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Lenovo

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(HKD Counter Stock Code: 992 / RMB Counter Stock Code: 80992)

ANNOUNCEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH FUJITSU

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the JV Announcement made by the Company on November 2, 2017 and the CCT Announcements made by the Company on May 2, 2018, May 18, 2018, February 21, 2020 and March 31, 2023. Capitalized terms used herein shall have the same meanings as defined in the CCT Announcements unless otherwise defined.

As the term of the Relevant CCT Agreements will expire on May 2, 2024, FCCL entered into the Side Letters with members of the Fujitsu Group extending the term of the Relevant CCT Agreements as described herein in respect of the provision of certain services and products to or by FCCL to facilitate the operation of its business on the same terms and conditions as applied to the Relevant CCT Agreements.

LISTING RULES IMPLICATIONS

The Company (through Lenovo International) owns 51% of the total issued share capital of FCCL and Fujitsu owns 49% 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 and the Side Letters are connected transactions between the Group and connected persons at the subsidiary level of the Company.

The Directors (including the independent non-executive Directors) have approved the renewal of the Continuing Connected Transactions and confirmed that the Relevant CCT Agreements, the Side Letters 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 Annual Caps and the New 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 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 any material interest in the Relevant CCT Agreements, the Side Letters and the Continuing Connected Transactions, and hence no Director was required to abstain from voting on the relevant board resolutions approving the Relevant CCT Agreements, the Side Letters and the Continuing Connected Transactions.

INTRODUCTION

Reference is made to the JV Announcement made by the Company on November 2, 2017 and the CCT Announcements made by the Company on May 2, 2018, May 18, 2018, February 21, 2020 and March 31, 2023. Capitalized terms used herein shall have the same meanings as defined in the CCT Announcements unless otherwise defined.

As the term of the Relevant CCT Agreements will expire on May 2, 2024, FCCL entered into the Side Letters with members of the Fujitsu Group extending the term of the Relevant CCT Agreements as described herein in respect of the provision of certain services and products to or by FCCL to facilitate the operation of its business on the same terms and conditions as applied to the Relevant CCT Agreements.

PRINCIPAL TERMS OF THE RELEVANT CCT AGREEMENTS

(i) Transitional Services Agreement

Date

March 28, 2024

Parties

1. Fujitsu
2. FCCL

Scope

Fujitsu will, through individual contracts with FCCL, provide FCCL with various transitional services including research and development of hardware and software, sales and marketing, information technology support, development and management, customer care support, quality control, manufacturing support, supply chain management, procurement and corporate management.

FCCL will, through individual contracts with Fujitsu, provide Fujitsu with various transitional services including research and development of software, supply chain management, information technology support, development and management, support of web-sales, sales management and support, customer care support, repair service and corporate management.

Term

The Transitional Services Agreement will expire on May 2, 2024. In light of mutual development needs and goals, the Company and Fujitsu have extended the Transitional Services Agreement by entering into a Side Letter to extend the term of the Transitional Services Agreement to May 2, 2025.

The term may be extended under the same terms and conditions by mutual agreement between the parties.

Pricing of Services

The existing services should be provided at a cost in line with historical cost, i.e. the base charging rate should be consistent with the applicable rate under the same agreement historically. For new services, such services shall be provided on market competitive rates proposed by the provider of the services on the understanding that the provider of the services is not required to benchmark the rates against other service providers.

(ii) Secondment Agreement

Date

March 28, 2024

Parties

1. Fujitsu
2. FCCL

Scope

Secondment by Fujitsu to FCCL of certain employees of Fujitsu (the “**Seconded Employees**”) on the same terms as applied to the current secondment arrangement currently in place between FCCL and Fujitsu.

Term

The Secondment Agreement will expire on May 2, 2024. In light of mutual development needs and goals, the Company and Fujitsu have extended the Secondment Agreement by entering into a Side Letter to extend the term of the Secondment Agreement to May 2, 2025.

Secondment Charges

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: (i) the salary, allowance, bonus and any other incentives; (ii) the retirement allowance accrued; and (iii) health, pension, long-term care insurances.

(iii) Manufacturing Agreement (FIT)

Date

March 28, 2024

Parties

1. FCCL
2. FIT

Scope

FIT shall provide to FCCL manufacturing services of, wherever applicable, (i) PCs (desktop personal computers, notebook personal computers and tablet personal computers); (ii) edge computing; and (iii) certain spare parts, accessories, peripherals, printers and software associated with (i) and (ii) above. FIT has ceased and does not anticipate to provide PCs manufacturing services to FCCL under the Manufacturing Agreement (FIT) for the financial year ending March 31, 2025.

FCCL has ceased and does not anticipate to provide any component sourcing services to FIT under the Manufacturing Agreement (FIT) for the financial year ending March 31, 2025.

Term

The Manufacturing Agreement (FIT) will expire on May 2, 2024. In light of mutual development needs and goals, the Company and Fujitsu have extended the Manufacturing Agreement (FIT) by entering into a Side Letter to extend the term of the Manufacturing Agreement (FIT) to May 2, 2025.

The term may be extended under the same terms and conditions by mutual agreement between the parties.

Pricing of Services

The services should be provided at a cost in line with the base charging rate plus a margin consistent with historical rates charged under the Manufacturing Agreement (FIT).

If FCCL can show concrete and reasonable evidence that FCCL or other third party manufacturer can manufacture equivalent products with substantially more competitive terms, FIT shall either (i) sell at such substantially more competitive terms, or (ii) discuss with FCCL in good faith to explore alternative means.

(iv) Sales and Distribution Agreement

Date

March 28, 2024

Parties

1. Fujitsu
2. FCCL

Scope

FCCL shall, via individual agreements, supply to Fujitsu (i) Fujitsu-branded (a) notebook personal computers, desktop personal computers and tablet personal computers, (b) edge computing, (c) accessories, peripherals, printers and software related to (a) and (b); (ii) such other products as may be agreed between the parties; and (iii) services relating to the foregoing (collectively, the “**Products**”).

Term

The Sales and Distribution Agreement will expire on May 2, 2024. In light of mutual development needs and goals, the Company and Fujitsu have extended the Sales and Distribution Agreement by entering into a Side Letter to extend the term of the Sales and Distribution Agreement to May 2, 2025.

The term may be extended under the same terms and conditions by mutual agreement between the parties.

Pricing of Products

For the purpose of calculating prices of the Products, costs of goods sold shall be agreed between FCCL and Fujitsu, which shall include, amongst others, materials costs (including original design manufacturing purchases), production costs, running royalty, warranty expenses, recycling expenses, depreciation of owned mold, and any other items included in costs historically under the Sales and Distribution Agreement.

For Products to be sold and distributed in Enterprise Market in Japan, Fujitsu shall pay FCCL an amount which is at least 19% mark-up over costs of goods sold. For Products to be sold and distributed in Enterprise Market outside of Japan, Fujitsu shall pay FCCL an amount which is 6% mark-up over costs of goods sold.

Payment of charges shall be on a monthly basis.

HISTORICAL TRANSACTION AMOUNTS, NEW ANNUAL CAPS AND BASIS OF DETERMINATION

Historical Transaction Amounts

The table below sets out the historical transaction amounts paid or payable by or to FCCL under the Relevant CCT Agreements, respectively:

	Financial year ended March 31,		For the eight months
	2022	2023	ended November 30,
	<i>(JPY in million)</i>	<i>(JPY in million)</i>	2023
			<i>(JPY in million)</i>
Income generated from the provision of transitional services to Fujitsu pursuant to the Transitional Services Agreement	596 (approximately US\$ 4.0 million)	481 (approximately US\$ 3.2 million)	302 (approximately US\$ 2.0 million)

Expenses incurred from the use of transitional services provided by Fujitsu pursuant to the Transitional Services Agreement	7,559 (approximately US\$ 50.2 million)	6,731 (approximately US\$ 44.7 million)	3,790 (approximately US\$ 25.2 million)
Expenses incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement	17 (approximately US\$ 0.1 million)	15 (approximately US\$ 0.1 million)	32 (approximately US\$ 0.2 million)
Expenses incurred from the manufacturing services and supply chain management services provided by FIT pursuant to the Manufacturing Agreement (FIT)	2,739 (approximately US\$ 18.2 million)	382 (approximately US\$ 2.5 million)	228 (approximately US\$ 1.5 million)
Income received from FIT for procurement services provided by FCCL pursuant to the Manufacturing Agreement (FIT)	1,353 (approximately US\$ 9.0 million)	0 (approximately US\$ 0 million)	0 (approximately US\$ 0 million)
Income generated from the sale of products to Fujitsu pursuant to the Sales and Distribution Agreement	195,441 (approximately US\$ 1,297.5 million)	200,798 (approximately US\$ 1,333.1 million)	122,408 (approximately US\$ 812.7 million)

New Annual Caps

Considering the historical transaction amounts and the reasons described below, the Directors (including the independent non-executive Directors) have approved the New Annual Caps as follows:

Financial year ending March 31, 2025 <i>(JPY in million)</i>	
Income to be generated from the provision of transitional services to Fujitsu pursuant to the Transitional Services Agreement	514 (approximately US\$ 3.4 million)
Expenses to be incurred from the use of transitional services provided by Fujitsu pursuant to the Transitional Services Agreement	6,442 (approximately US\$ 42.8 million)

Expenses to be incurred from secondment of employees from members of Fujitsu Group pursuant to the Secondment Agreement	55 (approximately US\$ 0.4 million)
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Expenses to be incurred from the manufacturing services and supply chain management services provided by FIT pursuant to the Manufacturing Agreement (FIT)	386 (approximately US\$ 2.6 million)
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Income to be generated from the sale of products to Fujitsu pursuant to the Sales and Distribution Agreement	151,561 (approximately US\$ 1,006.2 million)
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The aggregate new income annual cap, expenses annual cap and New Annual Cap of all the Relevant CCT Agreements are as follows:

Financial year ending March 31, 2025	
<i>(JPY in million)</i>	
Aggregate new income annual cap	152,075 (approximately US\$ 1,009.6 million)
Aggregate new expenses annual cap	6,883 (approximately US\$ 45.7 million)
Aggregate New Annual Cap	158,958 (approximately US\$ 1,055.3 million)

Basis for the New Annual Caps

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

- (i) business case was derived from historical performance of FCCL and its subsidiary together with the outlook of the industry in Japan. With this projection of the future business of FCCL, amounts under each Relevant CCT Agreement were calculated by using the (a) historical allocation amount; and (b) expected growth rate that corresponds to the average market growth of the industry in Japan;
- (ii) historical provision and use of transitional services pursuant to the Transitional Services Agreement, FCCL management's view that there has not been any forecast indicating further decrease in the transaction amount under the Transitional Services Agreement, expected needs for such transitional services based on the current performance of FCCL and Fujitsu, estimated inflation rate and the general market condition in Japan;
- (iii) current number of Seconded Employees from the Fujitsu Group and estimated wage increase in Japan;

- (iv) the expected needs of manufacturing services provided by FIT pursuant to the Manufacturing Agreement (FIT) considering the slight expected decrease in sales of printers and photocopiers and estimated inflation rate in Japan;
- (v) income generated historically from the sale of products to Fujitsu pursuant to the Sales and Distribution Agreement in Japan, the expected sales volume considering the general market condition and expected growth rate in Japan and the estimated transaction amount for overseas market; and
- (vi) additional buffer of 10% was added for the New Annual Caps to account for unforeseeable future events, changes to the business environment (such as fluctuations in foreign exchange and the potential secondment of employees from the Fujitsu Group), and to allow further flexibility to effectively and efficiently carry out the Continuing Connected Transactions.

The relevant department in charge of monitoring the transactions contemplated under the Relevant CCT Agreements will, with a view to optimizing the cost efficiency under the Relevant CCT Agreements, regularly review (upon such intervals as deemed necessary or feasible by such department), supervise and monitor the service details and the pricing mechanism under each Relevant CCT Agreement to ensure that (i) such services and prices are on comparable terms with services provided to the Group by external service providers and services provided by the Group to other third parties and are no less favourable to the Group; and (ii) the transactions under the Relevant CCT Agreements are conducted in accordance with their respective terms (including the margins on prices), on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SIDE LETTERS

The Company considers that it is beneficial to the Group to renew the terms of the Relevant CCT Agreements pursuant to the Side Letters to leverage on the resources and brand recognition of the Fujitsu Group, such as internal administrative functions.

The transactions contemplated under the Relevant CCT Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Company's Group. The services provided under the Relevant CCT Agreements have been negotiated on arms' length basis.

INFORMATION OF THE COMPANY, THE GROUP AND FCCL

The Company is a limited liability company incorporated in Hong Kong and the shares have been listed on the Stock Exchange since 1994. The principal businesses of the Company are the research and development, manufacturing and sales of smart devices (personal computers, smartphones, tablets, commercial AR/VR, smart collaboration), smart infrastructure (servers, storage, software) and smart solutions (support services, managed services, project and vertical solutions).

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 49% 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 Tokyo Stock Exchange. Fujitsu serves customers in more than 100 countries. Fujitsu uses its experience and the power of ICT to shape the future of society with its customers.

LISTING RULES IMPLICATIONS

The Company (through Lenovo International), owns 51% of the total issued share capital of FCCL and Fujitsu owns 49% 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 and the Side Letters are connected transactions between the Group and connected persons at the subsidiary level of the Company.

The Directors (including the independent non-executive Directors) have approved the renewal of Continuing Connected Transactions and confirmed that the Relevant CCT Agreements, the Side Letters 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 Annual Caps and the New 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 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 any material interest in the Relevant CCT Agreements, the Side Letters and the Continuing Connected Transactions, and hence no Director was required to abstain from voting on the relevant board resolutions approving the Relevant CCT Agreements, the Side Letters and the Continuing Connected Transactions.

DEFINITIONS

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

“Annual Caps”	the existing annual caps of the Relevant CCT Agreements;
“Company”	Lenovo Group Limited, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are listed on the Stock Exchange;
“Connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“CCT Announcements”	the announcements made by the Company on May 2, 2018, May 18, 2018, February 21, 2020 and March 31, 2023 in respect of, among others, the Continuing Connected Transactions;

“Continuing Connected Transactions”	transactions contemplated under the Relevant CCT Agreements;
“Director(s)”	the director(s) of the Company;
“FCCL”	Fujitsu Client Computing Limited, a company incorporated in Japan;
“FIT”	Fujitsu Isotec Limited, a company incorporated in Japan;
“Fujitsu”	Fujitsu Limited, a company incorporated in Japan;
“Fujitsu Group”	Fujitsu and its affiliates subsisting from time to time;
“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;
“JV Announcement”	the announcement made by the Company on November 2, 2017 in respect of the joint venture in respect of FCCL;
“Lenovo International”	Lenovo International Coöperatief U.A. (formerly known as Lenovo (International) B.V.), a wholly-owned subsidiary of the Company incorporated in The Netherlands;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“New Annual Caps”	the new annual caps of the Relevant CCT Agreements;
“Relevant CCT Agreements”	the Transitional Services Agreement, the Secondment Agreement, the Manufacturing Agreement (FIT) and the Sales and Distribution Agreement, the terms of which have been extended as described herein;
“Shareholders”	Shareholders of the Company;
“Side Letters”	the side letters entered into between FCCL and each of the respective parties to the Relevant CCT Agreements, extending the terms of the Relevant CCT Agreements as described herein;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“US\$”	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\$0.006639. 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
LENOVO GROUP LIMITED
Yang Yuanqing
Chairman and Chief Executive Officer

March 28, 2024

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. Gordon Robert Halyburton Orr, Mr. John Lawson Thornton, Mr. Kasper Bo Roersted (alias Kasper Bo Rorsted), Mr. Woo Chin Wan Raymond, Ms. Yang Lan, Ms. Cher Wang Hsiueh Hong and Professor Xue Lan.