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Lenovo™

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

DISCLOSEABLE TRANSACTION PROPOSED JOINT VENTURE IN RESPECT OF FUJITSU CLIENT COMPUTING LIMITED

CREDIT SUISSE 

The Board is pleased to announce that on 2 November 2017, the Company entered 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.

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.

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 Transaction exceeds 5%, but all applicable percentage ratios are less than 25%, the Transaction constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that Completion is subject to various conditions as stated in the section headed “Conditions Precedent”. The SPA and the transactions contemplated thereunder may or may not proceed to Completion. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the securities of the Company.

1. INTRODUCTION

On 2 November 2017, the Company entered into 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. Fujitsu retains the remaining 49% of the total issued share capital of FCCL (the “**Fujitsu FCCL Shares**”). Pursuant to an agreement between Fujitsu and Development Bank of Japan (“**DBJ**”), DBJ will be entitled to hold 5% of the shares of FCCL. Fujitsu will procure that DBJ complies with the provisions of the JVA applicable to Fujitsu, and in particular, will procure that the Fujitsu Put Option and the Lenovo Call Option (details of which are set out in paragraph 3 below) will apply to the whole 49% interest in FCCL. Following Completion, the Company will consolidate the accounts of FCCL in its accounts.

Further, on 2 November 2017, the Company, Lenovo International and Fujitsu entered into the JVA 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. On or prior to the Completion Date, FCCL and members of the Fujitsu Group will enter into intellectual property arrangements as well as other ancillary arrangements.

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.

2. THE SPA

The principal terms of the SPA are as follows:

Date of the SPA

2 November 2017

Parties

1. Fujitsu, as the seller
2. the Company, as the purchaser

The Company intends to nominate Lenovo International, its indirect wholly-owned subsidiary as the entity to hold the Sale Shares under the SPA.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, Fujitsu and its ultimate beneficial owners are third parties independent of, and not connected with, the Company and its connected persons as at the date of the SPA and this announcement.

Interests to be purchased – the Sale Shares

Subject to the terms and conditions of the SPA, the Company has agreed to purchase, and Fujitsu has agreed to sell, the Sale Shares on the Completion Date.

Consideration

The consideration payable by the Company to Fujitsu for the sale and purchase of the Sale Shares comprises:

1. JPY17.85 billion (approximately HK\$1.23 billion), on the assumption that the Target Group has zero net debt and normalized working capital, payable in cash to Fujitsu on the Completion Date, minus 51% of (a) the estimated net debt and (b) the estimated working capital adjustment; plus
2. JPY2.55 billion (approximately HK\$175 million) to JPY12.75 billion (approximately HK\$875 million) performance-adjusted consideration based on business performance to March 2020, payable in cash shortly after 31 March 2020.

The consideration is subject to an upward or downward post-Completion adjustment based on the actual working capital amount and the actual net debt as at the Completion Date.

The consideration has been negotiated and determined on an arm's length basis between the parties, and on normal commercial terms. The Company has taken into account various factors, including the growth prospects of FCCL's business in the future and earnings potential, as well as the key terms of the agreements relating to the Transaction.

Funding

The consideration payable by the Company is expected to be funded by the Company's existing cash on its balance sheet.

Conditions Precedent

Completion of the Transaction is conditional upon certain conditions having been fulfilled or waived, which include the following:

- (a) all internal corporate approvals of the Company and Fujitsu necessary for the completion of the Transaction having been obtained;
- (b) no Regulatory Action having been taken;
- (c) no buyer material adverse effect or material adverse change having occurred;
- (d) the pre-completion obligations having been completed in accordance with the terms set out in the SPA;

- (e) subject to certain caveats, a significant majority of non-management employees seconded from the Fujitsu Group having remained seconded to FCCL; and
- (f) requisite competition law clearance having been obtained.

Completion

Completion will take place on the Completion Date. Upon Completion, the Company will hold the Sale Shares through Lenovo International.

If any condition precedent under the SPA has not been waived or satisfied by 5:00 p.m. on the Longstop Date (and the parties have not agreed in writing to extend the Longstop Date), the SPA shall automatically terminate with immediate effect. Each party's further rights and obligations cease immediately on termination, but termination does not affect a party's accrued rights and obligations at the date of termination.

3. THE JVA

The principal terms of the JVA are as follows:

Date of JVA

2 November 2017

Parties

1. Fujitsu
2. the Company
3. Lenovo International

Liabilities of the Company and Lenovo International under the JVA are joint and several.

Governance of FCCL

Subject to the shareholder reserved matters (as further described in the section of this announcement below headed "**Reserved Matters**") and legal requirements, the business and affairs of FCCL will be managed by the FCCL Board. The FCCL Board will consist of seven directors, of which Lenovo International will be entitled to nominate four directors and Fujitsu will be entitled to nominate three directors. The quorum at meetings of the FCCL Board will be at least three Lenovo International-nominated directors and two Fujitsu-nominated directors (or four Lenovo International directors in the event that three Fujitsu directors are present). All resolutions of a meeting of the FCCL Board will be passed by a simple majority in attendance.

Where it is required by applicable law that certain matters are decided at meetings of the shareholders of FCCL, such decisions shall be made by a simple majority of the total issued share capital of FCCL (or such other majority as may be required by law). Shareholder reserved matters require approval by both Lenovo International and Fujitsu. The quorum at meetings of the shareholders shall be a simple majority of the total issued share capital of FCCL.

Reserved Matters

The JVA includes certain customary shareholder reserved matters, including:

1. Any changes to the constitutional documents of any Target Group Company.
2. Any changes to capital structure, any form of reorganisation or consolidation, winding-up or insolvency proceedings of any Target Group Company.
3. Any material acquisition or divestment by any Target Group Company.
4. Any material change to the business or business strategy of FCCL or any incurring of expenditure over a certain monetary threshold.
5. Incurring any indebtedness outside the ordinary course of business and not provided for in the budget or business plan or creating any encumbrance over any of its material assets or property (subject to certain exemptions).
6. Applying for the admission to listing or trading on any stock exchange or market of:
(a) any shares in the capital of any Target Group Company or any depository receipts representing shares in the capital of any Target Group Company; or (b) debt securities issued by any Target Group Company.
7. Any transfer of shares in a Target Group Company to a third party other than a transfer of shares in FCCL permitted by and made in accordance with the JVA.
8. Any Target Group Company entering into any joint venture, partnership, profit sharing agreement, consolidation or amalgamation with a third party.
9. Any Target Group Company entering into or varying the terms of a related party transaction, subject to certain provisos.
10. Any Target Group Company conducting, or making a decision to conduct, a recall or any other market action in respect of any products sold or manufactured by a Target Group Company.

11. Any funding by way of equity or debt that is not set out in, or is additional to that set out in, the relevant budget, or any requirement for a shareholder in FCCL or any Target Group Company to provide any undertaking, covenant, guarantee or performance bond or any other recourse to itself, in respect of or pursuant to any financing arrangement of the Target Group Company.
12. Appointing or removing the auditors of any Target Group Company or altering any Target Group Company's financial year.

Share transfer restrictions: Lock-up Period

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.

Put and Call Options

Lenovo International and the Company have granted Fujitsu the Fujitsu Put Option and the Fujitsu Call Option, and Fujitsu has granted Lenovo International the Lenovo Call Option.

(i) Fujitsu Put Option

Under the Fujitsu Put Option, Fujitsu may require Lenovo International or the Company to purchase from Fujitsu all of the Fujitsu FCCL Shares, at the option price which is equal to fair market value (or 110% of fair market value, in the event of material breach of the JVA by Lenovo International and/or the Company) at the time, as determined by independent valuers on the basis of certain agreed-upon parameters.

The Fujitsu Put Option will become exercisable by written notice from Fujitsu to Lenovo International at any time after the fifth anniversary of the Completion Date or within three months of the following trigger events occurring: (i) a change of control of the Company where the new controlling entity is a prohibited transferee (as such entities are defined in the JVA); or (ii) the Company or Lenovo International committing a material breach of certain provisions of the JVA.

(ii) Fujitsu Call Option

Under the Fujitsu Call Option, Fujitsu may require Lenovo International to sell to Fujitsu all of the Sale Shares, at the option price which is equal to fair market value at the time, as determined by independent valuers on the basis of certain agreed-upon parameters.

The Fujitsu Call Option will become exercisable within three months of the Company being subject to an insolvency event.

(iii) Lenovo Call Option

Under the Lenovo Call Option, the Company or Lenovo International may require Fujitsu to sell to the Company or Lenovo International all of the Fujitsu FCCL Shares, at the option price which is equal to fair market value (or 90% of fair market value, in the event of material breach of the JVA by Fujitsu) at the time, as determined by independent valuers on the basis of certain agreed-upon parameters.

The Lenovo Call Option will become exercisable by written notice from Lenovo International at any time after the fifth anniversary of the Completion Date or within three months of Fujitsu (i) being subject to an insolvency event; (ii) committing a material breach of certain provisions of the JVA; or (iii) becoming subject to a change of control.

The exercise of the Fujitsu Put Option, the Fujitsu Call Option and the Lenovo Call Option is subject to compliance by the Company with the requirements of the Listing Rules at the time of exercise.

Dividends and distributions

FCCL will pay to its shareholders by way of dividends in their respective shareholding proportion between 50% and 100% of FCCL's profits available for distribution under applicable law in respect of each financial year during the term of the JVA, after making such transfers to reserves and provisions as in the opinion of the FCCL Board ought reasonably to be made.

Termination

The JVA terminates at the earliest of the date (i) on which it is terminated by written agreement of the Company and Fujitsu; (ii) all shares in FCCL are owned by a single shareholder or a third party or parties; and (iii) FCCL is wound up.

4. INTELLECTUAL PROPERTY ARRANGEMENTS

In connection with the Transaction, the Company and Fujitsu have agreed that the following intellectual property arrangements will take effect from the Completion Date:

- (i) Fujitsu will transfer to FCCL those intellectual property rights (including patents, trade marks and copyrights) that are exclusively used or implemented in by FCCL in its business of developing, manufacturing, distributing and selling desktop personal computers, laptop personal computers and tablet personal computers and their related products. In addition, Fujitsu will grant to FCCL a royalty-free licence to use certain of its other intellectual property rights for specified periods. In return, FCCL will grant back to Fujitsu a perpetual licence to use the transferred patents and copyright, which will not be exercisable within the field of the personal computer business of FCCL until the expiry of Fujitsu's non-compete restrictions under the SPA.

- (ii) Fujitsu will grant to FCCL a non-exclusive licence to use the names “Fujitsu” and “富士通” in FCCL’s trade name “Fujitsu Client Computing Limited”/“富士通クライアントコンピューティング株式會社”, in connection with FCCL’s business.

5. OTHER ANCILLARY AGREEMENTS

It is anticipated that FCCL and members of the Fujitsu Group will enter into various ancillary agreements by Completion Date. In addition to the intellectual property arrangements described in section 4 of this announcement, FCCL will enter into agreements with members of Fujitsu Group relating to the research and development, manufacture and distribution of Fujitsu-branded products. Certain current secondment arrangements of Fujitsu Group employees to FCCL will continue after Completion, and FCCL will enter into certain transitional services arrangements (some of which have yet to be determined) with members of the Fujitsu Group. To the extent that any of these ongoing arrangements constitute continuing connected transactions under the Listing Rules, the Company will take all necessary steps to comply with the requirements of the Listing Rules at the appropriate time.

6. 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.

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. FINANCIAL INFORMATION OF FCCL

The consolidated unaudited financial information of FCCL, prepared in accordance with IFRS for the last two financial years are as follows:

	For the year ended 31 March 2016 <i>(in millions)</i>	For the year ended 31 March 2017 <i>(in millions)</i>
pro-forma operating profit	JPY1,719 (approximately HK\$118)	JPY9,215 (approximately HK\$633)

As at 31 March 2017, the unaudited book value of the assets of FCCL which are the subject of the Transaction, was approximately JPY149,973 million (equivalent to approximately HK\$10,295 million).

9. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Transaction 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 Directors consider that the terms and conditions of the SPA and JVA are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

10. 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 Transaction exceeds 5%, but all applicable percentage ratios are less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

11. 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
“Business Day”	a day (other than a Saturday or Sunday or public holiday in Japan) on which banks are open in Tokyo and Hong Kong for general commercial business
“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 or parent company of the Company or a subsidiary company of a parent 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 of Completion, being eight Business Days after the last of the conditions precedent under the SPA has been satisfied or waived, or any other date as the Company and Fujitsu may agree
“connected person”	has the meaning set out in the Listing Rules
“Directors”	the directors of the Company
“FCCL”	Fujitsu Client Computing Limited, a company incorporated under the laws of Japan
“FCCL Board”	The board of directors of FCCL
“Fujitsu”	Fujitsu Limited, a company incorporated under the laws of Japan
“Fujitsu Group”	Fujitsu and its affiliates
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“JPY”	Japanese yen, the lawful currency of Japan
“JVA”	the joint venture agreement in relation to FCCL entered into on 2 November 2017 by the Company, Fujitsu and Lenovo International
“Lenovo International”	Lenovo International Coöperatief U.A., an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Longstop Date”	the date that is the first anniversary of the date of the SPA, or such later date as the Company and Fujitsu may agree
“Regulatory Action”	(a) any order of a court of competent jurisdiction; (b) any order or decision made, given or expressed by a governmental authority; or (c) any enactment of a legislative body, which in any such case prohibits, renders illegal or otherwise restricts the Transaction in a material respect; or after Completion, would prohibit, render illegal or otherwise restrict the carrying on of FCCL’s business by the Company’s Group in a material respect

“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
“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
“US\$”	United States Dollar, the lawful currency of the United States of America

This announcement contains translation between US\$ and HK\$ at US\$1 = HK\$7.8011, and between US\$ and JPY at US\$1 = JPY113.64. The translation shall not be taken as representation that the HK\$ or JPY 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*

2 November 2017

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.