement, Manufacturing Agreement (FIT) and the Fujitsu Trademark and Brand License Agreement for the four financial years ending 31 March 2020, 2021, 2022 and 2023 approved by the Directors;

“USD” United States Dollar, 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.