lenovo联想

Lenovo Group Limited

Annual Report 2003/04

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Liu Chuanzhi (Chairman)
Mr Yang Yuanqing (Vice Chairman and President)
Ms Ma Xuezheng

Non-executive Director

Mr Zeng Maochao

Independent Non-executive Directors

Mr Wong Wai Ming
Professor Woo Chia-Wei
Mr Ting Lee Sen

COMPANY SECRETARY

Ms Look Pui Fan

REGISTERED OFFICE

23rd Floor, Lincoln House, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SHARE REGISTRAR

Abacus Share Registrars Limited
G/F, BEA Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

AMERICAN DEPOSITARY RECEIPTS

(Depositary and Registrar)
Citibank, N.A.
5th Floor, 111 Wall Street,
New York 10005, USA

STOCK CODES

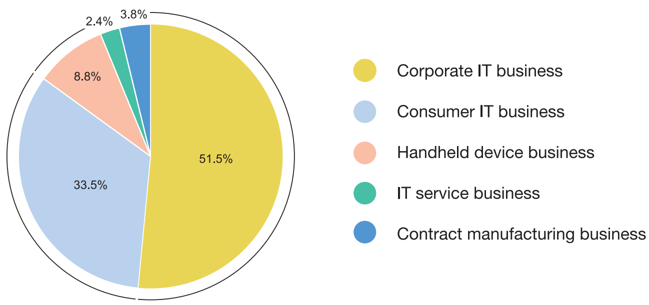
Hong Kong	992
ADR	LNVGY

WEBSITE

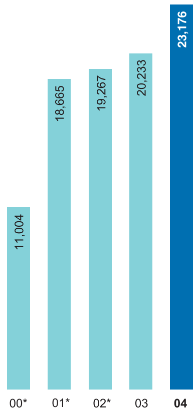
http://www.lenovo.com

FINANCIAL HIGHLIGHTS

	2004 *HK$m*	2003 *HK$m*	Increase / (Decrease)
Operating Results			
Turnover	**23,176**	20,233	14.5%
EBITDA	**1,125**	1,175	(4.3%)
Profit attributable to shareholders	**1,053**	1,017	3.5%
Earnings per share – fully diluted (HK cents)	**13.99**	13.54	3.3%
Financial Position			
Total assets	**8,342**	6,756	23.5%
Cash and cash equivalents	**2,650**	2,808	(5.6%)
Shareholders' fund	**4,489**	4,189	7.2%
Financial Ratio			
ROA (Return on assets) (%)	**14.4**	14.5	(0.7%)
ROE (Return on equity) (%)	**24.7**	25.6	(3.5%)
Current ratio (times)	**1.9**	2.1	(9.5%)
Others			
Interim dividend (HK cents)	**2.0**	1.8	11.1%
Proposed final dividend (HK cents)	**3.0**	3.0	–
Special dividend (HK cents)	**–**	5.2	N/A

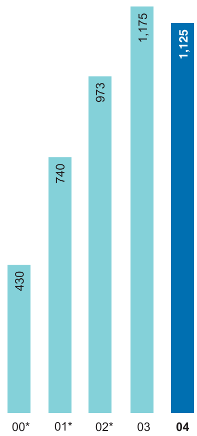


Turnover Analysis by Business Segment



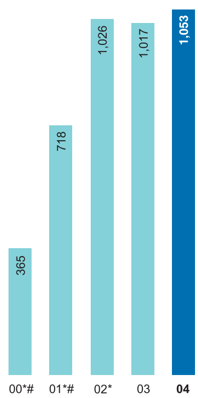
Turnover
for the year ended 31st March
(HK$m)

* Proforma



EBITDA
for the year ended 31st March
(HK$m)

* Proforma



Profit Attributable to Shareholders
for the year ended 31st March
(HK$m)

* Proforma
# Before restatement of amortisation of intangible assets

CHAIRMAN'S STATEMENT

Liu Chuanzhi *Chairman*

As a leader in China's IT industry,
Lenovo always has high aspirations.
We are committed to constantly
improving ourselves and
breaking new grounds.

In the past fiscal year, Lenovo had triumphed over the adverse impacts of the outbreak of Severe Acute Respiratory Syndrome (SARS), attaining respectful performance in regard to the general market condition. We maintained our market share and achieved growth in operating results. As Chairman of the Board, I appreciate the achievements made by our management team during the year ridden with exceptional challenges.

As a leader in China's IT industry, Lenovo always has high aspirations. We are committed to constantly improving ourselves and breaking new grounds. After carefully assessing our performance in the past three years, we have recently adjusted our strategic direction, placing stronger emphasis on our core business. With these efforts, we hope to firstly, strengthen our strategic execution capabilities that we may respond proactively amidst increasingly fierce competition in the China PC market; and secondly, to lay the foundation for the Group's future breakthroughs. I am confident that we will see certain progress in regard to our first objective in a year.

As a worldwide Olympic partner, we were presented with valuable business opportunities by The Olympic Partner (TOP) programme. Lenovo will provide leading edge computing equipment and services vital to the successful staging of the Olympic games, showing the world our strengths and expertise.

I have every reason to believe Lenovo is able to fully realise its competitive advantages after the strategic adjustments are completed, and bring to shareholders solid long-term returns. Last but not least, I would like to thank our investors for their continued support to the Group over the years.

Liu Chuan Zhi

Liu Chuanzhi
Chairman
Hong Kong, 2nd June 2004

CEO'S INTERVIEW

Can you summarise the performance of Lenovo in the past year?

In 2003, the IT industry of China rebounded. Measuring against the overall performance of the market, our core business – PC business – performed rather well last year. We managed to triumph over the adverse impacts of the SARS outbreak and maintained our 27% share in the China PC market despite fierce competition. Our turnover grew 14.5%.

As for our consumer IT business, we executed our customer segmentation strategies successfully last year, and hence effectively expanded our market share and improved our gross margins. The business achieved double digit growth in both turnover and profit. Our consumer notebook computers did exceptionally well, successfully capturing the growing demand for mobile computing capability among individual consumers in China. Leading the market in introducing consumer notebooks, Lenovo defined the market in China. We now have over 30% share of the country's consumer notebook market.

Yang Yuanqing *President and Chief Executive Officer*

Unit shipment of our mobile handset business also made a giant leap. We reached unit shipment target set for the business at the beginning of the year despite fierce competition. More importantly, we have been making a critical shift from OEM model to a self-developed model. Our proprietary handsets contributed 64.2% of the total unit shipment of all handsets we sold during the past year, improving the gross margin of our handset business and enhancing the Group's competitiveness.

What kind of technological achievement has Lenovo made last year?

2003 was a rewarding year for us in the area of technological achievement. First and foremost, we launched the supercomputer "Deepcomp 6800" which is essentially the main grid node computer of the China's National Grid. The supercomputer is ranked 14th among the world's top supercomputers, the highest ranking ever attained by a Chinese supercomputer.

The Collaborating Applications protocol, which we have been promoting since 2002, is set to become the national standard. Last year, we developed and launched a range of products embedded with the technology, including collaborating consumer desktop computer, commercial desktop computer, notebook computer, printer and projector. Furthermore, Lenovo's Collaborating Applications strategy is widely endorsed by the market. Last year, we partnered with China Telecom to jointly develop the next generation digital information terminals and services. It is apparent that the technology not only allows us to boost the competitiveness of our products, but will also drive further growth of market demand.

We secured 110 patent rights in the 2003/04 fiscal year and for the first time made the top ten list of the most competitive intellectual property owners in China.

What are the critical factors affecting the development and growth of the China PC market?

We think the favourable macroeconomic environment in China will further promote IT demand. We expect the economic environment to remain sound in the foreseeable future with foreign-invested enterprises and growth SMEs as the fastest growing customer segments. The macroeconomic control measures recently introduced by the Chinese government to curb excessive investment in certain industries will not seriously affect the IT industry.

The IT market in China is expected to experience steady growth in 2004 with notebook computer making market limelight. As for the desktop computer, demand will peak as customers seek to replace equipment bought between 1999 and 2000 amidst the Internet craze and for "Y2K" transition. This growth trend in consumer computer market will be further fueled by the expanding applications and usage of the broadband network. The continuous evolution of the different sectors, such as the government, education and manufacturing will also enhance the stable advancement of the corporate market.

What do you think about the competitive environment in the China PC market today? How does Lenovo compete with its overseas counterparts?

China is now the world's fastest growing IT market with greatest potential. As the China market grows, domestic IT enterprises are bound to face more diverse and international competitions.

Striving to capture opportunity in market segments other than the government and education sectors, domestic brands are increasing their investment in developing high-end products. International players, on the other hand, are focused on launching low price products to establish footholds in the low-end education and SME markets dominated traditionally by domestic brands. The PC market in China has started to experience competition in every aspect. More and more PC vendors are accentuating services and applications as the key differentials of products to combat homogeneous price competition.

To compete effectively with international players, Lenovo will continue to capitalise on the strengths in our sales and distribution network and our full spectrum product lines. Applying a combined sales model, we will be able to cover more effectively the extensive requirements of our customers, making up for the limitations of the pure channel distribution model. We will strengthen coverage of the demands of retail customers and SMEs and at the same time meet the diverse needs of large-scale corporations. On the other hand, through initiatives such as technological innovation and the commercialisation of Collaborating Applications technology, we will continue to launch differentiated products to maintain our gross margin.

Having the ability to integrate our services is critical to the further strengthening of our market leadership position. Our customers have always been appreciative of the quality of our services. We will continue to step up integration of internal and external resources to fulfill customers' diverse needs and add value to our business with integrated services.

What are the objectives of Lenovo's recent strategic adjustments?

After assessing the strategy adopted and implemented in the last three years, the management decided adjustments were required. We believed that PC business is the base for developing our company and supporting our further diversification and internationalisation. Hence, PC business will be our strategic focus so that all management resources will be directed to enhance its competitiveness. We will aggressively adjust our business model to gear up for further expansion of our PC business. At the same time, we need to heighten the overall efficiency of the Group. Hence, focusing on PC business, and enhancing our business model and efficiencies will be our primary emphases.

Since February 2004 when we started the adjustments, everything has been on track and management is satisfied with the results achieved. Our implementation so far has proven that the adjustments and reforms are in line with the environment of the growing China market. We are determined and confident that these efforts will enable us to respond and meet customers' needs quickly and effectively. With competitive products and services, we will be able to boost our competitiveness and operational efficiency while improving returns to shareholders. The adjustments will also pave the way for our long-term diversification.

Lenovo recently became the first Chinese enterprise to join The Olympic Partner (TOP) programme. What does it mean to the Group?

Firstly, I think it is a golden opportunity for us to realise our goal of becoming an international enterprise. We will be able to grow our international market, to build an international team and inject new passion and energy into our brand and our corporate culture.

We feel proud to represent Chinese enterprises in helping to promote the Olympic Movement. As a partner of the International Olympic Committee (IOC), we are responsible for providing the computing technology equipment, services and funds to support the events with all provisions in place in five years.

From the business perspective, we believe that this TOP partnership will provide us with plenty of opportunities to expand our business both within China and internationally. The TOP partnership stands for recognition of the IOC for the quality of our products and technologies. The IOC has a high standard for its worldwide partners. After vigorous evaluation of our technologies, products and services, and our overall strength, they are fully convinced of our capabilities as their sole supplier of computing equipment. Our products were tested and approved by the IOC and are currently serving the Turin Organising Committee of the Olympic Winter Games.

Lenovo is the first Chinese enterprise to join The Olympic Partner programme

Lenovo announced in March 2004 it became a worldwide partner of the IOC. Over the next five years, Lenovo will provide computing technology equipment such as desktop computers, notebooks, servers, desktop printers as well as funding and technology support to the 2006 Turin Olympic Winter Games and 2008 Beijing Olympic Games, and over 200 national Olympic committees around the world.

What is TOP?

- The Olympic Partner (TOP) programme was established in 1985. It is the highest level of worldwide sponsorship for the International Olympic Committee (IOC). The term from 2005 to 2008 is the sixth generation of the TOP programme which is based on a quadrennial operation structure.

" Lenovo Group is an outstanding representative of China's hi-tech industry. Its products and services enjoy extensive appreciation and high reputation in China. Lenovo's partnership with the IOC will further enhance its corporate image and help further expand its markets."

— Mr. Liu Jingmin, Deputy Mayor of Beijing and Executive Vice President of BOCOG

" The International Olympic Committee welcomes Lenovo to the Olympic Family and acknowledges your support and commitment. Your reputation for quality and excellence gives us great confidence in you."

— Mr. Jacques Rogge, President of the IOC

- Companies selected to join the programme will be designated as the worldwide Olympic partners. The partnership also extends to cover the organising committees hosting the Olympic Games as well as over 200 national and regional Olympic committees and participating delegations.

- TOP partners will benefit from using Olympic intellectual property rights for marketing and promotions. At the same time, they are granted exclusive worldwide marketing opportunities in their product, technology and service categories.

- Apart from Lenovo, other partners in the sixth generation of the TOP programme include Coca-Cola, Atos Origin, GE, John Hancock, Kodak, McDonald's, Panasonic, Samsung, Swatch and Visa.

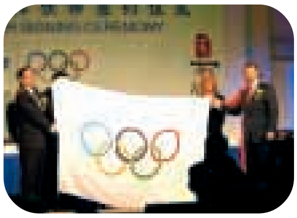
" TOP partners like Lenovo have excellent product quality and corporate images, and they are the leaders in their respective fields. What they have achieved through their own efforts has not only won the trust of the IOC and Olympic host cities, but also that of Olympic teams and sports fans all over the world."

— Mr. Gerhard Heiberg, Chairman of the IOC Marketing Commission

" Lenovo's computing equipment for the Turin Olympic Winter Games passed the tests of the IOC and are up and running smoothly in Turin. Our staff is completely satisfied with Lenovo's world-class products and services and technical support. They have certainly won our hearts."

— Mrs. Evelina Christillin, Deputy President of 2006 Turin Olympic Winter Games Organising Committee

Lenovo sponsored Beijing's bid in 2001 to host the 2008 Olympic Games



Lenovo joined The Olympic Partner programme

CEO Yang Yuanqing carried the Olympic Flame of Athens 2004

Lenovo engineers at Turin, Italy

Strengthen Ties with Customers

Capturing Business Opportunities

Creating reliable computing environment to help corporate customers enhance their competitiveness.

Business Review

After the adjustments in 2002, China's IT market entered into a new phase of growth in more confident strides in 2003. Although the economy suffered briefly at the outbreak of SARS, growth picked up again during the second half of the year, with GDP grew by 9.1% last year. Prompted by the favourable market environment, demand in the IT market rose. Total market value grew 11.1% year on year in 2003.

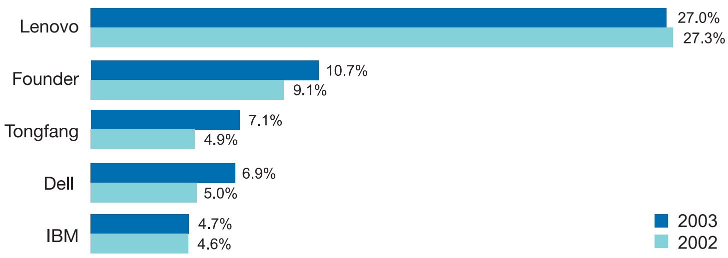
Lenovo achieved respectable results in the 2003/04 financial year. Its overall turnover rose by 14.5%. The value of China's PC market grew only 9.8% in 2003* while the turnover of Lenovo's PC business increased 11.7%, surpassing market performance. Due to the losses incurred by the newly-developed businesses and contract manufacturing business and the increased operating expenses as the result of continued investments in research and development, net profit of the Group recorded a slight increase of 3.5%.

Corporate IT Business

Competition was intense in China's corporate IT market in 2003. While demand shrunk in the government and education sectors as a result of the SARS outbreak, orders surged among SMEs and in local municipal markets. In 2003*, unit shipments of commercial PC and servers rose 15.7% and 19.8% respectively, and the notebook computer market, benefiting from the widespread adoption of the "Centrino" chip and price reductions, expanded and recorded 77.6% growth in unit shipment.

* 2003 refers to the period between April 2003 and March 2004

Market Share of Top 5 PC Brands in China



Lenovo's corporate IT business recorded an increase of 10.4% in turnover over the previous year. Gross margin, however, saw a drop from the past year's 15.3% to 14.3% this year as a result of fierce competition in the market. The unit shipment of notebook computers stood out among other products boosting a 51.0% growth. With strengthened design capabilities for notebooks, the Group launched in November 2003 "Soleil E600", its first proprietary notebook computer embedded with Collaborating Applications. The product was well-received by the market.

As for desktop computer, Lenovo launched the "Kaitian II" last September, the first Collaborating PC with unmatched security, collaboration and manageability by other products in the market. Capitalising on the commercial buying season in the third quarter of the fiscal year and demands from growth enterprises, the Group mounted effective marketing activities for the product and achieved record sales.

Consumer IT Business

The consumer IT market experienced steady growth with unit shipment of consumer PC in 2003* grew by 6.7%. It was enhanced by increase of family income and continuous improvement in quality of living. The SARS outbreak also stimulated short-term sales as computer emerged as a major means for families to access information and leisure entertainment, and primary and secondary schools switched to "Lesson on Air" e-learning model.

Lenovo's consumer IT business performed well in the 2003/04 financial year, reporting an increase of 15.1% in unit shipment of consumer PCs, out-performing the market. The Group's consumer IT business recorded an increase of 13.8% in turnover over the previous year. Gross margin rose slightly from the previous year's 13.3% to 13.7% this year. Operating profit increased by 28.4%.

The Group's effective customer segmentation strategy and customers' preference of using quicker and easier way to purchase computers during the SARS period were the reasons for the relatively outstanding performance of the business stream.
In May last year, to meet the needs of different customers, the Group released three major product lines, namely "Tianjiao", "Fengxing" and "Jiayue" which reported impressive sales. "Tianjiao" emphasises digital applications meeting the needs of consumers who enjoy fashionable lifestyle; "Fengxing" boasts technological leadership and powerful functions catering to customers who value technological expertise; and "Jiayue" designed for ordinary households and students features ease-of-use. The competitive edge of the "Lenovo 1+1 Home Specialty Shop" is evident especially during the SARS outbreak as they are conveniently located in different areas, allowing consumers to quickly and easily purchase the IT products they needed, hence reducing the risk of infection for consumers.

Employing a differentiation strategy, Lenovo commits itself to technological innovation and launching products of the most advanced designs. The strategy is vital to the continuous improvement of the gross margins for its consumer IT business. In November 2003, the Group introduced the first home PC, "Tianjiao Avantia", embedded with Collaborating Applications technology. The new product realises discretionary combination of functions among computers, home appliances and other terminal devices, with automatic wireless collaborating features. The market returned positive response.

Recognising the growing need for mobile computing among consumers, Lenovo led the market in developing the "Tianyi" notebook computer. The unique design and multimedia capabilities of "Tianyi" have created a superior image for Lenovo in the market. The Group's share of this particular market segment increased to more than 30%.

Handheld Device Business

China's mobile handset market saw steady growth in 2003, recording 9.3% increase in unit shipment. It was the result of massive launch of new generation handsets and aggressive marketing of value added digital services by telecommunications providers. The overall profit level was, however, lowered as some manufacturers sought to reduce the inventory of monochrome handsets.

During the year, unit shipment of Lenovo handsets grew more than 90% and the turnover of the handheld device business increased by 42.3% over the previous year. However, profit was affected by the inventory of monochrome handsets and excess supply of OEM handsets in the market. As a result of the Group's dedicated efforts in the research and development of proprietary handset products, self-developed products are contributing a growing share to its total sales. They accounted for a remarkable 64.2% of total handset shipment this year, testifying to the successful transition of the Group from a primarily OEM model to a self-developed model. Helping to maintain gross margin at 16.0%, the new focus enabled the handheld device business to gradually reduce loss in the second half of the year.

Lenovo launched 16 new handset models during the year, including two smart phone models featuring integrated communication and data processing. The "ET180" handset, which was launched in April last year by the Group, was the first high-end computerised handset introduced by a Chinese manufacturer. It possesses the functions of a pocket PC and marries commercial and leisure applications. In January, the Group launched the "ET560", the first handset with Collaborating Applications capabilities that can communicate with different home appliances and other terminal devices through infrared, blue tooth and GPRS technologies.

IT Service Business

With China's IT service market promising long-term growth potential, the turnover of Lenovo's IT service business recorded an impressive growth of 198% over the previous year. Its gross margin rose to 38.9% this year from 28.7% of the past year. The Group reported breakthroughs in vertical markets including the e-government sector, sales of network security products and solutions, and the financial service sector.

Contract Manufacturing Business

As severe competition in the European motherboard market continued in 2003, gross margin of the business was affected and loss was incurred. To focus on its computer and handset businesses, Lenovo sold 50% of its motherboard business to Ramaxel Technology Limited by the end of 2003. The Group believes this would benefit the future development of the business.

Effective Market Segmentation

Meeting Customer Needs

Detailed customer segmentation strategy promises consumers popular IT products to fulfill their diverse needs.

Financial Review

Summarised Financial Results

	2004 HK$'000	2003 HK$'000
Turnover	**23,175,944**	20,233,290
Earnings before interest, taxation, depreciation and amortisation expenses	**1,125,129**	1,174,720
Profit attributable to shareholders	**1,052,885**	1,017,152
Dividends per share (HK cents)		
Interim dividend	**2.0**	1.8
Proposed final dividend	**3.0**	3.0
Special dividend	**–**	5.2
Earnings per share (HK cents)		
Basic	**14.09**	13.55
Diluted	**13.99**	13.54

Comparing with last year’s results, the Group’s turnover increased by 14.5% to HK$23,176 million in the current fiscal year. EBITDA reached HK$1,125 million. Profit attributable to shareholders for the year increased by 3.5% to HK$1,053 million. The basic earnings per share and fully diluted earnings per share were 14.09 HK cents and 13.99 HK cents representing increases of 4.0% and 3.3% respectively.

Turnover and Contribution

	2004		2003	
	Turnover	**Contribution to operating profit**	Turnover	Contribution to operating profit
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Corporate IT	**11,925,240**	**777,698**	10,803,311	744,153
Consumer IT	**7,760,668**	**466,814**	6,822,633	363,527
Handheld device	**2,050,164**	**(74,565)**	1,440,328	29,017
IT service	**547,780**	**(58,009)**	183,800	(61,405)
Contract manufacturing	**892,092**	**(95,208)**	983,218	8,554
Gains/(losses) on disposal of investment	**–**	**47,558**	–	(26,802)
Amortisation of goodwill	**–**	**(25,274)**	–	(7,463)
Others	**–**	**(22,000)**	–	–
Total	**23,175,944**	**1,017,014**	20,233,290	1,049,581

Total turnover of the corporate IT business grew 10.4% over the previous year to HK$11,925 million and contribution to operating profit increased 4.5% to HK$778 million.

The Group's consumer IT business recorded growth in turnover and contribution to operating profit of 13.8% and 28.4%, reaching HK$7,761 million and HK$467 million, respectively.

Sales of handheld device business increased 42.3% to HK$2,050 million for the year while the loss of the business was HK$75 million.

During the year, turnover of the IT service business rose by 198.0% to HK$548 million, and loss reduced to HK$58 million.

Turnover of contract manufacturing business dropped by 9.3% to HK$892 million and loss of HK$95 million for the year was recorded.

Significant Investments and Capital Expenditure

In line with the Group's overall business and resources allocation strategies, the Group sold 50% stake of its motherboard business during the year. The deal brought in profit amounted to HK$12 million. The Group also recorded a net profit of HK$35 million from the sales of securities investment. The cooperation with AOL on developing Internet business ended last year, shares of the jointly controlled entity previously owned by AOL were repurchased and the jointly controlled entity subsequently became a wholly owned subsidiary of the Group.

During the year, capital expenditure of HK$466 million were incurred. Of this amount, HK$58 million was used for investment in a subsidiary that develops and manufactures networking hardware products for the corporate IT business. The remaining HK$408 million was used primarily for acquisition of fixed assets, injection into construction-in-progress and optimisation of the Group's information technology systems.

During the year, HK$561 million was recorded as addition of intangible assets which was mainly attributable to the sponsorship of The Olympic Partner programme and recognition of goodwill arising from acquisition of subsidiaries.

Liquidity and Financial Resources

As at 31st March 2004, total assets of the Group amounted to HK$8,342 million which was financed by shareholders' fund of HK$4,489 million, minority interests of HK$29 million, long-term and current liabilities of HK$3,824 million. The current ratio of the Group was 1.85.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operating activities. As at 31st March 2004, cash and cash equivalents of the Group totalled HK$2,650 million. The balances consisted of about 26.9% in Hong Kong dollars, 22.7% in US dollars and 50.4% in Renminbi.

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31st March 2004, the Group's total available credit facilities amounted to HK$3,783 million, of which HK$1,609 million was in trade line, HK$1,103 million in short term and revolving money market facilities and HK$1,071 million in foreign exchange contract. As at 31st March 2004, the facility drawn down was HK$671 million and HK$468 million for the foreign currency forward contracts and options was utilised.

As at 31st March 2004, the Group had long-term loan amounted to HK$75 million, comparing with the shareholders' fund of HK$4,489 million, the Group's gearing ratio at the year end was 0.017. The Group will continue its prudent borrowing policy so as to maintain its gearing ratio at an acceptable level.

There were no assets held under finance lease during the year and as at the year end.

The Group consistently adopted a hedging policy for business transactions to minimise the risk of fluctuations from exchange rates on daily operations. As at 31st March 2004, the Group had outstanding foreign currency forward contracts and options amounting to HK$468 million.

Contingent Liabilities

The Group had no material contingent liabilities as at 31st March 2004.

Employees

As at 31st March 2004, the Group had a total of 11,408 employees, 11,311 of whom were employed in Chinese mainland and 97 were employed in Hong Kong and overseas. Through reallocation of resources, the Group reinforced its focus on the development of its core business. It also undertook strategic personnel restructuring involving a total expense of about HK$22 million for the year.

The Group implements remuneration policy, bonus and share option schemes subject to the performance of the Group and individual employees. It also provides training and benefits such as insurance, medical and retirement funds to its staff to sustain the competitiveness of the Group.

Future Prospects

China's economy has seen rapid growth in the past few years. With the macroeconomic control measures of the Chinese government, the economy is expected to enter into a new phase of robust growth. Privately-run and foreign-invested enterprises are emerging as new drivers of economic growth in the country. And their demands for IT products and services are among the largest in the market, hence presenting the Group with immense business opportunities.

As for the demand for IT products, steady growth is expected in 2004. Unit shipment of notebook computers will see significant surge, making the limelight in the market. As for desktop PCs, sales are going to peak as customers seek to replace equipment bought between 1999 and 2000 for Internet capabilities and the "Y2K" transition. This growth trend in the IT market will be further fueled by the expanding applications and coverage of the broadband network. The continuous evolution of the different sectors, such as the government, education and manufacturing will also enhance the stable advancement of the corporate IT market.

To effectively cope with the changing market, Lenovo implemented the following new initiatives since the fourth quarter of 2003/04:

Focus on developing PC and related products in the near term

To effectively capture opportunities during the next "golden age" of the China PC market, the Group recently set priorities to focus resources and attention into developing its core business – PCs and related products (including consumer and commercial desktop computers, notebook computers, servers and peripherals, etc.). The move will help to ensure the continuous improvement of the competitiveness of the business and returns from the promising market.

Furthermore, to strengthen Lenovo's competitiveness in the China mobile communications market – the fastest growing market in the world, the Group has identified mobile communications devices (including handsets, and handheld devices with communication functions) as another priority.

Establish a customer-oriented sales model and organisational structure

To respond to the changes in the China IT market, the Group is committed to building a more customer-oriented sales model and organisational structure with the aim of providing products and services to meet the requirements of different customers more effectively.

Catering for customers' different needs in product application, buying patterns, preferred ways of delivery and service requirement, the Group will adopt a combined model. Through optimising existing distribution model, enhancing the capabilities of channel partners to win and serve customers, and establishing direct-to-customer model, the Group will build the optimal sales models for its different customer groups.

On the organisational structure front, to assist further penetration into regional markets in China, the Group has divided the original seven major regions in the country into 18 regions. The new structure significantly narrowed the gap between regional sales personnel and the customers, hence enabling faster response to customers' needs.

Improve overall operational efficiency

In addition to the new initiatives in sales model, the Group will also improve its profitability through enhancing overall operational efficiency and reducing operating expenses.

Adjustments of business focus and market regions will enable the Group to allocate its resources more effectively. At the same time, the Group will further strengthen its supply chain management to enhance operational efficiencies. The application of Lenovo's Vendor Managed Inventory (VMI) system has been on track, helping to lower the risks and costs of the Group's logistic operations.

Currently, these initiatives have been implemented step by step in different departments and regional offices, achieving the structural adjustments intended. After trying it out for some time, these initiatives have been proven effective in meeting China's changing market environment. These initiatives will enable the Group to grow in steady strides, consolidating its leadership in the China PC market. It will also provide the Group with abundant resources for developing new businesses and entering the international markets while safeguarding returns to shareholders.

Innovative Designs

Striving for Excellence

Launching novel notebook products with innovative technologies and designs, allowing customers to enjoy the benefits of mobile computing.

SIGNIFICANT EVENTS

2003

April

The birth of new brand.

May

Rolled out "ET180", the first PC phone model launched by a Chinese manufacturer. Its pocket PC functions support both commercial applications and entertainment.

June

Under the newly-introduced market segmentation strategy, Lenovo met different demands in the consumer market with three main product lines — "Tianjiao", "Fengxing" and "Jiayue".

The debut of the brand new "Tianyi" notebook caters to the consumers' increasing demand for the mobility of computers.

July

China's Ministry of Information Industry, together with Lenovo and four other enterprises, announced the establishment of the "Intelligent Grouping and Resources Sharing Standardisation Working Group" and debuted the "IGRS" brand. The working group aims to achieve wireless connectivity among terminal devices by embracing new industry protocol.

Kicked off "Lenovo Tech Show" under the theme of "Technology Innovation, Imagine for the Future". Lasted for six months and covered 30 major Chinese cities, the tech show widely promoted Collaborating Applications technology.

New manufacturing centre in Pudong, Shanghai, commenced operations to further enhance the Group's production capacities.

August
Cooperated with Intel to establish the “Intel-Lenovo Technology Advancement Centre” to develop leading-edge products for the convergence of computing and communications.

September
Launched “Kaitian II”, the Group’s first commercial PC embedded with Collaborating Applications protocol, possessing 14 applications technology patents.

November
Launched the world’s first home Collaborating PC “Tianjiao Avantia”.

December
Successfully rolled out supercomputer “Deepcomp 6800”, ranked 14th among the world’s top 500 supercomputers.

2004

January
Teamed up with China Telecom as strategic partners to provide customers with enriched network applications products and services based on Collaborating Applications.

March
Lenovo became the first Chinese enterprise to join The Olympic Partner programme of the IOC.

April
Formally changed the company’s English name to “Lenovo Group Limited”.

INVESTOR RELATIONS

As China IT market rebounded and resumed healthy growth last year, investors' focus has shifted to what Lenovo would do to maintain its competitive edges in the China PC market, to capture new growth opportunities in the notebook market and to gain ground in its handset business. The Group's investor relations programme aimed at addressing these concerns through proactive communication with investors during the past year. In addition, the Group adopted new tactics to further enhance the thorough understanding among investors regarding its management principles and business strategies.

Lenovo held its first "Chairman Forum" last year. At the forum, Chairman of the Board had direct dialogue with financial analysts allowing them to understand the capabilities of the Group in mapping out and implementing its strategies. The forum not only served as an effective means for the Chairman and participating analysts to exchange views regarding the Group's past and future development, but also deepened analysts' understanding of the Group's management philosophies and corporate culture. Earlier this year, the Group announced its new initiatives for future development. A breakfast briefing was arranged to provide the opportunity for financial analysts to directly communicate with Lenovo's management. During the breakfast briefing, our senior management elaborated in detail the background of the new initiatives, allowing analysts to understand them from a direct perspective.

During the year, the Group participated in seven investment conferences organised by securities companies and 203 one-on-one meetings with investors, conducted 28 plant visits and 71 audio conferences. The Group conducted its international roadshows last year through teleconferences due to the SARS ourbreak. In addition, the Group organised a roadshow in the United States last year targeting at the American Depositary Receipt (ADR) market through meeting with fund managers of mid-sized investment funds.

We are happy that our efforts are rewarded by investors as evidenced by our winning of the "Best Corporate Governance" and "Best Investor Relations" awards in *Asiamoney*'s 2003 "Best Managed Company in China" investor poll. The Group also won first runner up prizes in "Best Corporate Governance" and "Best Investor Relations" categories respectively in the *FinanceAsia*'s annual awards this April.

We thank our investors for their continuous support over the years. We are committed to relentlessly offering them the best services. We would also like to ask our investors to continue sharing with us their views and suggestions as those suggestions are very important to our development.

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Focus on R&D
Leading Market Trends

Rolling out trendy handset products with self-developed edges, satisfying customers' diverse needs for business application and entertainment.

DIRECTORS' REPORT AND ACCOUNTS

DIRECTORS' REPORT

The directors submit their report together with the audited accounts of the Company for the year ended 31st March 2004.

CHANGE OF ENGLISH COMPANY NAME

The Company has changed its English name to Lenovo Group Limited (formerly, Legend Group Limited) pursuant to a special resolution passed at the Extraordinary General Meeting held on 25th March 2004, with effect from 1st April 2004. The Chinese name of the Company remains unchanged.

PRINCIPAL BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in the subsidiaries section on pages 69 to 71.

Details of the analyses of the Group's turnover, revenue and segment information for the year by principal businesses and geographical locations are set out in Note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 48.

The state of affairs of the Group and the Company as at 31st March 2004 are set out in the balance sheets on page 49.

The consolidated cash flows of the Group for the year are set out in the statement on page 50.

An interim dividend of 2.0 HK cents per share (2003: 1.8 HK cents), amounting to a total of about HK$149 million (2003: HK$135 million), was paid to shareholders during the year.

The directors recommended the payment of a final dividend of 3.0 HK cents per share (2003: 3.0 HK cents). The proposed final dividend together with the interim dividend paid amount to a total of about HK$374 million (2003: HK$747 million including special dividend). Subject to shareholders' approval at the forthcoming Annual General Meeting, the final dividend will be payable on Wednesday, 28th July 2004 to the shareholders whose names appear on the Register of Members of the Company on Friday, 23rd July 2004.

The Register of Members will be closed from Monday, 19th July 2004 to Friday, 23rd July 2004, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar not later than 4:00 p.m. on Friday, 16th July 2004.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31st March 2004 and for the last four financial years is set out on page 88.

RESERVES

Movements in the reserves of the Group and the Company are set out in Note 28 to the accounts.

DISTRIBUTABLE RESERVES

As at 31st March 2004, the distributable reserves of the Company available for dividend distribution amounted to HK$1,685,102,000 (2003: HK$1,474,240,000).

BANK LOANS

There was no outstanding bank loan as at 31st March 2004.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,638,000 (2003: HK$1,036,000).

TANGIBLE FIXED ASSETS

Details of the movements in tangible fixed assets of the Group and the Company are set out in Note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 26 to the accounts.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATED COMPANIES

Particulars of the Company's principal subsidiaries, jointly controlled entity and associated companies as at 31st March 2004 are set out in Notes 16, 17 and 18 to the accounts respectively.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	22%
Five largest suppliers combined	46%

None of the directors of the Company, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers.

SHARE OPTION SCHEMES

At the Extraordinary General Meeting of the Company held on 25th March 2002, the shareholders of the Company approved the adoption of a new share option scheme ("New Option Scheme") and the termination of the old share option scheme ("Old Option Scheme"). Despite the fact that no further options may be granted under the Old Option Scheme, its all other provisions will remain in force to govern the exercise of all the options previously granted.

1. **Old Option Scheme**

   The Old Option Scheme was adopted on 18th January 1994 and was terminated on 26th April 2002. The Old Option Scheme was designed to provide qualified employees with appropriate incentives linked to share ownership. Only employees, including directors, of the Group could participate in the Old Option Scheme. Total number of options must not exceed 10% of the issued share capital of the Company. The maximum entitlement of any individual participant thereunder must not exceed 2.5% of the shares in issue. The exercise price for options was determined based on not less than 80% of the average closing prices of the shares for the 5 trading days immediately preceding the date of grant. Options granted were exercisable at any time during a period of 10 years.

   As at 31st March 2004, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder was 285,406,000 shares, representing approximately 3.8% of the issued share capital of the Company as at the date of this annual report.

2. **New Option Scheme**

   (a) *Purpose*

   The New Option Scheme was effective on 26th April 2002. It serves as a way of providing incentives to and attracting qualified participants for better performance of the Group by allowing them to share increases in the value of the Company.

   (b) *Qualified participants*

   1. (i) any employee or officer, executive or non-executive director (or persons proposed to be appointed as such) of the Group;

      (ii) any consultant, professional or other adviser to the Group;

      (iii) any director, executive and senior officer of any associated company of the Company; and

      (iv) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons; and

SHARE OPTION SCHEMES *(continued)*

2. New Option Scheme *(continued)*

(b) Qualified participants (continued)

2. (i) any customer, supplier, agent, partner, distributor, professional or other advisers of, or consultants or contractors to, the Group; and

(ii) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons.

(c) Maximum number of shares

As at 31st March 2004, the maximum number of shares available for issue under the New Option Scheme was 563,081,810, representing approximately 7.5% of the issued share capital of the Company as at the date of this annual report.

(d) Maximum entitlement of each qualified participant

The maximum number of shares issued and to be issued upon exercise of share options granted to each qualified participant (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options to be granted to a director or chief executive of the Company or any of their respective associates are subject to approval by the independent non-executive directors of the Company. In addition, any grant of share options to an independent non-executive director of the Company or any of their respective associates, when aggregated with all share options (whether exercised, cancelled or outstanding) already granted to any of them during the 12-month period up to the date of grant, in excess of 0.1% of the shares of the Company in issue and with an aggregate value in excess of HK$5,000,000, is subject to shareholders' approval in general meeting of the Company.

(e) Timing for exercise of options

In respect of any particular option, the directors may in their absolute discretion determine the period within which an option may be exercised provided that such period must expire no later than 10 years from the date upon which the option is deemed to be accepted by the grantee. Option will then lapse to the extent not exercised during the option period.

(f) Acceptance of offers

An option shall be deemed to have been granted and accepted when the duplicate offer letter comprising acceptance of the option duly signed by the grantee shall have been received by the Company on or before the last day for acceptance as set out in the offer letter.

(g) Basis for determination of exercise price

The exercise price must be no less than the highest of: (i) the closing price of the shares on the date of grant; (ii) the average of the closing prices of the shares for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of the shares.

(h) Life of the scheme

The New Option Scheme shall be valid and effective for a period of 10 years from 26th April 2002, the date on which it is deemed to take effect in accordance with its terms.

SHARE OPTION SCHEMES *(continued)*

3. Outstanding options

Particulars of the outstanding options are as follows:

	Options held at 01.04.2003	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at 31.03.2004	Exercise price per share HK$	Grant date	Exercise period
Old Option Scheme								
Directors								
Mr Liu Chuanzhi	2,250,000	–	–	–	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Mr Yang Yuanqing	6,000,000	–	–	–	6,000,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	2,250,000	–	–	–	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Ms Ma Xuezheng	2,920,000	–	–	–	2,920,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	1,600,000	–	–	–	1,600,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Continuous contract employees	7,712,000	–	–	–	7,712,000	4.038	28.01.2000	28.01.2000 to 27.01.2010
	127,162,000	–	–	–	127,162,000	4.312	15.01.2001	15.01.2001 to 14.01.2011
	26,630,000	–	–	–	26,630,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	832,000	–	–	–	832,000	2.904	29.08.2001	29.08.2001 to 28.08.2011
	114,980,000	–	6,930,000	–	108,050,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
New Option Scheme								
Directors								
Mr Liu Chuanzhi	–	3,000,000	–	–	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Zeng Maochao	–	1,600,000	–	–	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Yang Yuanqing	–	3,000,000	–	–	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Ms Ma Xuezheng	–	1,600,000	–	–	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Continuous contract employees	35,026,000	–	2,680,000	558,000	31,788,000	2.435	10.10.2002	10.10.2002 to 09.10.2012
	–	127,372,000	430,000	–	126,942,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Other participants	17,780,000	–	540,000	1,098,000	16,142,000	2.435	10.10.2002	10.10.2002 to 09.10.2012

SHARE OPTION SCHEMES *(continued)*

3. Outstanding options *(continued)*

Notes:

1. In respect of the share options granted on 26th April 2003, the closing price of the shares of the Company immediately before the date on which the options were granted was HK$2.05.

2. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK$3.34.

3. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK$3.38.

4. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK$3.39.

5. A total of 1,656,000 options at exercise price of HK$2.435 were lapsed.

4. Valuation of share options

The share options granted are not recognised in the accounts until they are exercised. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company purchased 12,350,000 shares of HK$0.025 each in the capital of the Company at prices ranging from HK$2.025 to HK$2.775 per share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange of Hong Kong"). Such purchases involved a total cash outlay of approximately HK$28,394,000 and were for the purpose of enhancing returns on equity.

Month/Year	**Number of shares repurchased**	**Highest price per share**	**Lowest price per share**	**Aggregate consideration paid (including expenses)**
		HK$	*HK$*	*HK$'000*
April 2003	9,350,000	2.375	2.025	20,124
March 2004	3,000,000	2.775	2.725	8,270

The repurchased shares were cancelled and accordingly, the issued share capital was reduced by the nominal value thereof. The premium payable on repurchase was charged against the retained earnings of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors
Mr Liu Chuanzhi
Mr Yang Yuanqing
Ms Ma Xuezheng

Non-executive director
Mr Zeng Maochao

Independent non-executive directors
Mr Wong Wai Ming
Professor Woo Chia-Wei
Mr Ting Lee Sen

In accordance with Articles 92 and 101 of the Company's Articles of Association, Mr Zeng Maochao and Mr Wong Wai Ming retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr Liu Chuanzhi, aged 60, is the Chairman of the Group. He has been responsible for the strategic planning and management of the Group since its establishment and has over 34 years of experience in the computer field. He graduated in 1966 from the Department of Radar Communications, Xian Military Communications Engineering College of China. He received the first prize of the Second National Technology Entrepreneurs Gold Award in 1990. He was awarded Model of National Work Force and Man of Reform in China, both in 1995, and Ten Most Influential Men of the Commercial Sector in China in 1996. He has been appointed in 1997 and re-appointed in 2002 as Vice Chairman of All-China Federation of Industry & Commerce. He was appointed as a Representative of the Ninth National People's Congress of the PRC in 1998 and re-appointed as a Representative of the Tenth National People's Congress of the PRC in 2003. Mr Liu was selected by *Fortune* magazine as one of the runners-up of Asia's Businessman of the year in 1999. He was also selected by *Business Week* magazine as one of the Stars of Asia for 2000. In 2001, he was selected by *Time* magazine as one of the Twenty-five Most Influential Global Executives.

Mr Yang Yuanqing, aged 39, is the Vice Chairman, President and Chief Executive Officer of the Group with responsibility for the overall business and operation of the Group. He graduated from the Department of Computer Science, University of Science and Technology of China ("USTC") in 1989 with a Master degree. He is also a member of National Youth Committees and a Professor of USTC. He was awarded Ten Most Outstanding Youth of Beijing in 1998 and won the Medal of 5.4 Youth in China in 1999, which is the highest honour given to youth by the Chinese government. He was selected by *Business Week* magazine as one of the Stars of Asia in the years of 1999 and 2001. Mr Yang is a non-executive director of Beijing Ufsoft Co., Ltd, which is engaged in software development and manufacturing.

Ms Ma Xuezheng, aged 51, is the Senior Vice President and Chief Financial Officer of the Group. She is responsible for finance, treasury, strategic investment, legal affairs and joint venture management of the Group. She graduated from Capital Normal University in 1976 with a Bachelor of Arts degree. She has over 27 years of experience in financial and executive management.

Non-executive director

Mr Zeng Maochao, aged 71, is a non-executive director of the Group. He graduated from the Department of Electrical Engineering, Shanghai Jiao Tong University in 1957. He was the Director and Professor of the Institute of Computing Technology of the Chinese Academy of Sciences. He has over 47 years of experience in the computer field. Mr Zeng is an executive director of Digital China Holdings Limited, a former wholly-owned subsidiary of the Company which was spun-off from the Group for separate listing on 1st June 2001.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Independent non-executive directors

Mr Wong Wai Ming, aged 46, is the Executive Director and Chief Executive Officer of Global China Group Holdings Limited. He is a chartered accountant and has extensive knowledge and experience in investment banking.

Professor Woo Chia-Wei, aged 66, is Senior Advisor to The Shui On Group. He is President Emeritus and University Professor Emeritus of the Hong Kong University of Science and Technology. He serves on the HKSAR's Commission on Strategic Development and Council of Advisors on Innovation and Technology and also the Chinese People's Political Consultative Conferences.

Mr Ting Lee Sen, aged 61, is Managing Director of W.R. Hambrecht + Co. and Board Director of Microelectronics Technology Inc. He obtained a Bachelor of Science degree in Electrical Engineering from the Oregon State University in 1965. He attended graduate studies in the same field at Stanford University and is a graduate of the Stanford Executive Program. He was a former corporate vice president of Hewlett-Packard Company where he worked for more than thirty years. He has extensive knowledge and experience in IT industry.

Senior Vice President

Mr Liu Jun, aged 35, is the Senior Vice President of the Group. He is responsible for corporate planning and operation (purchasing, manufacturing, quality assurance and business affairs) systems. Mr Liu graduated in 1993 from the Department of Automation, Tsinghua University with a Bachelor of Engineering degree, and thereafter joined the Group. Mr Liu has attained outstanding achievement in computer sales and has extensive experience in research, development and marketing of IT products.

Mr Yu Bing, aged 38, is the Senior Vice President of the Group. He is responsible for the IT service business. Mr Yu graduated in 1988 with a Bachelor of Science degree from the Department of Automation, University of Science and Technology of Beijing. He joined the Group in 1990 and has engaged in marketing and sales for 5 years from 1996. Since 2001 Mr Yu took charge of IT service business. He has extensive experience in sales, marketing and IT service operation.

Mr Qiao Song, aged 36, is the Senior Vice President of the Group. He is responsible for international business. Mr Qiao graduated in 1991 with a Bachelor of Engineering degree from the Department of Computer Science and Technology, Tsinghua University. He joined the Group in 1991 and has extensive experience in strategic, product development, sales and marketing, supply chain and procurement logistic management.

Ms Wang Xiaoyan, aged 42, is the Senior Vice President of the Group. She is responsible for information technology development, financial control, administration and logistics functions. Ms Wang graduated in 1988 with a Master degree in Engineering from Beijing Institute of Technology. She joined the Group in 1994 and has extensive experience in finance and administration.

Mr He Zhiqiang, aged 41, a professor, is the Senior Vice President of the Group and the Managing Director of Lenovo Corporate Research and Development. He is responsible for corporate research and development system and product-chain (research and development) management. He graduated with a Master degree in Computer Sciences from the Institute of Computing Technology of the Chinese Academy of Sciences and has 18 years of experience in the research and development of computer products. He joined the Group in 1986.

Vice President

(The followings are in alphabetical order)

Ms Bai Huimin, aged 52, is the Vice President of the Group and is responsible for government related affairs. Ms Bai graduated in 1983 with a Bachelor degree in Economics from Nankai University and worked in the Chinese central government for 8 years. Ms Bai joined the Group in 1990 and has extensive experience in government policy research and government relations.

Mr Chen Shaopeng, aged 35, is the Vice President of the Group and is responsible for marketing and sales. He graduated from Beijing Technology and Business University (formerly known as Beijing Institute of Light Industry) with a Bachelor degree in Computer Science and has over 11 years of experience in PC business and management. He joined the Group in 1993.

Mr Cheung Wing Chung, Anders, aged 40, is the Vice President of the Group and is responsible for strategic investment project management. He joined the Group in 1988 and holds a MBA degree from Kellogg (Northwestern University) – Hong Kong University of Science and Technology. He has over 14 years of experience in computer marketing.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Vice President *(continued)*

Mr Du Jianhua, aged 40, is the Vice President of the Group and is responsible for business operation in northern China regional headquarters. Mr Du obtained a Master degree from Beijing Institute of Technology in 1988. He joined the Group in 1989 and has extensive experience in regional planning and management.

Mr Li Xianglin, aged 36, is the Vice President of the Group and is responsible for the corporate planning and development. Mr Li graduated from Renmin University of China in 1993 with double Bachelor degrees in Economics. He joined the Group in 1997 and has extensive experience in strategy implementation and internal management.

Mr Liu Xiaolin, aged 41, is the Vice President of the Group. He is responsible for business operation in mid-southern China regional headquarters. Mr Liu obtained a Master degree from the Department of Computer Science and Technology, Tsinghua University in 1992. He joined the Group in 1992 and has extensive experience in business development and management.

Mr Liu Zhijun, aged 39, is the Vice President of the Group. He is responsible for the mobile handset business. He graduated in 1989 with a Master degree in Computational Mechanics, Institute of Engineering Mechanics from Dalian University of Technology. He engaged in computer marketing when joined the Group in 1989. Mr Liu took charge of handheld device business in 2000 and mobile phone business in 2002. He has extensive experience in researching, producing and marketing in this field.

Mr Lu Yan, aged 39, is the Vice President of the Group and is responsible for IT product business. Mr Lu graduated in 1989 with a Master degree in Engineering from Beijing Institute of Technology and has over 11 years of experience in project R&D and management. He joined the Group in 1992.

Mr Ma Yue, Alex, aged 37, is the Vice President of the Group and is responsible for Han Consulting business. Mr Ma graduated from Beijing University in 1988 with a Bachelor of Science degree. He obtained a MBA degree from China Europe International Business School in 2000. Mr Ma has over 14 years of experience in IT and related industries. Prior to joining the Group, he held various senior management positions in IBM and HP China Region. He joined the Group in 2002.

Mr Meng Lin, aged 50, is the Vice President of the Group with responsibility for Lenovo Chinaweal business. He graduated from the business school of Tsinghua University in 1987 with a Master degree in Engineering. He joined the Group in 2002 and has 11-year demonstrated experience in system integration and services.

Ms Qiao Jian, aged 36, is the Vice President of the Group with responsibility for human resources function. She graduated from Department of Management Science of Fudan University in 1990 with a Bachelor degree. She joined the Group in 1990. She has 10 years of experience in corporate marketing and brand management and has extensive experience in human resources management.

Ms Wang Xiaochun, aged 51, is the Vice President of the Group. She is responsible for customer service and information management. She obtained her Master degree in Science at the Graduate School of Chinese Academy of Sciences in 1981. She has over 17 years of experience in management and administration. She joined the Group in 1990.

Mr Zhang Houqi, aged 38, is the Vice President of the Group with responsibility for the knowledge management of the Group. He graduated from the Department of Automation, Tsinghua University in 1992 with a Ph.D. degree in Engineering. He received a Ph.D. in Economics from the Institute of Fiscal and Financial Science in 1994. He is advisor and part-time professor of Sun Yat-Sen University Lingnan (University) College and also a part-time professor of University of Science and Technology of China. He has over ten years of experience in business consulting and IT service. He joined the Group in 2002.

Qualified Accountant

Mr Wong Wai Kwong, aged 38, is also the Treasury Director of the Group. Mr Wong is a fellow member of the Association of Chartered Certified Accountants and holds a Bachelor of Arts degree in Accountancy. He has gained extensive experience in auditing, accounting, treasury management and corporate finance from international accounting firm and listed company in Hong Kong. He joined the Group in 1995.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under section 352 of the SFO were as follows:

Long position in the shares of the Company

		Capacity and number of shares/underlying shares held		
	Interests in shares/ underlying shares	**Personal interests**	**Family interests**	**Aggregate interests**
Mr Liu Chuanzhi	Shares	16,010,000	976,000	16,986,000
	Share options	5,250,000	–	5,250,000
				22,236,000
Mr Zeng Maochao	Shares	8,080,000	600,000	8,680,000
	Share options	1,600,000	–	1,600,000
				10,280,000
Mr Yang Yuanqing	Shares	10,200,000	–	10,200,000
	Share options	11,250,000	–	11,250,000
				21,450,000
Ms Ma Xuezheng	Shares	20,714,000	2,360,000	23,074,000
	Share options	6,120,000	–	6,120,000
				29,194,000

Note: Particulars of directors' interests in the share options of the Company are set out under the section "Share Option Schemes".

Save as disclosed above, as at 31st March 2004, none of the directors, chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained under section 352 of the SFO.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st March 2004, the interests or short positions of every person, other than the directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained under section 336 of the SFO were as follows:

		Capacity and number of shares held			
	Long/short position	**Beneficial owner**	**Corporate interests**	**Aggregate long/short position**	**Percentage** *(Note 4)*
Legend Holdings Limited *(Note 1)*	Long position	2,787,340,724	1,469,311,247 *(Note 2)*	4,256,651,971	56.9%
	Short position	119,704,000	–	119,704,000	1.6%
Employees' Shareholding Society of Legend Holdings Limited *(Note 3)*	Long position	–	4,256,651,971	4,256,651,971	56.9%
	Short position	–	119,704,000	119,704,000	1.6%

Notes:

1. The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name "聯想控股有限公司".

2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.

3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested, or has short positions, in any shares in which they are interested or have short positions.

4. The calculation of percentage figure is based on the aggregate long/short position as a percentage of the number of issued shares of the Company in issue as at 31st March 2004.

Save as disclosed above, as at 31st March 2004, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

RETIREMENT SCHEME ARRANGEMENTS

For the period from 1st April 1998 to 30th November 2000, the Group provided all qualified Hong Kong employees with a defined contribution scheme, which was established under the Occupational Retirement Schemes Ordinance. Under the rules of the scheme, all participating employees were required to contribute 5% of their basic monthly salary, whereas the employer's contribution is at 5%, 7.5% and 10% in pursuance of each participating employee's continuous years of service and as specified in accordance with the rules of the scheme. The assets of the scheme are continuously held under a provident fund managed by an independent trustee. Also, with the implementation of the Mandatory Provident Fund (the "MPF") by the Government of the Hong Kong Special Administrative Region effective on 1st December 2000, the Group and employees discontinued contributions to the scheme. Although the scheme was frozen, the employees are entitled to 100% of the employer's contribution with investment return after ten complete years of service, or at an increasing scale of between 30% to 90% after completion of three to nine years' service. Where there are employees who leave the Group prior to vesting fully in such contributions, the forfeited contributions will be refunded to the Group.

Under the MPF scheme established by the Group, all qualified employees are required to contribute 5% of their basic salary plus commission, bonus, gratuity expensed in monetary terms (subject to the ceiling under the requirements set out in the MPF legislation) whereas the employer's contribution is at 7.5% and 10% respectively after completion of five and ten years of service.

The Group also participates in respective local municipal government retirement schemes in the Chinese mainland whereby it is required to make an annual contribution of no more than 20% of three times the monthly average salaries as set out by the local municipal government each year. The local municipal governments undertake to assume the retirement benefit obligations of all retires of the qualified employees in the Chinese mainland.

CONNECTED TRANSACTIONS

For the year ended 31st March 2004, the following transactions constitute connected transactions of the Company and require disclosure in the annual report pursuant to Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") in force prior to 31st March 2004.

1. Pursuant to a tenancy agreement dated 16th January 2002, a subsidiary of the Company has leased from Shenzhen Legend Science Park Company Limited, a subsidiary of the Company's controlling shareholder, certain office premises and car parking spaces situated at Legend Research and Development Building, Hi-Tech Industrial Park, Shenzhen, China. The tenancy is for a term of 46 months expiring on 15th November 2005. The rental was determined based on confirmation of an independent firm of professional property valuers of their assessment of its market rental when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental expenses amounted to HK$10,373,000.

2. Subsequent to the spin off of Digital China Holdings Limited ("DCHL") and its subsidiaries (collectively, "DCHL Group") from the Group for separate listing in June 2001, DCHL became an associate of the Company's controlling shareholder. DCHL is deemed as a connected person in relation to the Company for the purpose of the Listing Rules.

   (a) Pursuant to a tenancy agreement dated 27th March 2000 between a subsidiary of the Company and a subsidiary of DCHL, the Group has sub-leased to DCHL Group certain office space situated at Lian Xiang Building, Southeastern Corner of 1 Tai Yi Road, Belin District, Xian, China. The tenancy is for a term of 5 years commencing from 1st October 1999. The rental was agreed upon based on the market value for premises of similar type as certified by an independent firm of professional property valuers when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental fee amounted to HK$740,000.

   (b) The Group purchased information technology products from DCHL Group. For the year ended 31st March 2004, such purchases amounted to HK$27,992,000.

   (c) The Group sold Legend/lenovo brand computers and related products to DCHL Group on an irregular basis. For the year ended 31st March 2004, no such sales were made.

   The transactions stated in paragraphs 2(b) and 2(c) above have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions (where appropriate) were:

   (i) conducted in the ordinary and usual course of the Group's business;

   (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

   (iii) entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties;

   (iv) in respect of transaction stated in paragraph 2(b) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK$46.3 million, in the financial year; and

   (v) in respect of transaction stated in paragraph 2(c) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK$14.2 million, in the financial year.

   The Company has received from the auditors a letter stating that the connected transactions stated in paragraph 2(b) above:

   (i) have been approved by the board of directors of the Company;

   (ii) were conducted in accordance with the pricing policy of the Company;

   (iii) were entered into in accordance with the terms of relevant agreements or on terms no less favourable than terms available to or from independent third parties; and

   (iv) have not exceeded the cap.

   The Company has entered into master agreements with DCHL to govern such continuing connected transactions for a term of three years ending on 31st March 2007. Details have been disclosed in the announcement of the Company dated 2nd June 2004.

CONNECTED TRANSACTIONS *(continued)*

3. Subsequent to the setting up of Lenovo Mobile Communication Co. Ltd. (formerly Legend Mobile Communication Co. Ltd., the "JV"), a joint venture company between a wholly-owned subsidiary of the Company and Xiamen Overseas Chinese Electronic Co., Ltd. ("Xoceco"), Xoceco being a substantial shareholder of the JV became a connected person in relation to the Company for the purpose of the Listing Rules.

   (a) Pursuant to a tenancy agreement dated 19th June 2002 between the JV and Xoceco, the JV has leased from Xoceco certain factory and office space situated at Xiamen Overseas Chinese Electronics Science Park, Huoju High Technology Development Zone, Xiamen, China for the period of 5 years expiring on 5th April 2007. The rental was determined with reference to the prevailing market rents when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental expenses amounted to HK$1,144,000.

   (b) The JV made purchases from Xoceco and/or its associates such as raw materials, semi-finished products, moulds and module for production and business operations of mobile handsets. For the year ended 31st March 2004, such purchases amounted to HK$701,000.

   The transactions stated in paragraph 3(b) above have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

   (i) entered into in the ordinary and usual course of the Group's business;

   (ii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;

   (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

   (iv) not excessive of RMB38 million.

4. Pursuant to a Services Agreement dated 27th October 2003 between Lenovo (Beijing) Limited (formerly, Legend (Beijing) Limited), a subsidiary of the Company, and Shenzhen Zhiqin International Freight Forwarding Co., Ltd, an associate of the Company's controlling shareholder, Shenzhen Zhiqin International Freight Forwarding Co., Ltd together with its group companies would provide logistics services to the Group for a term of two years commencing from 27th October 2003. For the year ended 31st March 2004, such service charges amounted to HK$1,064,000.

   These transactions have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

   (i) in the financial year, not excessive of the higher of HK$10 million or 3% of the consolidated net tangible assets of the Company;

   (ii) entered into in the ordinary and usual course of the Group's business;

   (iii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

   (iv) entered into in accordance with the terms of the relevant agreements.

   The Company has received from the auditors a letter stating that the above connected transactions:

   (i) have been approved by the board of directors of the Company;

   (ii) were entered into in the ordinary and usual course of the Group's business;

   (iii) were conducted on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

   (iv) have not exceeded the cap.

CONNECTED TRANSACTIONS *(continued)*

5. Subsequent to the disposal of 50% equity interest in QDI Holdings Limited to Swift Glory Limited pursuant to a sale and purchase agreement dated 1st November 2003, QDI Holdings Limited became a 50%-owned subsidiary of the Company. As a result, the following transactions entered into by the Group after completion of the disposal would be regarded as connected transactions:

   (a) purchase of information technology products from Ramaxel Technology Limited ("Type 1 Purchase Arrangement"), which amounted to HK$180,541,000;

   (b) sale of information technology products to Ramaxel Technology Limited ("Type 1 Sales Arrangement"), which amounted to HK$215,333,000;

   (c) purchase of information technology products from QDI Holdings Limited and its subsidiaries ("Type 2 Purchase Arrangement"), which amounted to HK$72,164,000; and

   (d) sale of information technology products to QDI Holdings Limited and its subsidiaries ("Type 2 Sales Arrangement"), which amounted to HK$29,587,000.

   These transactions have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

   (i) entered into in the ordinary and usual course of the Group's business;

   (ii) conducted either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

   (iii) entered into in accordance with the terms of the relevant agreements or on terms no less favourable than terms available to or from independent third parties;

   (iv) in respect of the Type 1 Purchase Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK$1,300 million in the financial year, whichever is higher;

   (v) in respect of the Type 1 Sales Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK$1,300 million in the financial year, whichever is higher;

   (vi) in respect of the Type 2 Purchase Arrangement, not excessive of the cap amount of 4% of the audited consolidated turnover of the Group or HK$860 million in the financial year, whichever is higher; and

   (vii) in respect of the Type 2 Sales Arrangement, not excessive of the cap amount of 1.5% of the audited consolidated turnover of the Group or HK$260 million in the financial year, whichever is higher.

6. On 18th May 2004, Lenovo Pioneer Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional master agreement with Peak Champion Investment Limited, a direct wholly-owned subsidiary of the substantial shareholder of the Company, pursuant to which, among other things, Peak Champion Investment Limited has agreed to acquire, directly or indirectly, 25% of the entire interest in Lenovo Networks (Shenzhen) Limited from Lenovo Pioneer Limited at a cash consideration of RMB17,550,000. As at the date of this report, the conditions precedent to completion of the master agreement have not been satisfied.

Related party transactions for the year are also set out in Note 29 to the accounts.

AUDIT COMMITTEE

The Audit Committee has been established since 1999 with responsibility of assisting the Board in providing an independent review of the accounts and internal control system. It acts in accordance with its Terms of Reference which clearly deal with its membership, authority, duties and frequency of meetings. The current Committee members are Mr Wong Wai Ming (chairman), Professor Woo Chia-Wei, Mr Ting Lee Sen and Mr Zeng Maochao. The majority of the Committee members are independent non-executive directors.

The Audit Committee meets four times a year to review accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the quarterly, interim and annual financial statements before recommending them to the Board for approval. The external auditors, CFO and the management of Finance Department and Internal Audit Department attend to answer questions on the reports or their work.

REMUNERATION COMMITTEE

The Remuneration Committee has been established since 2003 with responsibility of assisting the Board in determining the framework or broad policies for the remuneration of executive directors of the Company and the allocation of share options, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board. The objective of such policies shall be to ensure that the members of executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

The current Committee members are Mr Wong Wai Ming (chairman), Professor Woo Chia-Wei and Mr Zeng Maochao. The majority of the Committee members are independent non-executive directors.

CODE OF BEST PRACTICE

Apart from the fact that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting in accordance with the Company's Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Liu Chuan Zhi

Liu Chuanzhi
Chairman

Hong Kong, 2nd June 2004

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF LENOVO GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 48 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2nd June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	3	**23,175,944**	20,233,290
Earnings before interest, taxation, depreciation and amortisation expenses		**1,125,129**	1,174,720
Depreciation expenses		**(211,161)**	(160,304)
Amortisation of intangible assets		**(34,999)**	(15,246)
Gains/(losses) on disposal of investments		**47,558**	(26,802)
Finance income		**93,368**	77,233
Profit from operations	4	**1,019,895**	1,049,601
Finance costs	6	**(2,881)**	(20)
		1,017,014	1,049,581
Share of losses of jointly controlled entities		**(39,053)**	(34,756)
Share of profits of associated companies		**16,891**	13,826
Profit before taxation	5	**994,852**	1,028,651
Taxation	7	**20,150**	(26,018)
Profit after taxation		**1,015,002**	1,002,633
Minority interests		**37,883**	14,519
Profit attributable to shareholders	10	**1,052,885**	1,017,152
Dividends	11	**373,704**	747,412
Earnings per share			
– Basic	12	**14.09 HK cents**	13.55 HK cents
– Fully diluted	12	**13.99 HK cents**	13.54 HK cents

BALANCE SHEETS

As at 31st March 2004

		Group		Company	
		2004	2003	**2004**	2003
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets					
Intangible assets	*13*	**646,986**	120,621	**–**	–
Tangible fixed assets	*14*	**987,272**	845,976	**32,115**	41,000
Construction-in-progress	*15*	**260,377**	174,138	**–**	–
Investments in subsidiaries	*16(a)*	**–**	–	**2,327,875**	2,327,875
Investment in a jointly controlled entity	*17*	**124,124**	198,549	**–**	–
Investments in associated companies	*18*	**112,682**	101,613	**–**	–
Investment securities	*19*	**75,982**	73,649	**–**	37,890
Deferred tax assets	*20*	**34,718**	–	**–**	–
		2,242,141	1,514,546	**2,359,990**	2,406,765
Current assets					
Inventories	*21*	**1,393,018**	1,269,051	**–**	–
Amounts due from subsidiaries	*16(b)*	**–**	–	**3,218,602**	2,188,544
Trade receivables	*22(a)*	**1,230,944**	553,516	**–**	–
Notes receivable	*22(b)*	**520,321**	383,412	**–**	–
Deposits, prepayments and other receivables		**301,513**	226,748	**81,548**	89,737
Tax recoverable		**4,033**	–	**–**	–
Cash and cash equivalents	*23*	**2,650,071**	2,808,323	**1,107,976**	1,813,751
		6,099,900	5,241,050	**4,408,126**	4,092,032
Current liabilities					
Amounts due to subsidiaries	*16(b)*	**–**	–	**115,511**	87,431
Trade payables	*24(a)*	**2,155,057**	1,588,632	**–**	–
Notes payable	*24(b)*	**356,531**	279,381	**–**	–
Accruals and other payables		**616,897**	630,779	**15,189**	15,427
Amount due to a jointly controlled entity	*17*	**108,471**	–	**–**	–
Tax payable		**5,031**	8,212	**–**	–
Current portion of long term liabilities	*25*	**55,453**	–	**–**	–
		3,297,440	2,507,004	**130,700**	102,858
Net current assets		**2,802,460**	2,734,046	**4,277,426**	3,989,174
Total assets less current liabilities		**5,044,601**	4,248,592	**6,637,416**	6,395,939
Financed by:					
Share capital	*26*	**186,890**	186,934	**186,890**	186,934
Reserves	*28*	**4,301,834**	4,001,587	**6,450,526**	6,208,701
Shareholders' funds		**4,488,724**	4,188,521	**6,637,416**	6,395,635
Minority interests		**29,330**	59,741	**–**	–
Deferred tax liabilities	*20*	**–**	330	**–**	304
Long-term liabilities	*25*	**526,547**	–	**–**	–
		5,044,601	4,248,592	**6,637,416**	6,395,939

On behalf of the Board

Liu Chuan Zhi

Yang Yuanqing

Liu Chuanzhi
Director

Yang Yuanqing
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Operating activities			
Net cash inflow generated from operations	33	**748,993**	1,150,075
Finance income		**93,368**	77,233
Finance costs		**(2,881)**	(20)
Tax paid		**(21,696)**	(17,410)
Net cash inflow from operating activities		**817,784**	1,209,878
Investing activities			
Purchase of tangible fixed assets		**(96,218)**	(125,708)
Sale of tangible fixed assets		**8,059**	29,727
Payment for construction-in-progress		**(268,135)**	(169,000)
Payment for patent acquired		**(4,912)**	(42,453)
Purchase of investment securities		**(43,552)**	(200,237)
Sale of investment securities		**79,845**	140,517
Net cash inflow in respect of acquisition of subsidiaries	36	**5,449**	4,847
Proceeds from partial disposal of a subsidiary		**11,792**	–
Payment for acquisition of business		**–**	(54,613)
Investment in an associated company		**–**	(2,670)
Investment in jointly controlled entities		**–**	(24,289)
Repayment of advance from an associated company		**–**	50,034
Proceeds from disposal of an associated company		**5,660**	27,286
Dividend received from associated companies		**5,490**	6,892
Net cash outflow from investing activities		**(296,522)**	(359,667)
Net cash inflow before financing		**521,262**	850,211
Financing activities	34		
Exercise of share options and issue of new shares		**28,736**	1,887
Repurchase of shares		**(28,394)**	(79,399)
Capital injection from minority shareholders		**11,604**	–
Dividends paid		**(761,814)**	(405,276)
Dividend paid to minority shareholders		**(4,594)**	–
Loan from a minority shareholder		**75,000**	–
Net cash outflow from financing		**(679,462)**	(482,788)
(Decrease)/Increase in cash and cash equivalents		**(158,200)**	367,423
Cash and cash equivalents at the beginning of the year		**2,808,323**	2,441,169
Effect of foreign exchange rate changes		**(52)**	(269)
Cash and cash equivalents at the end of the year		**2,650,071**	2,808,323

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Total equity at the beginning of the year		**4,188,521**	3,682,034
Surplus/(deficit) in fair market value of investment securities	28	**20,144**	(20,891)
Exchange differences arising from translation of subsidiaries, associated companies and a jointly controlled entity	28	**270**	156
Net gains/(losses) not recognised in the consolidated profit and loss account		**20,414**	(20,735)
Profit for the year		**1,052,885**	1,017,152
Reserves realised upon disposal of investment securities	28	**(11,624)**	(7,120)
Total recognised gains		**1,061,675**	989,297
Goodwill written off arising from disposal of subsidiaries	28	**–**	(22)
Exercise of share options	28	**28,736**	1,887
Repurchase of shares	28	**(28,394)**	(79,399)
Dividends paid	28	**(761,814)**	(405,276)
Total equity at the end of the year		**4,488,724**	4,188,521

1 Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment securities are stated at fair value.

In the current year, the Group adopted SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserve and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated exchange reserve.

(ii) All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(iii) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(iv) In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Joint ventures

(i) A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

(ii) The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2 Principal accounting policies *(continued)*

(c) Associated companies

(i) An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

(ii) The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(v) In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(e) Tangible fixed assets

(i) Land use rights, leasehold land and buildings/improvements

Land use rights, leasehold land and buildings/improvements are stated at cost less accumulated amortisation or depreciation and accumulated impairment losses.

Land use rights are amortised on a straight-line basis over the land use rights periods ranging from 20 to 50 years.

Amortisation of leasehold land is calculated to write off its cost to its estimated residual value over the unexpired period of the lease or their expected useful lives to the Group of 50 years whichever is shorter. The principal annual rates used for this purpose are 2% to 5%.

Depreciation on buildings is calculated to write off their cost to their estimated residual value over the unexpired period of the leases or their expected useful lives to the Group of 50 years whichever is shorter. The principal annual rates used for this purpose are 2% to 5%.

Depreciation of leasehold improvements is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group of 5 to 10 years or unexpired periods of the leases whichever is shorter. The principal annual rate used for this purpose is 10% to 20%.

(ii) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other tangible fixed assets is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are 20% to 33%.

2 Principal accounting policies *(continued)*

(e) Tangible fixed assets *(continued)*

(iii) Impairment of tangible fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress and tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(iv) Gain or loss on disposal of tangible fixed assets

Gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(v) Cost of restoring and improving tangible fixed assets

Major costs incurred in restoring tangible fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(f) Construction-in-progress

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the commencement date, less any accumulated impairment losses. No depreciation is provided for on construction-in-progress. On completion, the building and plant and machinery are transferred to tangible fixed assets at cost less accumulated impairment losses.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the date of acquisition.

Goodwill on acquisition occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years. For all other acquisitions goodwill is generally amortised over 3 to 10 years.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the consolidated profit and loss account.

In accordance with the provisions of interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the consolidated profit and loss account.

(ii) Patents and marketing rights

Expenditure on acquired patents and marketing rights is capitalised and amortised on a systematic basis over their useful lives, but not exceeding 20 years. Patents and marketing rights are not revalued as there is no active market for these assets.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

2 Principal accounting policies *(continued)*

(h) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and in the case of work-in-progress and finished goods (except for trading products), cost comprises direct materials, direct labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks and highly liquid investment which are subject to an insignificant risk of changes in value.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. The provision is calculated based on past history of the level of repairs and replacements.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Principal accounting policies *(continued)*

(n) Deferred taxation *(continued)*

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The effect of this change is not significant to the accounts of prior years.

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(p) Revenue

Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of shipment. Revenue from provision of systems integration service is recognised when services are rendered. Revenue from provision of information technology technical service is recognised when services are rendered. Interest income is accrued on a time proportion basis on the principal amounts outstanding and at the rates applicable. Dividend income is recognised when the right to receive payment is established.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave, sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme for qualified Hong Kong employees are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In addition, the Group's contributions to a local municipal government retirement scheme in Chinese mainland are expensed as incurred while the local municipal government in Chinese mainland undertakes to assume the retirement benefit obligations of the qualified employees in Chinese mainland.

(iii) Share options

No employee benefits cost is recognised when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting formant.

Segment assets of geographical segments consist primarily of tangible fixed assets, construction-in-progress, inventories, trade receivables and notes receivable, and mainly exclude intangible assets, investments in jointly controlled entities, investments in associated companies, investment securities, deferred tax assets, other receivables, tax recoverable and cash and cash equivalents. Segment liabilities comprise operating liabilities and exclude tax payable and liabilities payable for acquisition of intangible assets. Capital expenditure mainly comprises additions to tangible fixed assets (Note 14) and construction-in-progress (Note 15).

In presenting information on the basis of business segments, intangible assets, tangible fixed assets and construction-in-progress are excluded from segment assets.

3 Turnover, revenue and segment information

The Group is principally engaged in the provision of advanced information technology ("IT") products and services. Revenues recognised during the year are as follows:

	2004 *HK$'000*	2003 *HK$'000*
Corporate IT business	**11,925,240**	10,803,311
Consumer IT business	**7,760,668**	6,822,633
Handheld device business	**2,050,164**	1,440,328
IT service business	**547,780**	183,800
Contract manufacturing business	**892,092**	983,218
	23,175,944	20,233,290

Primary reporting format – geographical segments

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in four major geographical regions – the People's Republic of China, including Chinese mainland and Hong Kong (the "PRC"), Asia Pacific (excluding PRC), North America and Europe. The later three regions are grouped as "others" for presentation purpose.

There are no material sales or other transactions among the geographical segments.

In presenting information on the basis of geographical segments, segment turnover and segment operating results are based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The segment turnover and segment operating results, if based on geographical location of assets, are all categorised under PRC operations.

Secondary reporting format – business segments

The Group is categorised into five main business segments:

- Corporate IT business
- Consumer IT business
- Handheld device business
- IT service business
- Contract manufacturing business

There are no material sales or other transactions among the business segments.

3 Turnover, revenue and segment information *(continued)*

(a) Primary reporting format – geographical segments

	PRC 2004 *HK$'000*	Others 2004 *HK$'000*	Total 2004 *HK$'000*
Profit and loss account			
Turnover	22,878,303	297,641	23,175,944
Segment operating results	947,125	(33,157)	913,968
Gains on disposal of investments	47,558	–	47,558
Amortisation of intangible assets	(34,999)	–	(34,999)
Finance income			93,368
Finance costs			(2,881)
Contribution to operating profit			1,017,014
Share of losses of jointly controlled entities	(39,053)	–	(39,053)
Share of profits of associated companies	16,891	–	16,891
Profit before taxation			994,852
Taxation			20,150
Profit after taxation			1,015,002
Minority interests			37,883
Profit attributable to shareholders			1,052,885
Balance sheet			
Segment assets	4,347,982	43,950	4,391,932
Investment in a jointly controlled entity	124,124	–	124,124
Investments in associated companies	112,682	–	112,682
Investment securities	75,982	–	75,982
Unallocated assets			3,637,321
Consolidated total assets			8,342,041
Segment liabilities	3,300,576	11,380	3,311,956
Unallocated liabilities			512,031
Consolidated total liabilities			3,823,987
Capital expenditure	364,353	–	364,353
Depreciation	209,520	1,641	211,161

3 Turnover, revenue and segment information *(continued)*

(a) Primary reporting format – geographical segments *(continued)*

	PRC 2003 *HK$'000*	Others 2003 *HK$'000*	Total 2003 *HK$'000*
Profit and loss account			
Turnover	19,738,075	495,215	20,233,290
Segment operating results	1,011,204	3,212	1,014,416
Losses on disposal of investments	(26,802)	–	(26,802)
Amortisation of intangible assets	(15,246)	–	(15,246)
Finance income			77,233
Finance costs			(20)
Contribution to operating profit			1,049,581
Share of losses of jointly controlled entities	(34,756)	–	(34,756)
Share of profits of associated companies	13,826	–	13,826
Profit before taxation			1,028,651
Taxation			(26,018)
Profit after taxation			1,002,633
Minority interests			14,519
Profit attributable to shareholders			1,017,152
Balance sheet			
Segment assets	3,184,037	42,056	3,226,093
Investments in jointly controlled entities	198,549	–	198,549
Investments in associated companies	101,613	–	101,613
Investment securities	71,392	2,257	73,649
Unallocated assets			3,155,692
Consolidated total assets			6,755,596
Segment liabilities	2,492,220	6,572	2,498,792
Tax liabilities			8,542
Consolidated total liabilities			2,507,334
Capital expenditure	337,161	–	337,161
Depreciation	158,985	1,319	160,304

3 Turnover, revenue and segment information *(continued)*

(b) Secondary reporting format – business segments

	Turnover 2004 HK$'000	Contribution to operating profit 2004 HK$'000	Consolidated total assets 2004 HK$'000
Corporate IT business	**11,925,240**	**777,698**	**1,560,895**
Consumer IT business	**7,760,668**	**466,814**	**753,854**
Handheld device business	**2,050,164**	**(74,565)**	**431,377**
IT service business	**547,780**	**(58,009)**	**241,564**
Contract manufacturing business	**892,092**	**(95,208)**	**156,593**
Amortisation of goodwill	**–**	**(25,274)**	**–**
Gains on disposal of investments	**–**	**47,558**	**–**
Others	**–**	**(22,000)**	**–**
Investment in a jointly controlled entity	**–**	**–**	**124,124**
Investments in associated companies	**–**	**–**	**112,682**
Investment securities	**–**	**–**	**75,982**
Unallocated assets	**–**	**–**	**4,884,970**
	23,175,944	**1,017,014**	**8,342,041**

	Turnover 2003 HK$'000	Contribution to operating profit 2003 HK$'000	Consolidated total assets 2003 HK$'000
Corporate IT business	10,803,311	744,153	1,270,124
Consumer IT business	6,822,633	363,527	384,831
Handheld device business	1,440,328	29,017	316,471
IT service business	183,800	(61,405)	78,111
Contract manufacturing business	983,218	8,554	156,442
Amortisation of goodwill	–	(7,463)	–
Losses on disposal of investments	–	(26,802)	–
Investments in jointly controlled entities	–	–	198,549
Investments in associated companies	–	–	101,613
Investment securities	–	–	73,649
Unallocated assets	–	–	4,175,806
	20,233,290	1,049,581	6,755,596

4 Profit from operations

(a)

	2004 HK$'000	2003 HK$'000
Turnover	**23,175,944**	20,233,290
Cost of sales	**(19,787,944)**	(17,234,746)
Gross profit	**3,388,000**	2,998,544
Finance income	**93,368**	77,233
Gains/(losses) on disposal of investments	**47,558**	(26,802)
	3,528,926	3,048,975
Distribution expenses	**(1,686,932)**	(1,393,990)
Administrative expenses	**(343,306)**	(328,736)
Other operating expenses	**(443,794)**	(261,402)
Amortisation of intangible assets	**(34,999)**	(15,246)
Total operating expenses *(Note (b))*	**(2,509,031)**	(1,999,374)
Profit from operations	**1,019,895**	1,049,601

(b) Analysis of total operating expenses by nature:

	2004 HK$'000	2003 HK$'000
Selling expenses	**(558,124)**	(379,842)
Promotional and advertising expenses	**(395,905)**	(425,143)
Staff costs (including directors' emoluments) *(Note 8)*	**(851,476)**	(688,519)
Other expenses	**(668,527)**	(490,624)
Amortisation of intangible assets	**(34,999)**	(15,246)
Total operating expenses	**(2,509,031)**	(1,999,374)

5 Profit before taxation

	2004 HK$'000	2003 HK$'000
Profit before taxation is stated after (crediting)/charging the following:		
Auditors' remuneration	**2,689**	2,698
Depreciation of owned tangible fixed assets	**211,161**	160,304
Amortisation of intangible assets	**34,999**	15,246
Cost of inventories sold	**19,604,591**	16,965,244
Rental expenses under operating leases	**67,023**	67,900
Research and development expenses	**499,572**	314,182
Loss on disposal of tangible fixed assets	**2,308**	3,110
Net exchange (gain)/loss	**(7,379)**	13,346

6 Finance costs

	2004 HK$'000	2003 HK$'000
Interest payable on bank loans and overdrafts	**2,365**	20
Other interest	**516**	–
Total finance cost	**2,881**	20

7 Taxation

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2004 HK$'000	2003 HK$'000
Current taxation:		
– Taxation outside Hong Kong	**14,482**	23,730
– Overprovision in prior years	**–**	(339)
Deferred taxation relating to the origination and reversal of temporary differences	**(35,048)**	–
	(20,566)	23,391
Share of taxation attributable to:		
Jointly controlled entities	**84**	1,416
Associated companies	**332**	1,211
Taxation (credit)/charge	**(20,150)**	26,018

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK$'000	2003 HK$'000
Profit before taxation	**994,852**	1,028,651
Calculated at a taxation rate of 17.5% (2003: 16%)	**174,099**	164,584
Effect of different taxation rates in other countries	**(117,494)**	(121,286)
Income not subject to taxation	**(103,801)**	(27,351)
Expenses not deductible for taxation purposes	**14,240**	14,762
Utilisation of previously unrecognised tax losses	**–**	(3,269)
Recognition of deferred taxes previously not recognised	**(29,067)**	–
Tax credit for capital expenditure	**(1,271)**	(6,526)
Overprovision in prior years	**–**	(339)
Net deferred tax assets not recognised	**43,144**	5,443
Taxation (credit)/charge	**(20,150)**	26,018

No provision for Hong Kong profits tax has been made in the accounts as the Company and its subsidiaries have no estimated assessable profits for the year (2003: Nil). In 2003, the Government of Hong Kong Special Administrative Region enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/04.

7 Taxation *(continued)*

Taxation outside Hong Kong represents tax charges on the assessable profits of subsidiaries, operating outside Hong Kong including the Chinese mainland, calculated at rates applicable in the respective jurisdictions.

Pursuant to various approval documents issued by the Chinese mainland tax authority, certain Chinese mainland subsidiaries of the Group are entitled to preferential Chinese mainland income tax treatments.

Lenovo (Beijing) Limited was entitled to preferential Chinese mainland income tax rate of 7.5% for the three years ended 31st December 2003. From 1st January 2004 onwards, it is subject to income tax rate of 10% up to 31st December 2006.

Lenovo Mobile Communication Co., Ltd., Shanghai Lenovo Electronic Co., Ltd. and Lenovo Computer System and Technology Service Co., Ltd. are exempted from Chinese mainland income tax for two years commencing 1st January 2002 and a 50% Chinese mainland tax reduction for the following three years.

Other major Chinese mainland subsidiaries of the Group in Shenzhen, Beijing and Huiyang are exempted from Chinese mainland income tax for two to three years commencing 1st January 2001 and a 50% Chinese mainland income tax reduction for the following three years.

8 Staff costs

	2004	2003
	HK$'000	*HK$'000*
Wages, salaries and bonuses	**672,562**	581,465
Social security costs	**72,892**	42,858
Pension costs *(Note (b))*	**58,797**	41,216
Others	**125,776**	89,898
	930,027	755,437

(a) Included in the above balance are staff costs of HK$851,476,000 (2003: HK$688,519,000) which are included in operating expenses (Note 4(b)).

(b) The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in Chinese mainland. Contributions to these schemes are calculated with reference to the employees' salaries, bonuses and monthly average salaries as set out by the local municipal government.

Prior to 1st December 2000, the Group provided all qualified Hong Kong employees with a defined contribution retirement scheme. Commencing 1st December 2000, the Group's Hong Kong employees are required to contribute 5% of their basic salary plus cash allowances (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation) whereas the employer's contribution is at 7.5% and 10% respectively after completion of five and ten years of service. The Group's contributions to the scheme were reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK$812,638 (2003: HK$352,811) were utilised during the year leaving no amount available at the year end to reduce further contributions. The assets of the defined contribution scheme are held separately from those of the Group in an independently administered fund.

The retirement benefit scheme cost charged to the consolidated profit and loss account represents contributions payable by the Group to the schemes.

9 Emoluments of directors and highest paid individuals

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Directors		Independent non-executive directors	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Fees	**–**	–	**540**	375
Other emoluments:				
Basic salaries, allowances and benefits-in-kind	**26,037**	20,667	**–**	–
Retirement benefit costs	**352**	339	**–**	–
	26,389	21,006	**540**	375

Certain directors of the Company have been granted options to acquire shares of the Company.

The emoluments of the directors disclosed above do not include the benefits derived or to be derived from the options granted under the Company's share option schemes. Details of the share options granted to and/or exercised by the directors are disclosed on page 36.

(b) The number of directors whose emoluments fall within the following bands is as follows:

	Directors		Independent non-executive directors	
HK$	**2004**	2003	**2004**	2003
From 0 to 1,000,000	**–**	–	**3**	3
From 2,000,001 to 2,500,000	**–**	1	**–**	–
From 2,500,001 to 3,000,000	**1**	–	**–**	–
From 4,000,001 to 4,500,000	**–**	1	**–**	–
From 4,500,001 to 5,000,000	**1**	–	**–**	–
From 5,500,001 to 6,000,000	**–**	1	**–**	–
From 6,000,001 to 6,500,000	**1**	–	**–**	–
From 8,000,001 to 8,500,000	**–**	1	**–**	–
From 12,000,001 to 12,500,000	**1**	–	**–**	–
	4	4	**3**	3

(c) Among the five highest paid employees, three (2003: four) are directors whose remunerations are included in the directors' emoluments above. The emoluments payable to the remaining two (2003: one) individuals during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits-in-kind	**6,458**	2,079
Retirement benefit costs	**25**	158
	6,483	2,237

9 Emoluments of directors and highest paid individuals *(continued)*

(d) The number of employees whose emoluments fall within the following bands is as follows:

HK$	**2004**	2003
From 2,000,001 to 2,500,000	**–**	1
From 3,000,001 to 3,500,000	**2**	–
	2	1

10 Profit attributable to shareholders

Included in the profit of HK$1,052,885,000 (2003: HK$1,017,152,000) attributable to shareholders of the Company is the profit of HK$1,001,070,000 (2003: HK$1,095,610,000), which is dealt with in the Company's own accounts.

11 Dividends

	2004	2003
	HK$'000	*HK$'000*
Interim dividend of 2.0 HK cents per share (2003: 1.8 HK cents)	**149,436**	135,034
Proposed final dividend of 3.0 HK cents per share (2003: 3.0 HK cents)	**224,268**	224,040
Special dividend of 5.2 HK cents per share for 2003	**–**	388,338
	373,704	747,412

At a board meeting held on 2nd June 2004, the directors recommended a final dividend of 3.0 HK cents per share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

12 Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2004	2003
Earnings for the purposes of basic and diluted earnings per share (HK$'000)	**1,052,885**	1,017,152
Weighted average number of shares for the purposes of basic earnings per share	**7,471,766,157**	7,504,340,579
Effect of potential dilutive shares	**53,541,036**	9,827,387
Weighted average number of shares for the purposes of diluted earnings per share	**7,525,307,193**	7,514,167,966

13 Intangible assets

	Group			
	Goodwill	**Patent**	**Marketing right**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st March 2004				
Opening net book amount	85,951	34,670	–	120,621
Additions	–	4,912	507,000	511,912
Acquisition of a subsidiary	49,452	–	–	49,452
Amortisation charge	(25,274)	(9,725)	–	(34,999)
Closing net book amount	110,129	29,857	507,000	646,986
As at 31st March 2004				
Cost	142,866	47,365	507,000	697,231
Accumulated amortisation	(32,737)	(17,508)	–	(50,245)
Net book amount	110,129	29,857	507,000	646,986
As at 31st March 2003				
Cost	93,414	42,453	–	135,867
Accumulated amortisation	(7,463)	(7,783)	–	(15,246)
Net book amount	85,951	34,670	–	120,621

14 Tangible fixed assets

	Group						
	Land use rights, leasehold land and buildings *(Note (a))*	**Leasehold improvements**	**Plant and machinery**	**Furniture and fixtures**	**Office equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Costs							
At 1st April 2003	469,557	138,065	90,676	17,109	474,120	24,824	1,214,351
Exchange adjustment	–	–	–	466	218	199	883
Additions	–	8,369	10,590	4,256	71,203	1,800	96,218
Acquisition of subsidiaries	–	3,513	61,990	225	18,330	330	84,388
Transfer from construction-in-progress	80,669	44,611	16,989	–	39,627	–	181,896
Disposals	–	(1,954)	(4,849)	(981)	(21,710)	(1,521)	(31,015)
At 31st March 2004	550,226	192,604	175,396	21,075	581,788	25,632	1,546,721
Accumulated depreciation							
At 1st April 2003	68,397	41,152	29,868	8,445	205,971	14,542	368,375
Exchange adjustment	–	–	–	339	152	70	561
Charge for the year	20,252	43,588	21,318	4,404	118,799	2,800	211,161
Disposals	–	(1,750)	(2,459)	(603)	(14,675)	(1,161)	(20,648)
At 31st March 2004	88,649	82,990	48,727	12,585	310,247	16,251	559,449
Net book value							
At 31st March 2004	461,577	109,614	126,669	8,490	271,541	9,381	987,272
At 31st March 2003	401,160	96,913	60,808	8,664	268,149	10,282	845,976

14 Tangible fixed assets *(continued)*

	Company				
	Leasehold improvements	**Furniture and fixtures**	**Office equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Costs					
At 1st April 2003	2,325	658	39,778	1,562	44,323
Additions	27	23	5,017	1,280	6,347
Disposals	–	–	(38)	–	(38)
At 31st March 2004	2,352	681	44,757	2,842	50,632
Accumulated depreciation					
At 1st April 2003	319	315	2,403	286	3,323
Charge for the year	832	150	13,837	404	15,223
Disposals	–	–	(29)	–	(29)
At 31st March 2004	1,151	465	16,211	690	18,517
Net book value					
At 31st March 2004	1,201	216	28,546	2,152	32,115
At 31st March 2003	2,006	343	37,375	1,276	41,000

(a) The net book value of land use rights, leasehold land and buildings comprises:

	Group					
	2004			2003		
	Hong Kong	**Chinese mainland**	**Total**	Hong Kong	Chinese mainland	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Medium leases (less than 50 years but not less than 10 years)	**–**	**461,577**	**461,577**	–	401,160	401,160

15 Construction-in-progress

Construction-in-progress comprises:

	Group					
	Buildings under development		Others		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At the beginning of the year	**130,107**	24,453	**44,031**	19,413	**174,138**	43,866
Additions	**180,611**	123,226	**87,524**	45,774	**268,135**	169,000
Transfer to tangible fixed assets	**(109,720)**	(17,572)	**(72,176)**	(21,156)	**(181,896)**	(38,728)
At the end of the year	**200,998**	130,107	**59,379**	44,031	**260,377**	174,138

No interest expenses were capitalised in construction-in-progress at the balance sheet date.

16 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**2,327,875**	2,327,875

The following includes the principal subsidiaries of the Company which were directly and indirectly held by the Company and, in the opinion of the directors, significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	2003	Principal activities
Held directly:					
Lenovo (Beijing) Limited*	Chinese mainland	HK$78,000,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
Lenovo (Shanghai) Co., Ltd.*	Chinese mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services

16 Subsidiaries *(continued)*

(a) Investments in subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	Effective percentage holding 2003	Principal activities
Held indirectly:					
Beijing Lenovo Software Limited*	Chinese mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Han Consulting (China) Limited*	Chinese mainland	US$6,000,000	**51%**	51%	Provision of IT services and distribution of IT products
Huiyang Lenovo Industry Property Limited*	Chinese mainland	US$2,045,500	**100%**	100%	Property holding and property management
Lenovo AI Computer Technology Co., Ltd.*	Chinese mainland	RMB10,000,000	**70%**	70%	Provision of IT services
Lenovo (Chengdu) Limited*	Chinese mainland	RMB12,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo Chinaweal System & Service Co., Ltd.*	Chinese mainland	US$6,024,000	**95.1%**	95.1%	Provision of IT services and distribution of IT products
Lenovo Computer Limited (formerly, Legend Computer Systems Limited)	Hong Kong	HK$2	**100%**	100%	Procurement agent and distribution of IT products
Lenovo Computer System and Technology Service Co., Ltd.*	Chinese mainland	RMB50,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Huiyang) Electronic Industrial Co., Ltd.*	Chinese mainland	HK$16,000,000	**100%**	100%	Manufacturing of IT products
Lenovo Industrial Development Co., (Daya Bay) Ltd.*	Chinese mainland	US$10,000,000	**100%**	100%	Property holding and property management
Lenovo Mobile Communication Co., Ltd.*	Chinese mainland	RMB187,500,000	**80.8%**	80.8%	Manufacturing and distribution of mobile handsets
Lenovo Networks (Shenzhen) Limited*	Chinese mainland	HK$20,000,000	**80%**	–	Provision of IT services

16 Subsidiaries *(continued)*

(a) Investments in subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	2003	Principal activities
Lenovo (Shenyang) Limited*	Chinese mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Shenzhen) Electronic Co., Ltd.*	Chinese mainland	RMB10,000,000	**100%**	100%	Distribution of IT products
Lenovo (Wuhan) Limited*	Chinese mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Xian) Limited*	Chinese mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Shanghai Lenovo Electronic Co., Ltd.*	Chinese mainland	RMB20,000,000	**100%**	100%	Manufacturing of IT products
QDI Europe B.V.	The Netherlands	EUR18,151	**50%**	100%	Distribution of IT products
QDI Technology (HK) Limited	Hong Kong	HK$2	**50%**	–	Procurement agent and distribution of IT products
QDI Technology (Huizhou) Limited* (formerly, Hui Yang Legend Computer Co., Ltd.)	Chinese mainland	HK$50,000,000	**50%**	50%	Manufacturing of IT products
QDI Technology (Shenzhen) Limited*	Chinese mainland	HK$8,300,000	**50%**	–	Distribution of IT products
Quantum Designs (H.K.) Limited	Hong Kong	HK$2 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Procurement agent and distribution of IT products
Sunny Information Technology Service (Beijing) Co., Ltd.*	Chinese mainland	RMB20,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All of the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese mainland subsidiaries are limited liability companies. They have adopted 31st December as their financial year end date for statutory reporting purposes. For preparation of the consolidated accounts, accounts of these subsidiaries for the 12 months ended 31st March 2003 and 2004 have been used.

(iii) The company whose English name with a "*" is a direct transliteration of its Chinese registered name.

(b) Amounts due from/(to) subsidiaries

The amounts are interest-free, unsecured and have no fixed terms of repayment.

17 Investment in a jointly controlled entity

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	**124,124**	198,549
Amount due to a jointly controlled entity *(Note)*	**(108,471)**	–
	15,653	198,549

Note: The amount due to a jointly controlled entity is interest-free, unsecured and have no fixed terms of repayment.

The details of the jointly controlled entity at 31st March 2004 are as follows:

Company name	Place of incorporation/ establishment	Interest held indirectly 2004	Interest held indirectly 2003	Principal activity
Leby Technology Company Limited	British Virgin Islands	**50%**	50%	Dormant

18 Investments in associated companies

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	**110,882**	99,813
Unsecured loan repayable on demand *(Note)*	**1,800**	1,800
	112,682	101,613

Note: The loan to an associated company is interest-free.

The following is a list of the principal associated companies at 31st March 2004:

Company name	Place of incorporation/ establishment	Interest held indirectly 2004	Interest held indirectly 2003	Principal activities
Beijing CA – Legend Software Co., Ltd.*	Chinese mainland	**20%**	20%	Software development
Legend Kingsoft Holdings Limited	British Virgin Islands	**30%**	30%	Distribution and development of software
Techwise Circuits Company Limited	Hong Kong	**30.5%**	30.5%	Manufacturing and distribution of printed circuit boards

Notes:

(i) The associated companies operate principally in their respective places of incorporation or establishment, except for Legend Kingsoft Holdings Limited which operates principally in the PRC.

(ii) The company whose English name with a "*" is a direct transliteration of its Chinese registered name.

19 Investment securities

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities, at fair value				
Listed in Hong Kong	**12,239**	52,172	**–**	37,890
Listed outside Hong Kong	**48,716**	2,257	**–**	–
	60,955	54,429	**–**	37,890
Unlisted	**15,027**	19,220	**–**	–
	75,982	73,649	**–**	37,890

20 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

The movement on the deferred assets/(liabilities) account is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
At the beginning of the year	**(330)**	(330)
Deferred taxation credited to consolidated profit and loss account *(Note 7)*	**35,048**	–
At the end of the year	**34,718**	(330)

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$140,356,107 (2003: HK$5,229,967) to carry forward against future taxable income. These tax losses will expire up to fiscal year 2008/09.

20 Deferred taxation *(continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	Provisions		Tax depreciation allowance		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At the beginning of the year	**–**	–	**–**	–	**–**	–
Credited to consolidated profit and loss account	**34,171**	–	**547**	–	**34,718**	–
At the end of the year	**34,171**	–	**547**	–	**34,718**	–

Deferred tax liabilities	Tax depreciation allowance		Total	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At the beginning of the year	**330**	330	**330**	330
Credited to consolidated profit and loss account	**(330)**	–	**(330)**	–
At the end of the year	**–**	330	**–**	330

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	2003
	HK$'000	*HK$'000*
Deferred tax assets	**34,718**	–
Deferred tax liabilities	**–**	(330)
	34,718	(330)

21 Inventories

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**896,177**	873,090
Work-in-progress	**13,369**	26,975
Finished goods	**483,472**	368,986
	1,393,018	1,269,051

At 31st March 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK$136,066,000 (2003: HK$79,785,000).

22 Accounts receivable

(a) Trade receivables

At 31st March 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**944,212**	490,851
31 – 60 days	**84,481**	27,213
61 – 90 days	**20,862**	10,680
Over 90 days	**181,389**	24,772
	1,230,944	553,516

Customers for trading business are generally granted credit terms of 30 days. Credit terms for customers of systems integration business normally range from 30 days to 180 days.

(b) Notes receivable are bills of exchange mainly with maturity dates of within six months.

23 Cash and cash equivalents – Group

Included in the cash and cash equivalents of the Group are Renminbi cash and cash equivalents in the Chinese mainland of approximately HK$1,335,636,000 (2003: HK$802,124,000).

24 Accounts payable

(a) Trade payables

At 31st March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**1,791,869**	1,339,852
31 – 60 days	**210,993**	149,535
61 – 90 days	**27,554**	20,870
Over 90 days	**124,641**	78,375
	2,155,057	1,588,632

(b) Notes payable are mainly repayable within three months.

25 Long-term liabilities

	Group 2004 HK$'000	Group 2003 HK$'000
Loan from a minority shareholder of a subsidiary *(Note (a))*	**75,000**	–
Amount payable for marketing right *(Note (b))*	**507,000**	–
Current portion payable within one year	**(55,453)**	–
	451,547	–
	526,547	–

Notes:

(a) The loan from a minority shareholder of a subsidiary is unsecured and not repayable within next 12 months. Included in the balance is an amount of HK$52,879,000 which is bearing interest at the rate of LIBOR + 1.5% per annum. The remaining balance of HK$22,121,000 is interest free.

(b) On 5th February 2004, the Group has entered into an agreement with the International Olympic Committee and the United States Olympic Committee regarding participation in The Olympic Partner Programme. Pursuant to which, the Group will pay a total amount of US$65,000,000 (equivalent to approximately HK$507,000,000) in cash and value in kind to obtain marketing rights which include the use of Olympic intellectual property rights and exclusive worldwide marketing opportunities in its products, technology and service categories from 1st January 2005 to 31st December 2008. The amount is payable in installments up to 10th November 2008.

26 Share capital

	2004 Number of shares	**2004** HK$'000	2003 Number of shares	2003 HK$'000
Authorised:				
At the beginning and the end of the year	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Issued and fully paid:				
At the beginning of the year	**7,477,364,108**	**186,934**	7,508,038,108	187,701
Exercise of share options *(Note 27)*	**10,580,000**	**265**	656,000	16
Repurchase of shares *(Note)*	**(12,350,000)**	**(309)**	(31,330,000)	(783)
At the end of the year	**7,475,594,108**	**186,890**	7,477,364,108	186,934

Note: During the year, the Company repurchased 12,350,000 shares of HK$0.025 each on the Stock Exchange of Hong Kong at an aggregate consideration of HK$28,394,000.

27 Share options

Under the Company's employee share option scheme adopted on 18th January 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the higher of the nominal value of the shares and an amount which is 80% of the average of the closing prices of the shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on 26th April 2002. Despite the fact that no further options may be granted thereunder, all other provisions of the Old Option Scheme will remain in force to govern the exercise of all the options previously granted.

On 25th March 2002, an ordinary resolution approving the adoption of a new share option scheme ("New Option Scheme") was passed by shareholders at an extraordinary general meeting of the Company.

Under the New Option Scheme, the Company may grant options to qualified participants as defined in the Directors' Report to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company as at the date of adoption of the New Option Scheme. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the highest of the closing price of the shares on the date of grant; the average of the closing prices of the shares for the five trading days immediately preceding the date of grant; and the nominal value of the shares.

	2004	2003
	Number of shares	Number of shares
At the beginning of the year	**345,142,000**	292,992,000
Granted during the year *(Note (a))*	**136,572,000**	52,806,000
Exercised during the year *(Note (b))*	**(10,580,000)**	(656,000)
Lapsed during the year *(Note (c))*	**(1,656,000)**	–
At the end of the year *(Note (d))*	**469,478,000**	345,142,000

(a) Share options granted during the year:

		2004	2003
Exercise period	**Exercise price**	**Number of shares**	Number of shares
	HK$		
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	**–**	52,806,000
26.04.2003 to 25.04.2013	2.245	**136,572,000**	–
		136,572,000	52,806,000

27 Share options *(continued)*

(b) Details of share options exercised during the year are as follows:

(i) Year 2004

Exercise date	Exercise price	Market value per share at exercise date	Number of shares	Proceeds received
	HK$	*HK$*		*HK$*
28.08.2003	2.876	3.08	**20,000**	**57,520**
10.09.2003 to 24.09.2003	2.876	3.15 - 3.43	**1,676,000**	**4,820,176**
02.10.2003 to 21.10.2003	2.876	3.05 - 3.80	**342,000**	**983,592**
03.11.2003 to 25.11.2003	2.876	3.13 - 3.18	**520,000**	**1,495,520**
01.12.2003 to 25.12.2003	2.876	3.15 - 3.40	**2,666,000**	**7,667,416**
02.01.2004 to 16.01.2004	2.876	3.40 - 3.70	**1,640,000**	**4,716,640**
19.02.2004 to 21.02.2004	2.876	3.35 - 3.43	**66,000**	**189,816**
23.07.2003 to 31.07.2003	2.245	2.88 - 3.05	**46,000**	**103,270**
11.08.2003 to 18.08.2003	2.245	3.00 - 3.23	**46,000**	**103,270**
23.09.2003	2.245	3.23	**66,000**	**148,170**
17.10.2003	2.245	3.45	**110,000**	**246,950**
08.12.2003 to 17.12.2003	2.245	3.18 - 3.40	**122,000**	**273,890**
08.01.2004	2.245	3.63	**6,000**	**13,470**
01.03.2004 to 09.03.2004	2.245	3.20 - 3.28	**34,000**	**76,330**
17.06.2003 to 25.06.2003	2.435	2.60 - 2.86	**16,000**	**38,960**
08.07.2003 to 31.07.2003	2.435	2.88 - 3.05	**122,000**	**297,070**
06.08.2003 to 23.08.2003	2.435	2.88 - 3.03	**68,000**	**165,580**
10.09.2003 to 24.09.2003	2.435	3.14 - 3.43	**588,000**	**1,431,780**
02.10.2003 to 24.10.2003	2.435	3.05 - 3.73	**664,000**	**1,616,840**
03.11.2003 to 24.11.2003	2.435	3.10 - 3.75	**282,000**	**686,670**
01.12.2003 to 26.12.2003	2.435	3.18 - 3.40	**348,000**	**847,380**
02.01.2004 to 15.01.2004	2.435	3.48 - 3.70	**384,000**	**935,040**
02.02.2004 to 24.02.2004	2.435	3.25 - 3.75	**698,000**	**1,699,630**
01.03.2004 to 09.03.2004	2.435	3.20 - 3.30	**50,000**	**121,750**
			10,580,000	**28,736,730**

(ii) Year 2003

Exercise date	Exercise price	Market value per share at exercise date	Number of shares	Proceeds received
	HK$	*HK$*		*HK$*
02.04.2002	2.876	3.33	88,000	253,088
08.05.2002	2.876	3.35	270,000	776,520
10.06.2002	2.876	3.20	298,000	857,048
			656,000	1,886,656

27 Share options *(continued)*

(c) Details of share options lapsed during the year were as follows:

Exercise period	Exercise price	2004 Number of shares	2003 Number of shares
	HK$		
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	**1,656,000**	–

(d) Details of share options at the balance sheet date were as follows:

Exercise period	Exercise price	2004 Number of shares	2003 Number of shares
	HK$		
Old Option Scheme			
28.01.2000 to 27.01.2010	4.038	**7,712,000**	7,712,000
15.01.2001 to 14.01.2011	4.312	**127,162,000**	127,162,000
16.04.2001 to 15.04.2011	4.072	**35,550,000**	35,550,000
29.08.2001 to 28.08.2011	2.904	**832,000**	832,000
31.08.2001 to 30.08.2011	2.876	**114,150,000**	121,080,000
		285,406,000	292,336,000
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	**47,930,000**	52,806,000
26.04.2003 to 25.04.2013	2.245	**136,142,000**	–
		184,072,000	52,806,000

28 Share capital and reserves

	Group							
	Share capital HK$'000	Share premium HK$'000	Surplus arising on consolidation HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Share redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1st April 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Surplus in fair market value of investment securities	–	–	–	–	20,144	–	–	20,144
Exchange differences	–	–	–	270	–	–	–	270
Reserves realised upon disposal of investment securities	–	–	–	–	(11,624)	–	–	(11,624)
Profit for the year	–	–	–	–	–	–	1,052,885	1,052,885
Exercise of share options	265	28,471	–	–	–	–	–	28,736
Repurchase of shares	(309)	–	–	–	–	309	(28,394)	(28,394)
Dividends paid	–	–	–	–	–	–	(761,814)	(761,814)
As at 31st March 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Representing:								
2004 final dividend proposed							224,268	
Others							(714,334)	
Accumulated losses as at 31st March 2004							(490,066)	
Company and subsidiaries	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(549,378)	4,429,412
Jointly controlled entities	–	–	–	–	–	–	7,236	7,236
Associated companies	–	–	–	–	–	–	52,076	52,076
As at 31st March 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724

28 Share capital and reserves *(continued)*

	Group							
	Share capital *HK$'000*	Share premium *HK$'000*	Surplus arising on consolidation *HK$'000*	Exchange reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Share redemption reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
As at 1st April 2002	187,701	4,732,184	27,893	4,155	13,515	1,806	(1,285,220)	3,682,034
Deficit in fair market value of investment securities	–	–	–	–	(20,891)	–	–	(20,891)
Exchange differences	–	–	–	156	–	–	–	156
Reserves realised upon disposal of investment securities	–	–	–	–	(7,120)	–	–	(7,120)
Goodwill written off arising from disposal of subsidiaries	–	–	(22)	–	–	–	–	(22)
Profit for the year	–	–	–	–	–	–	1,017,152	1,017,152
Exercise of share options	16	1,871	–	–	–	–	–	1,887
Repurchase of shares	(783)	–	–	–	–	783	(79,399)	(79,399)
Dividends paid	–	–	–	–	–	–	(405,276)	(405,276)
As at 31st March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Representing:								
2003 final dividend proposed							224,040	
2003 special dividend proposed							388,337	
Others							(1,365,120)	
Accumulated losses as at 31st March 2003							(752,743)	
Company and subsidiaries	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(719,921)	4,221,343
Jointly controlled entities	–	–	–	–	–	–	(27,704)	(27,704)
Associated companies	–	–	–	–	–	–	(5,118)	(5,118)
As at 31st March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521

28 Share capital and reserves *(continued)*

	Company					
	Share capital	Share premium	Investment revaluation reserve	Share redemption reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April 2003	**186,934**	**4,734,055**	**(2,183)**	**2,589**	**1,474,240**	**6,395,635**
Reserves realised upon disposal of investment securities	**–**	**–**	**2,183**	**–**	**–**	**2,183**
Profit for the year	**–**	**–**	**–**	**–**	**1,001,070**	**1,001,070**
Exercise of share options	**265**	**28,471**	**–**	**–**	**–**	**28,736**
Repurchase of shares	**(309)**	**–**	**–**	**309**	**(28,394)**	**(28,394)**
Dividends paid	**–**	**–**	**–**	**–**	**(761,814)**	**(761,814)**
As at 31st March 2004	**186,890**	**4,762,526**	**–**	**2,898**	**1,685,102**	**6,637,416**
Representing:						
2004 final dividend proposed					**224,268**	
Others					**1,460,834**	
Retained earnings as at 31st March 2004					**1,685,102**	
As at 1st April 2002	187,701	4,732,184	–	1,806	863,305	5,784,996
Deficit in fair market value of investment securities	–	–	(2,183)	–	–	(2,183)
Profit for the year	–	–	–	–	1,095,610	1,095,610
Exercise of share options	16	1,871	–	–	–	1,887
Repurchase of shares	(783)	–	–	783	(79,399)	(79,399)
Dividends paid	–	–	–	–	(405,276)	(405,276)
As at 31st March 2003	186,934	4,734,055	(2,183)	2,589	1,474,240	6,395,635
Representing:						
2003 final dividend proposed					224,040	
2003 special dividend proposed					388,337	
Others					861,863	
Retained earnings as at 31st March 2003					1,474,240	

29 Related party transactions

Saved as disclosed elsewhere in this set of accounts, the Group had the following material related party transactions in the normal course of business during the year:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Beijing Legend FM Science and Technology Company Limited (a subsidiary of the ultimate holding company):		
Account access fees	**–**	43,879
DCHL Group (associated companies of the ultimate holding company):		
Rental and management fee	**740**	2,163
Purchase of goods	**27,992**	5,414
Sales of goods	**–**	1,132
Leby Technology Company Limited (a jointly controlled entity):		
Purchase of computers products	**178,907**	134,262
Manufacturing fee	**–**	58,284
Sale of computer products	**5,149**	31,094
Lenovo (Beijing) Technology Co., Ltd. (formerly, AOL-Legend (Beijing) Technology Co., Ltd.) (a former jointly controlled entity):		
Technical consultancy fees	**–**	2,260
QDI Technology (Huizhou) Limited (formerly, Hui Yang Legend Computer Co., Ltd.) (a subsidiary of a former jointly controlled entity):		
Rental and management fee	**3,126**	8,239
Ramaxel Technology Limited (holding company of a minority shareholder of a subsidiary):		
Purchase of goods	**180,541**	–
Sale of goods	**215,333**	–
Right Lane Limited (a substantial shareholder):		
Rental and management fee	**960**	960
Shenzhen Legend Science Park Company Limited (a subsidiary of the ultimate holding company):		
Rental expenses	**10,373**	14,822
Shenzhen Zhiqin International Freight Forwarding Co., Ltd. (an associated company of the ultimate holding company)		
Logistic services fee	**1,064**	–
Techwise Circuits Company Limited and its subsidiaries (associated companies):		
Purchase of goods	**34,800**	51,232
Rental and management fee	**10,836**	21,903
Xiamen Overseas Chinese Electronics Co., Ltd. (a minority shareholder of a subsidiary):		
Rental expenses	**1,144**	1,144
Purchase of goods	**701**	32,368

The directors are of the opinion that the above transactions were conducted on normal commercial terms in the ordinary course of business.

30 Banking facilities

At 31st March 2004, total banking facilities granted to the Group amounted to approximately HK$3,783,000,000 which were secured by one or more of the following:

(a) Cross guarantees provided by certain subsidiaries; and

(b) Guarantees provided by the Company.

At 31st March 2004, the amount of facilities utilised by the Group amounted to approximately HK$1,139,000,000 (2003: HK$460,000,000).

31 Commitments

(a) Capital commitments

	Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted but not provided for		
property, plant and equipment	**58,911**	120,156

(b) Commitments under operating leases

At 31st March 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Not later than one year	**36,377**	58,255
Later than one year but not later than five years	**75,262**	78,281
Later than five years	**43,146**	52,058
	154,785	188,594

(c) Other commitments

(i) On 17th December 2002, two subsidiaries of the Company, China Weal Technology Holding Limited ("CWT") and the shareholders of CWT entered into an agreement in which the Company's subsidiaries have committed to acquire certain business and assets from CWT and its subsidiaries (the "CWT Group"). The business and assets acquired were injected into a newly incorporated Chinese mainland subsidiary of the Company.

Pursuant to the agreement, the Group is required to pay an initial consideration of approximately HK$61,000,000 and an additional consideration which is dependent on, among other things, proper completion of certain recognisation procedures, and the operating results of the above-mentioned new subsidiary of the Company up to 31st March 2008. The maximum amount of additional consideration, if required, of approximately HK$156,000,000 will be settled in phases before 31st October 2008.

(ii) As at 31st March 2004, the Group had outstanding foreign currency forward contracts and options amounted to approximately HK$468,000,000 (2003: HK$46,000,000).

32 Contingent liabilities

(a) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. As at 31st March 2004, such facilities granted and utilised amounted to approximately HK$2,381,000,000 and HK$552,000,000 respectively (2003: HK$2,620,000,000 and HK$460,000,000).

(b) The Company has issued letters of guarantee to the suppliers and vendors of its subsidiaries. As at 31st March 2004, the guarantee granted and utilised amounted to approximately HK$1,031,160,000 and HK$626,000,000 respectively (2003: HK$941,460,000 and HK$570,000,000).

33 Reconciliation of profit before taxation to net cash inflow from operations

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	**994,852**	1,028,651
Share of profits of associated companies	**(16,891)**	(13,826)
Share of losses of jointly controlled entities	**39,053**	34,756
Finance income	**(93,368)**	(77,233)
Finance costs	**2,881**	20
Depreciation of tangible fixed assets	**211,161**	160,304
Amortisation of intangible assets	**34,999**	15,246
Loss on disposal of tangible fixed assets	**2,308**	3,110
(Gains)/losses on disposal of investments	**(47,558)**	26,802
Operating profit before working capital changes	**1,127,437**	1,177,830
Increase in inventories	**(117,942)**	(411,997)
Decrease in amounts due from jointly controlled entities	**–**	194,132
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(858,109)**	(287,263)
Increase in trade payables, notes payable, accruals and other payables	**597,607**	477,373
Net cash inflow from operations	**748,993**	1,150,075

34 Analysis of changes in financing

	2004			2003		
	Share capital (including premium)	**Minority interests**	**Loan from a minority shareholder of a subsidiary**	Share Capital (including premium)	Minority interests	Loan from a minority shareholder of a subsidiary
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Balance at the beginning of the year	**4,920,989**	**59,741**	**–**	4,919,885	7,050	–
Minority interests' share of losses	**–**	**(37,883)**	**–**	–	(14,519)	–
Increase in loan from a minority shareholder	**–**	**–**	**75,000**	–	–	–
Acquisition of subsidiaries	**–**	**462**	**–**	–	67,210	–
Issue of new shares	**28,736**	**11,604**	**–**	1,887	–	–
Consideration for the repurchase of shares	**(28,394)**	**–**	**–**	(79,399)	–	–
Repurchase of shares	**28,085**	**–**	**–**	78,616	–	–
Dividend paid to minority shareholders	**–**	**(4,594)**	**–**	–	–	–
Balance at the end of the year	**4,949,416**	**29,330**	**75,000**	4,920,989	59,741	–

35 Acquisition of subsidiaries

	2004	2003
	HK$'000	*HK$'000*
Net assets acquired		
Tangible fixed assets	**84,388**	27,027
Inventories	**6,025**	1,535
Investments	**–**	3,649
Accounts and notes receivable	**29,476**	7,788
Deposits, prepayments and other receivables	**1,517**	25,730
Cash and cash equivalents	**56,749**	204,788
Accounts payable	**(12,202)**	(789)
Accruals and other payables	**(19,884)**	(20,538)
Minority interest	**(462)**	(67,210)
	145,607	181,980
Goodwill arising from acquisition	**49,452**	38,801
	195,059	220,781
Satisfied by:		
Cash and cash equivalents	**51,300**	199,941
Amount payable to a jointly controlled entity	**108,471**	20,840
Investment in a jointly controlled entity	**35,288**	–
	195,059	220,781

36 Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2004	2003
	HK$'000	*HK$'000*
Cash consideration	**(51,300)**	(199,941)
Cash and cash equivalents acquired	**56,749**	204,788
Net inflow of cash and cash equivalents in respect of acquisition of subsidiaries	**5,449**	4,847

37 Ultimate holding company

The directors regard Legend Holdings Limited, a company established in the Chinese mainland, as being the ultimate holding company.

38 Approval of accounts

The accounts were approved by the board of directors on 2nd June 2004.

FIVE-YEAR FINANCIAL SUMMARY

	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**23,175,944**	20,233,290	20,853,254	27,219,212	17,449,649
Earnings before interest, taxation, depreciation and amortisation expenses	**1,125,129**	1,174,720	1,008,938	970,700	603,278
Depreciation expenses	**(211,161)**	(160,304)	(143,048)	(123,359)	(93,275)
Amortisation of intangible assets	**(34,999)**	(15,246)	–	(580,877)	(580,877)
Impairment loss of goodwill	**–**	–	–	(165,640)	–
Gains/(losses) on disposal of investments	**47,558**	(26,802)	164,240	(1,338)	–
Finance income	**93,368**	77,233	67,360	103,214	16,373
Profit/(loss) from operations	**1,019,895**	1,049,601	1,097,490	202,700	(54,501)
Finance cost	**(2,881)**	(20)	(11,785)	(33,516)	(41,456)
	1,017,014	1,049,581	1,085,705	169,184	(95,957)
Share of (losses)/profits of jointly controlled entities	**(39,053)**	(34,756)	8,468	–	–
Share of profits/(losses) of associated companies	**16,891**	13,826	(12,979)	(6,628)	2,803
Profit/(loss) before taxation	**994,852**	1,028,651	1,081,194	162,556	(93,154)
Taxation	**20,150**	(26,018)	(23,092)	(19,156)	3,152
Profit/(loss) after taxation	**1,015,002**	1,002,633	1,058,102	143,400	(90,002)
Minority interests	**37,883**	14,519	(13,202)	(29,886)	(9,986)
Profit/(loss) attributable to shareholders	**1,052,885**	1,017,152	1,044,900	113,514	(99,988)
Total assets	**8,342,041**	6,755,596	5,691,737	8,027,993	6,739,674
Total liabilities (including minority interests)	**3,853,317**	2,567,075	2,009,703	4,145,071	2,906,655
Net assets	**4,488,724**	4,188,521	3,682,034	3,882,922	3,833,019

lenovo 联想

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PR Consultant : Strategic Financial Relations Limited
Printing : SNP Vite Limited