



联想集团有限公司
LEGEND HOLDINGS LIMITED



I N T E R I M R E P O R T 2 0 0 0

The board of directors (the “Directors”) of Legend Holdings Limited (the “Company”) is pleased to announce the Company and its subsidiaries’ (the “Group”) unaudited consolidated balance sheet as at 30 September 2000 and the unaudited consolidated results, cash flow statement and statement of recognised gains and losses for the six months then ended (collectively referred to herein as “unaudited interim financials”).

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		3 months ended 30 September 2000 (unaudited) HK\$'000	6 months ended 30 September 2000 (unaudited) HK\$'000	3 months ended 30 September 1999 (unaudited) HK\$'000	6 months ended 30 September 1999 (unaudited) HK\$'000
	Note				
Turnover	2	7,232,456	13,090,332	3,932,493	7,333,353
Earnings before interest, taxation and depreciation expenses		244,006	451,460	122,873	230,093
Depreciation expenses		(28,012)	(47,905)	(24,566)	(42,412)
Interest income		25,215	53,378	3,522	6,047
Profit from operations	3	241,209	456,933	101,829	193,728
Finance costs		(5,765)	(18,243)	(9,543)	(20,117)
Share of (loss)/profit of associated companies		(1,308)	(1,226)	669	591
Profit before taxation		234,136	437,464	92,955	174,202
Taxation	4	(4,713)	(14,094)	(594)	(810)
Profit after taxation		229,423	423,370	92,361	173,392
Minority interests		(12,171)	(15,090)	247	150
Profit attributable to shareholders		217,252	408,280	92,608	173,542
Interim dividend		N/A	82,939	N/A	44,538
Earnings per share – Basic	5	3.0 cents	5.5 cents	1.3 cents	2.5 cents
Earnings per share – Diluted	5	3.0 cents	5.4 cents	1.3 cents	2.4 cents

[CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES]

	6 months ended 30 September 2000 (unaudited) HK\$'000	6 months ended 30 September 1999 (unaudited) HK\$'000
Depreciation in fair market value of other investments	(5,585)	-
Exchange differences arising from translation of subsidiaries	<u>4,318</u>	<u>(664)</u>
Net loss not recognised in the profit and loss account	(1,267)	(664)
Profit for the period	<u>408,280</u>	<u>173,542</u>
Total recognised gains	407,013	172,878
Goodwill written off arising from disposal of subsidiaries	(273)	-
Reserve written off arising from disposal of subsidiaries	<u>(597)</u>	<u>-</u>
	<u>406,143</u>	<u>172,878</u>

[CONSOLIDATED BALANCE SHEET]

	As at 30 September 2000 (unaudited) HK\$'000	As at 31 March 2000 (audited) HK\$'000
Intangible fixed assets	1,887,850	1,887,850
Tangible fixed assets	574,319	503,074
Construction-in-progress	127,574	55,766
Investment	487,436	123,934
Current assets	<u>6,312,283</u>	<u>5,509,719</u>
Current liabilities	<u>3,717,902</u>	<u>2,888,743</u>
Net current assets	<u>2,594,381</u>	<u>2,620,976</u>
	<u>5,671,560</u>	<u>5,191,600</u>
Capital and reserves	5,589,500	5,040,178
Minority interests	58,960	10,506
Long-term liabilities	<u>23,100</u>	<u>140,916</u>
	<u>5,671,560</u>	<u>5,191,600</u>

CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 September 2000 (unaudited) HK\$'000
Net cash inflow from operating activities	179,220
Net cash outflow from returns on investments and servicing of finance	(99,097)
Total taxation paid	(6,590)
Net cash outflow from investing activities	<u>(487,991)</u>
Net cash outflow before financing	(414,458)
Net cash inflow from financing	<u>326,222</u>
Decrease in cash and cash equivalents	(88,236)
Effect of foreign exchange rate changes	4,318
Cash and cash equivalents at the beginning of the year	<u>2,037,713</u>
Cash and cash equivalents at the end of the interim period	<u>1,953,795</u>

Notes:

1. Basis of preparation

The Directors are responsible for the preparation of the Group's unaudited interim financials. In preparing the unaudited interim financials, the Directors confirm that the same accounting policies and methods of computation as set out in the Group's annual accounts for the year ended 31 March 2000 have been consistently adopted.

These unaudited interim financials have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. Principal activities and geographical analysis of operations

	6 months ended 30 September 2000 (unaudited) HK\$'000		6 months ended 30 September 1999 (unaudited) HK\$'000	
	Turnover	Contribution to operating profit	Turnover	Contribution to operating profit
Legend PC and other access devices	7,795,919	323,623	3,618,629	161,518
Motherboards	539,780	47,836	440,228	(24,078)
Internet services	59,382	(47,030)	–	–
Foreign brand distribution	3,459,701	75,042	2,503,791	40,677
Systems integration	900,360	4,844	542,007	(5,676)
Others	335,190	34,375	228,698	1,170
Total	13,090,332	438,690	7,333,353	173,611
People's Republic of China ("PRC")	12,445,102	370,305	6,795,789	186,448
Asia Pacific (excluding PRC)	208,029	19,207	99,732	(7,939)
North America	154,456	23,962	131,823	2,488
Europe	282,745	25,216	306,009	(7,386)
Total	13,090,332	438,690	7,333,353	173,611

3. Profit from operations

	3 months ended	6 months ended	3 months ended	6 months ended
	30 September 2000 (unaudited) HK\$'000	30 September 2000 (unaudited) HK\$'000	30 September 1999 (unaudited) HK\$'000	30 September 1999 (unaudited) HK\$'000
(a) Turnover	7,232,456	13,090,332	3,932,493	7,333,353
Cost of sales	(6,391,884)	(11,480,791)	(3,445,781)	(6,446,049)
Gross profit	840,572	1,609,541	486,712	887,304
Other revenue	25,215	53,378	3,522	6,047
Distribution expenses	(388,482)	(711,759)	(204,265)	(343,798)
Administrative expenses	(180,860)	(383,892)	(168,437)	(289,837)
Other operating expenses	(55,236)	(110,335)	(15,703)	(65,988)
Total operating expenses (see (b))	(624,578)	(1,205,986)	(388,405)	(699,623)
Profit from operations	241,209	456,933	101,829	193,728
(b) Analysis of operating expenses by nature:				
Selling expenses	(106,171)	(237,552)	(56,690)	(142,986)
Promotional and advertising expenses	(111,658)	(238,783)	(45,985)	(84,135)
Staff costs	(212,981)	(412,781)	(191,284)	(310,861)
Other expenses	(193,768)	(316,870)	(94,446)	(161,641)
Total	(624,578)	(1,205,986)	(388,405)	(699,623)

4. Taxation

The amount of taxation charged to the profit and loss account represents:

	6 months ended 30 September 2000 (unaudited) HK\$'000	6 months ended 30 September 1999 (unaudited) HK\$'000
Hong Kong profits tax	7,745	–
Overseas taxation	6,064	810
	13,809	810
Share of taxation attributable to associated companies	285	–
	14,094	810

5. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$408,280,000 (1999/2000: HK\$173,542,000).

The basic earnings per share is based on the weighted average number of 7,442,876,075 (1999/2000: 6,989,485,492) shares in issue during the period. The diluted earnings per share is based on 7,524,943,202 (1999/2000: 7,138,629,864) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 82,067,127 (1999/2000: 149,144,372) shares deemed to be issued at no consideration if all outstanding share options had been exercised.

6. Reserves

	As at 30 September 2000 (unaudited) HK\$'000
Share premium account	
Balance brought forward	4,403,611
Issue of new shares	130,850
New issue expenses	(69)
	<u>4,534,392</u>
Balance carried forward	4,534,392
Surplus arising on consolidation	
Balance brought forward	30,439
Goodwill arising from acquisition of an associated company	93,509
Goodwill written off arising from disposal of subsidiaries	(273)
	<u>123,675</u>
Balance carried forward	123,675
Exchange reserve	
Balance brought forward	1,464
Movement during the period	4,318
	<u>5,782</u>
Balance carried forward	5,782
Other reserves	
Balance brought forward	2,494
Appropriation from retained profits	24,936
Movement during the period	(597)
	<u>26,833</u>
Balance carried forward	26,833
Investment revaluation reserve	
Balance brought forward	70,005
Depreciation in fair market value	(5,585)
	<u>64,420</u>
Balance carried forward	64,420
Retained profits	
Balance brought forward	347,135
Profit for the period	408,280
Appropriation to other reserves	(24,936)
Interim dividend	(82,939)
	<u>647,540</u>
Balance carried forward	647,540
Total	<u>5,402,642</u>

INTERIM DIVIDEND

The Directors have declared an interim dividend of 1.1 cents per share for the six months ended 30 September 2000 to shareholders whose names appear on the Register of Members of the Company on 24 November 2000. The interim dividend will be paid on or before 15 December 2000.

For the year 1999/2000, every share of 10 cents each in the issued share capital of the Company was paid an interim dividend of 2.5 cents. Such share has been subdivided into and redesignated as four shares of 2.5 cents each with effect from 8 March 2000.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 November 2000 to 24 November 2000, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Abacus Share Registrars Limited of 2401 Prince's Building, Central, Hong Kong, for registration not later than 4:00 p.m. on 21 November 2000.

BUSINESS REVIEW

Although some markets experienced a declining demand for information technology products during the period under review, appetite in the PRC market remained very keen. In line with the boom in Internet usage, the market for PCs rose nearly 40% during the first half of the year, encouraging leading global manufacturers to develop their China business in a spirit of very keen competition. Legend, however, was well positioned to leverage on its successful Internet strategy and to exploit its local niche. The outcome was a widespread growth in sales and profits, most notably for Legend PCs, which saw a surge of 100% in its unit shipment. Market share also increased and is expected to exceed 30% in the near future.

Legend Internet Access Devices

Turnover for Legend Internet access device business recorded 115% strong growth. With sales of Legend PCs building successfully on the Group's understanding of the needs of PRC users, its widely established sales and marketing networks and its comprehensive after-sales services, the Legend brand computers continue to be the PRC's best seller, as well as ranking first in the Asia-Pacific region (excluding Japan). During the first quarter of the fiscal year, market share reached 26.3% and should exceed 30% in the second quarter.

Legend sales reached new highs with home PCs and notebook computers up 164% and 127% respectively. Following the rollout of the Conet PC last year, Legend launched the Tongxi Internet PC during the period under review, targeting the home market and further extending the "one touch to the net" function to the low-end mass market.

During the first half of the fiscal year, Legend brought numerous new products to market including, among others, the super slim Soleil notebook S600; the commercial PC Doctor of Commerce 1000 series, the Gemini and Sunchase new series; the PDAs Tianji 800 and 810; and the Wanquan 1160, 2400C, 2450r, 1050r, 4200, 4600r and 8000r servers, etc. The Legend Soleil notebook computer comes pre-installed with China Telecom's 163 nation-wide roaming Internet connection accounts.

Turning to Legend's sales channels, the number of distributors for Internet access device products increased from 2,000 to 3,200, while there are now 158 Legend 1+1 Home PC Specialty Shops, up from 100. Driven by the commitment to enhancing customer service quality, a call centre, building on customer relations management (CRM) concepts, is now in operation. This is the largest call centre in the industry, with close to 200 well-trained hotline customer service engineers providing 24 x 365 consultation service.

In the area of marketing activities, Legend implemented a large scale and highly influential one-year promotional campaign, which kicked off in Chengdu and moved across the country to penetrate 300 cities. Activities were themed along two main lines: "Internet Journey in the New Era", which targeted commercial users and "Legend's New Life on the Internet", which targeted the consumer market. To enhance customers' understanding of Legend's service policies, products, service channels and quality, the Group also launched the high impact "Legend's Service is Around You" campaign in 20 cities in the PRC during past two months.

Legend's products have won numerous industry awards. The "Happy Family" software series was ranked one of the ten best software products in the 2000 open competition for top electronic products in the PRC market, and the Legend Soleil notebook S600 won first prize in a notebook computer test organised by "Info Buyer" of *China InfoWorld*. Moreover, Legend continued to receive the highest ranking for after-sales services for its desktop PCs in the "2000 Computer Products Customer Service Satisfaction Poll".

Internet Services

In a cooperative venture between China Telecom and Legend's FM365, Legend Internet access devices come pre-installed with Internet connection services for both home users and commercial institutions. Currently, FM365 has over 520,000 registered users for its ISP service with an average monthly usage time of 16 hours.

Beside providing Internet connection services, FM365 also offers varied website content. This has been enriched by adding five new channels, including sports, home, travel, careers and health. Online browsing, electronic magazine ordering services and celebrity and regional personalised chat rooms were also given a simultaneous launch. FM365's current daily page view is running at approximately 9.6 million, with over 750,000 free e-mail service users and approximately 2,500 simultaneous on-line users for the celebrity chat room.

The financial arena is one of Legend's major areas of development. During the period under review, Legend acquired 5,433,947 series B preferred shares of Yestock Limited ("Yestock") at US\$9.20 per share. The acquisition was equivalent to 40% of Yestock's shares on an as converted and fully diluted basis. As a leader in securities e-commerce and a pioneer in m-commerce, Yestock currently has 119 sales branches of securities companies using its

securities e-commerce platform service. Yestock's m-commerce platform covers 16 regions, with 12,000 mobile phone users using Yestock's platform to trade stocks. Yestock's financial portal has an average of over 10 million daily page views and 980,000 registered users. By investing in Yestock, Legend has accelerated its ability to secure the use of advanced technologies, expertise and market resources.

The education sector is another major area of emphasis for Legend's Internet business. In cooperation with the renowned education institution, The Affiliated High School of Peking University, Legend has built a site for primary and secondary long-distance education. FM365 also provides adult education services and has signed an exclusive agreement with the National Higher Education Self-Learning Examination Committee in the PRC, in an alliance that provides professional e-commerce courses also certified by means of an examination. According to FM365's latest hit rate statistics, the education channel is the most popular channel after the news. In the future, the Group will team up with further traditional educational institutions to develop the on-line education business.

Distribution of Foreign Brand Computer-Related Products

Foreign brand distribution business recorded 38% growth during the period. Legend is committed to transforming its traditional distribution business into on-line distribution, and it thus formed Digital China Limited during the first half of the year to launch an e-distribution platform providing on-line distribution and services for foreign brand IT products. This platform uses the most advanced technology and was jointly developed by Legend and a well-known overseas consultant firm. At the front end, distributors can obtain information and place orders through the website, e-bridge.com.cn, and the call centre. At the back end, the system is connected to the Group's internal ERP system, enhancing the internal review and processing of customer orders. Distributors can track orders through the system and obtain information such as product catalogues, pricing, settlement details, and inventory and delivery status, thus greatly enhancing overall operating efficiency.

The first stage of the project will be implemented primarily in Beijing, involving 30 core distributors in the initial pilot run and extending to over 300 additional distributors before the end of the year. Starting next year, the Group expects to promote its platform to distributors outside Beijing and to cover over 3,000 distributors across the PRC within the year.

With the launch and application of this platform and system, Legend has become the PRC's e-commerce pioneer. In the future, the Group will further develop its e-commerce business through cooperation with foreign advanced technology companies.

Systems Integration

The systems integration business experienced some adjustments during the period under review. Legend nevertheless obtained several contracts with major customers including Beijing Rural Credit Corporate Bank, Shenzhen Huawei Integrated Circuit Designing Company Limited, State Administration of Taxation People's Republic of China, Immigration and Emigration Administration Bureau of State Public Security, China Unicom Import and Export Company Limited, etc.

The most significant development in terms of products was the launch of Legend's comprehensive electronic banking solution Sm@rtBanking product series. The launch of these products reaffirms Legend's leading role in the financial industry.

The Group has also established a technical support centre whose experienced customer service engineers respond promptly to customer enquiries.

Networking Products

With the rapid development of the Internet, demand for networking products increased significantly. Legend formed a joint venture company with international networking company D-Link in the previous quarter in order to launch a wide range of new brand name networking products. Currently, more than twenty different products were introduced, including Easy-Link, Inter-Link and Giga-Link series. Among them, hubs captured the largest market share. The Giga-Link series products were very well received by the market on launch. Legend's development strategy includes rolling out other medium and high-end networking products.

Motherboard Manufacturing

The motherboard business maintained stable growth with sales increasing more than 60% during the first half of the year. During this period, Legend continued to improve the flow of its board designs, further shortening the development cycle while enhancing design capabilities. Through its large-scale promotion and marketing activities, the Group strengthened its exploration of local and overseas OEM customers and the systems integration market. New products launched in this area include the Advance 11M, Kinetiz 7T, SynactiX 1 and the Superb 3L series.

Other Developments

The rapid development of all its businesses has substantially enhanced Legend's reputation in Hong Kong and around the world. During the first half of the year, Legend won a number of awards in Hong Kong and internationally, and was included as a constituent stock of the Hang Seng Index. Legend was ranked by *Investor Relations*, a leading UK financial magazine as "Best Asia-Pacific Company for Investor Relations in the UK market" for 2000. Additionally, according to the recently published Reuters 2000 Hong Kong and PRC research report, Legend's investor relations were again widely acknowledged. Legend ranked first in 11 of the 13 criteria in the research, reaffirming Legend's strong reputation, the openness of its management style and its high degree of transparency.

[PROSPECTS]

Management believes that Legend has unique competitive edges in the world's largest and most rapidly growing computer market, the PRC. The Group is adopting the most advanced management practices and up-to-date technologies from around the world to exploit these advantages in the PRC. This in turn will maximise the benefits to the Group and enhance shareholders' returns.

Looking ahead, Legend will leverage on the competitive edges gained from the PRC information technology market to continuously focus on its two core businesses, the Internet and e-commerce, in order to become a provider of full-range Internet products and comprehensive Internet services.

[DIRECTORS' INTERESTS IN SECURITIES]

Interests in shares

As at 30 September 2000, according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Directors' interests in and rights to acquire shares of the Company were as follows:

Name of Director	Number of shares		
	Personal interest	Family interest	Total interest
LIU Chuanzhi	8,960,000	256,000	9,216,000
LI Qin	5,360,000	–	5,360,000
ZENG Maochao	4,080,000	–	4,080,000
YANG Yuanqing	5,200,000	–	5,200,000
GUO Wei	5,040,000	–	5,040,000
MA Xuezheng	16,464,000	560,000	17,024,000

Rights to acquire shares

On 5 June 2000, Legend Group Holdings Co., the controlling shareholder of the Company, granted call options to certain persons including the following Directors pursuant to which they are respectively entitled (subject to certain conditions) to require Legend Group Holdings Co. to sell shares, all at a price of HK\$0.5325 per share during a period ending 1 August 2007. All these call options have not yet been exercised.

Name of Director	Number of shares		
	Personal interest	Family interest	Total interest
LIU Chuanzhi	6,000,000	720,000	6,720,000
LI Qin	4,800,000	–	4,800,000
ZENG Maochao	4,000,000	600,000	4,600,000
YANG Yuanqing	4,000,000	–	4,000,000
GUO Wei	4,000,000	–	4,000,000
MA Xuezheng	4,000,000	2,000,000	6,000,000

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Group by certain Directors, as at 30 September 2000, none of the Directors or their associates had any interests in any shares of the Company or any of its associated corporations as recorded by the register of the Company pursuant to the SDI Ordinance.

[SUBSTANTIAL SHAREHOLDERS]

As at 30 September 2000, according to the register maintained by the Company under Section 16(1) of the SDI Ordinance, the interests of the substantial shareholders in the shares of the Company were as follows:

Name of Shareholder	No. of shares beneficially held	% of total issued shares
Legend Group Holdings Co.	4,241,299,144	57
Right Lane Limited	1,390,490,420	19

Note: Right Lane Limited is a wholly-owned subsidiary of Legend Group Holdings Co. Therefore, the number of shares in which Right Lane Limited is shown as being interested are part of the shares in which Legend Group Holdings Co. is shown to be interested.

[AUDIT COMMITTEE]

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financials. At the request of the Directors, the Group's external auditors have carried out a review of the unaudited interim financials in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

[CODE OF BEST PRACTICE]

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

[PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES]

During the six months ended 30 September 2000, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Liu Chuanzhi
Chairman

Hong Kong, 31 October 2000