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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 992)

DISCLOSEABLE TRANSACTION

**STRATEGIC PARTNERSHIP
WITH PCCW LIMITED**

**PROPOSED ACQUISITION OF
80% IN PCCW LENOVO TECHNOLOGY SOLUTIONS AND 20% IN PCCW NETWORK
SERVICES
INVOLVING THE ISSUANCE OF CONSIDERATION SHARES
UNDER THE GENERAL MANDATE**



Exclusive Financial Adviser

STRATEGIC PARTNERSHIP WITH PCCW LIMITED

For the purpose of forming a strategic partnership with PCCW Limited, the Board is pleased to announce that the Company and the Seller entered into the SPA on June 14, 2022 pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Sale Shares (representing a direct interest of 80% in PCCW Lenovo Technology Solutions and a direct interest of 20% in PCCW Network Services) for US\$613.6 million (equivalent to approximately HK\$4,786.1 million), comprising of (i) the cash element of US\$513.6 million (equivalent to approximately HK\$4,006.1 million), which will be satisfied by the Company in cash at Completion and (ii) the share element of US\$100.0 million (equivalent to approximately HK\$780.0 million), which will be satisfied by the Company by way of the allotment and issue of 86,424,677 Consideration Shares to the Seller at Completion. The Consideration Shares will be allotted and issued pursuant to the General Mandate and shall rank *pari passu* with the Shares in issue when issued and allotted.

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.

Completion is subject to various conditions under the SPA. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the securities of the Company.

1. INTRODUCTION

For the purpose of forming a strategic partnership with PCCW Limited, the Board is pleased to announce that the Company and the Seller entered into the SPA on June 14, 2022 pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Sale Shares (representing a direct interest of 80% in PCCW Lenovo Technology Solutions and a direct interest of 20% in PCCW Network Services).

2. SPA

The principal terms of the SPA are set out below:-

Date

June 14, 2022

Parties

- (1) the Seller as the seller
- (2) the Company as the purchaser

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

Transaction Overview

The SPA provides that the Company has agreed to purchase, and the Seller has agreed to sell the Sale Shares, which consists of:

- (1) the PCCW Lenovo Technology Solutions Sale Shares, representing a direct interest of 80% in PCCW Lenovo Technology Solutions; and
- (2) the PCCW Network Services Sale Shares, representing a direct interest of 20% in PCCW Network Services.

As at the date of this announcement, both PCCW Lenovo Technology Solutions and PCCW Network Services are 100% owned (directly and indirectly) by the Seller with PCCW Lenovo Technology Solutions owned as to 80% by the Seller and 20% by PCCW Network Services, which in turn is owned as to 100% by the Seller.

At Completion, the Company will hold 80% interest in PCCW Lenovo Technology Solutions and 20% interest in PCCW Network Services (which in turn holds 100% interest in PCCWS and 20% interest in PCCW Lenovo Technology Solutions); PCCW Limited will hold an indirect 80% interest in PCCW Network Services (which in turn holds 100% interest in PCCWS and 20% interest in PCCW Lenovo Technology Solutions) through the Seller. PCCW Lenovo Technology Solutions will become a subsidiary of the Company upon Completion.

Upon Completion, PCCW Lenovo Technology Solutions will principally engage in the provision of digital solutions and managed services primarily serving customers across the Asia Pacific region and PCCWS will principally engage in the provision of solutions and services to public sector customers in Hong Kong.

Consideration

The total Consideration is US\$613.6 million (equivalent to approximately HK\$4,786.1 million), comprising of:

- (1) the cash element of US\$513.6 million (equivalent to approximately HK\$4,006.1 million), which will be satisfied by the Company in cash at Completion; and
- (2) the share element of US\$100.0 million (equivalent to approximately HK\$780.0 million), which will be satisfied by the Company by way of the allotment and issue of 86,424,677 Consideration Shares to the Seller at Completion. The Consideration Shares will be allotted and issued pursuant to the General Mandate and shall rank *pari passu* with the Shares in issue when issued and allotted.

The Consideration (including the Issue Price) has been negotiated and determined on an arm's length basis between the parties, and on normal commercial terms, having considered the growth prospects and underlying value of the ITS Business.

The cash portion of the Consideration is expected to be funded by the Company's internal resources.

Assuming there is no other change in the number of Shares in issue of the Company between the date of this announcement and the Completion Date, the Consideration Shares, being 86,424,677 Shares, represent approximately 0.72% of the total number of Shares in issue of the Company as at the date of this announcement and approximately 0.71% of the total number of Shares in issue of the Company immediately after Completion.

The Consideration Shares will be allotted and issued under the General Mandate granted by the Shareholders pursuant to the ordinary resolution passed at the annual general meeting of the Company held on July 20, 2021 (as may be renewed or refreshed from time to time) and will rank *pari passu* with the Shares in issue when issued and allotted.

The Seller has undertaken not to sell the Consideration Shares within 6 months from the Completion Date without the prior written consent from the Company, subject to exceptions including hedging arrangements.

The obligations of the Company to issue the Consideration Shares under the SPA shall be subject to the Stock Exchange granting the listing of and permission to deal in the relevant Consideration Shares. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. In the event that the listing of, and permission to deal in the relevant Consideration Shares could not be obtained, the Company will settle the corresponding portion of the Consideration, which amounts to US\$100.0 million, by way of cash at Completion.

Conditions Precedent and Completion

Completion is conditional upon certain conditions precedent having been fulfilled or waived, which include, among others, (i) the completion of certain reorganization according to the SPA; and (ii) the entering into of shareholders' agreement for each of PCCW Lenovo Technology Solutions and PCCW Network Services and agreements relating to certain transitional services, and guaranteed revenue amounts between certain subsidiaries of PCCW Limited and PCCW Lenovo Technology Solutions relating to such amounts to be received by PCCW Lenovo Technology Solutions.

Completion will take place on the fifth business day following the day the conditions under the SPA have been satisfied or waived and shall take place no later than October 31, 2022. The Company and the Seller may agree mutually to extend such long stop date by no more than 2 months.

3. PRO FORMA FINANCIAL INFORMATION ON PCCW LENOVO TECHNOLOGY SOLUTIONS AND PCCW NETWORK SERVICES

The following table sets out the unaudited pro forma financials of PCCW Lenovo Technology Solutions and the PCCW Network Services prepared based on (i) the economic interests and benefits to be owned by PCCW Lenovo Technology Solutions upon completion of certain reorganization according to the SPA; (ii) the unaudited pro forma management accounts of PCCW Network Services prepared in accordance with Hong Kong Financial Reporting Standards, for the two years ended December 31, 2020 and December 31, 2021, respectively:-

	For the year ended December 31, 2020	For the year ended December 31, 2021
	US\$ million	US\$ million
<u>PCCW Lenovo Technology Solutions</u>		
Net profit (before taxation and extraordinary items)	6.3	24.0
Net profit (after taxation and extraordinary items)	6.3	24.3
<u>PCCW Network Services</u>		
Net profit (before taxation and extraordinary items)	18.3	24.6
Net profit (after taxation and extraordinary items)	40.8	15.8

For the year ended December 31, 2020, PCCW Network Services generated significantly higher net profit (after taxation and extraordinary items) compared to net profit (before taxation and extraordinary items) due to deferred tax arising primarily from tax losses.

Based on the unaudited pro forma management accounts of the PCCW Lenovo Technology Solutions and PCCW Network Services as of December 31, 2021, the pro forma consolidated net asset value of PCCW Lenovo Technology Solutions and PCCW Network Services assuming completion of certain reorganization according to the SPA was US\$337.6 million (equivalent to approximately HK\$2,633.0 million) and US\$270.2 million (equivalent to approximately HK\$2,107.6 million), respectively.

As at the Completion Date, PCCW Network Services will not have other material assets or liabilities other than the 20% equity interests in PCCW Lenovo Technology Solutions and 100% equity interests in PCCWS.

4. REASONS FOR AND BENEFITS OF THE TRANSACTION

The ITS Business is a leading IT services provider in Asia Pacific with over 20 years of proven track record. In addition to a market leading brand, the ITS Business will bring to the strategic partnership its strong capabilities in systems integration and application development and a highly skilled talent pool. As part of the Transaction, the Company will acquire control of PCCW Lenovo Technology Solutions, which will focus on expanding its business of serving primarily customers in the Asia Pacific region.

The Transaction allows the Company to expand its IT services capabilities, its suite of service offerings as well as the geographic and vertical coverage of customers and partners. As a result, the Company will be able to accelerate its growth in the services business and capture opportunities under the megatrend of digital transformation through leveraging the track record of successful delivery of the ITS Business and the Company's existing go-to-market strategies and solutions development capabilities, as well as the Company's strong customer relationships across the globe. The expansion into the IT services business is strategically important for the Company's development in the long run and will provide further diversification to the Company's businesses.

The partnership will allow the Company to further tap into the IT solutions industry through optimizing resources by leveraging on the combined strengths of the Company and PCCW Limited. Furthermore, we will be able to derive synergies and offer one-stop IT solutions to customers through the integration of services, devices and digital infrastructure provided by the combined resources and experiences of the Company and PCCW Limited.

The Directors consider that the terms of the SPA are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. 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.

6. INFORMATION RELATING TO THE PARTIES OF THE TRANSACTION

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 three business segments, namely Intelligent Devices Group – focused on various Smart Devices and IoT; Infrastructure Solutions Group – focused on Smart Infrastructure; and Solutions and Services Group – focused on Smart Verticals & Services, and with operations in over 60 countries, selling its products and services in around 180 countries.

The Seller

The Seller is a limited liability company incorporated in the Cayman Islands, and is an indirect wholly-owned subsidiary of PCCW Limited and is an investment holding company, directly and indirectly, holding the entities engaged in the ITS Business.

PCCW Lenovo Technology Solutions

PCCW Lenovo Technology Solutions is a limited liability company incorporated in British Virgin Islands, and is owned as to 80% by the Seller and 20% by PCCW Network Services. PCCW Lenovo Technology Solutions was formed to acquire and hold the PCCW Lenovo Technology Solutions Business.

PCCW Network Services

PCCW Network Services is a limited liability company incorporated in British Virgin Islands, and is a direct wholly-owned subsidiary of the Seller. As at the date of this announcement, PCCWS is a direct wholly-owned subsidiary of PCCW Network Services.

Shareholders and potential investors should note that Completion is subject to various conditions under the SPA. 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.

7. 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
“Company”	Lenovo Group Limited 聯想集團有限公司, a company incorporated on October 5, 1993 with limited liability under the laws of Hong Kong, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the sale and purchase of the PCCW Lenovo Technology Solutions Sale Shares and PCCW Network Services Sale Shares
“Completion Date”	the date on which Completion occurs in accordance with the SPA
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	has the meaning given to it in the paragraph headed “ <i>Consideration</i> ” in this announcement
“Consideration Shares”	86,424,677 new Shares to be allotted and issued to the Seller at the Issue Price at Completion
“Directors”	the directors of the Company
“General Mandate”	the general mandate granted by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on July 20, 2021 (as may be renewed or refreshed from time to time) for the Directors to exercise all the powers to the Company to allot and issue up to 20% of the total number of Shares on the date of passing such resolution
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“ITS Business”	the business comprising the provision of information technology solutions services, including but not limited to, the provision of digital and managed services (DMS), technical services (TS) and business process outsourcing (BPO) services carried on as at the date of the SPA by certain subsidiaries of PCCW Limited, including PCCWS
“Issue Price”	HK\$ 9.025 per Share
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PCCW Lenovo Technology Solutions”	Digital Era Enterprises Limited, a company incorporated in the British Virgin Islands, which will be renamed to PCCW Lenovo Technology Solutions Limited on or prior to Completion

“PCCW Lenovo Technology Solutions Business”	the provision of digital solutions and managed services primarily serving customers in the Asia Pacific region to be undertaken by PCCW Lenovo Technology Solutions and its subsidiaries
“PCCW Lenovo Technology Solutions Sale Shares”	8 issued ordinary shares in the capital of PCCW Lenovo Technology Solutions, representing an 80% interest in PCCW Lenovo Technology Solutions
“PCCW Limited”	PCCW Limited 電訊盈科有限公司, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0008) and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States of America (ticker: PCCWY)
“PCCW Network Services”	PCCW Network Services Limited 電訊盈科網絡服務有限公司, a company incorporated in the British Virgin Islands, the principal business of which is investment holding
“PCCW Network Services Sale Shares”	2 issued ordinary shares in the capital of PCCW Network Services, representing a 20% interest in PCCW Network Services
“PCCWS”	PCCW Solutions Limited 電訊盈科企業方案有限公司, a company incorporated in Hong Kong, and the principal business of which is the provision of solutions and services to public sector customers in Hong Kong
“Sale Shares”	the PCCW Network Services Sale Shares and the PCCW Lenovo Technology Solutions Sale Shares
“Seller”	PCCW Solutions Holdings Limited, a company incorporated in the Cayman Islands
“Share(s)”	ordinary share(s) of the Company
“Shareholders”	shareholders of the Company
“SPA”	the sale and purchase agreement with respect to the PCCW Lenovo Technology Solutions Sale Shares and PCCW Network Services Sale Shares dated June 14, 2022 between the Company and Seller
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the transactions contemplated under the SPA
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“US\$”	United States Dollar, the lawful currency of the United States of America
%	per cent

This announcement contains conversion between US\$ and HK\$ at US\$1 = HK\$7.80. The conversion 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

June 14, 2022

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. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr, Mr. Woo Chin Wan Raymond and Ms. Yang Lan.