



INTERIM REPORT 2001



联想
LEGEND

联想集团有限公司
LEGEND HOLDINGS LIMITED

The Directors of Legend Holdings Limited (the "Company") are pleased to submit the unaudited interim financials of the Company and its subsidiaries (the "Group") in respect of the first six months of the financial year ending 31 March 2002 together with comparative figures for the corresponding period of last year.

ACTUAL CONSOLIDATED INCOME STATEMENT

		3 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2001 (unaudited) HK\$'000	3 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
	Note				
Turnover	3	5,449,065	11,543,211	7,232,456	13,090,332
Earnings before interest, taxation and depreciation expenses		225,834	523,770	244,006	451,460
Depreciation expenses		(33,992)	(71,639)	(28,012)	(47,905)
Amortisation of goodwill		–	–	(145,219)	(290,438)
Interest income		18,901	41,476	25,215	53,378
Profit from operations	4	210,743	493,607	95,990	166,495
Finance costs		(597)	(11,539)	(5,765)	(18,243)
Share of losses of associated companies		(4,480)	(7,646)	(1,308)	(1,226)
Profit before taxation		205,666	474,422	88,917	147,026
Taxation	5	462	(10,960)	(4,713)	(14,094)
Profit after taxation		206,128	463,462	84,204	132,932
Minority interests		(3,577)	(10,021)	(12,171)	(15,090)
Profit attributable to shareholders		202,551	453,441	72,033	117,842
Dividends declared	6				
– before period end		N/A	990,270	N/A	133,510
– after period end		N/A	112,828	N/A	82,942
Earnings per share – basic	7	2.68 cents	6.00 cents	0.96 cents	1.58 cents
Earnings per share – fully diluted	7	2.65 cents	5.95 cents	0.96 cents	1.57 cents

PROFORMA CONSOLIDATED INCOME STATEMENT (Note 1(b))

	3 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2001 (unaudited) HK\$'000	3 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
Turnover	5,449,065	9,957,341	5,227,631	9,048,848
Earnings before interest, taxation and depreciation expenses	225,834	487,412	158,646	326,689
Depreciation expenses	(33,992)	(66,571)	(6,992)	(22,581)
Amortisation of goodwill	–	–	(145,219)	(290,438)
Interest income	18,901	40,780	35,999	74,106
Profit from operations	210,743	461,621	42,434	87,776
Finance costs	(597)	(1,430)	(3,149)	(15,627)
Share of losses of associated companies	(4,480)	(7,646)	(1,308)	(1,226)
Profit before taxation	205,666	452,545	37,977	70,923
Taxation	462	(10,960)	(4,713)	(14,094)
Profit after taxation	206,128	441,585	33,264	56,829
Minority interests	(3,577)	(6,587)	(2,884)	(5,803)
Profit attributable to shareholders	202,551	434,998	30,380	51,026
Dividends declared				
– before period end	N/A	990,270	N/A	133,510
– after period end	N/A	112,828	N/A	82,942
Earnings per share - basic	2.68 cents	5.75 cents	0.41 cents	0.69 cents
Earnings per share - fully diluted	2.65 cents	5.71 cents	0.41 cents	0.68 cents

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	6 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
Deficit on revaluation of investment securities	(59,601)	(5,585)
Exchange differences arising from translation of subsidiaries and associated companies	4,813	4,318
Net lossess not recognised in the profit and loss account	(54,788)	(1,267)
Profit for the period	453,441	117,842
Total recognised gains	398,653	116,575
Goodwill written off arising from disposal of subsidiaries and associated companies	–	(273)
	398,653	116,302

CONSOLIDATED BALANCE SHEET

	Note	As at 30 September 2001 Actual (unaudited) HK\$'000	As at 31 March 2001 Proforma (Note 1 (c)) Restated (Note 2) (unaudited) HK\$'000	As at 31 March 2001 Actual Restated (Note 2) (audited) HK\$'000
Non-current assets				
Tangible fixed assets		688,650	636,287	717,577
Construction-in-progress		278,296	199,984	199,984
Investments in subsidiaries	1(c)	–	289,137	–
Investments in associated companies		156,307	162,736	162,736
Investment securities		26,134	85,735	85,735
		<u>1,149,387</u>	<u>1,373,879</u>	<u>1,166,032</u>
Current assets				
Inventories		992,417	1,129,002	2,101,112
Accounts receivable	8	1,342,736	774,384	1,745,852
Amount due from DCHL	1(c)	–	428,845	–
Deposits, prepayments and other receivables		277,824	294,758	415,042
Cash and bank balances		2,094,575	2,382,591	2,633,651
		<u>4,707,552</u>	<u>5,009,580</u>	<u>6,895,657</u>
Current liabilities				
Accounts payable	8	1,862,403	1,603,376	2,278,804
Accruals and other payables		674,231	810,631	947,165
Tax payable		10,035	11,822	11,822
Current portion of long-term liabilities		3,625	3,625	816,709
		<u>2,550,294</u>	<u>2,429,454</u>	<u>4,054,500</u>
Net current assets		<u>2,157,258</u>	<u>2,580,126</u>	<u>2,841,157</u>
Total assets less current liabilities		<u>3,306,645</u>	<u>3,954,005</u>	<u>4,007,189</u>
Financed by:				
Share capital	9	188,047	187,849	187,849
Reserves	10	4,723,743	4,658,035	4,658,035
Accumulated losses	11	(1,645,904)	(929,266)	(929,266)
		<u>3,265,886</u>	<u>3,916,618</u>	<u>3,916,618</u>
Shareholders' funds		<u>3,265,886</u>	<u>3,916,618</u>	<u>3,916,618</u>
Minority interests		27,861	21,274	74,458
Long-term liabilities		12,898	16,113	16,113
		<u>3,306,645</u>	<u>3,954,005</u>	<u>4,007,189</u>

CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
Net cash inflow from operating activities	77,800	179,220
Net cash outflow from returns on investments and servicing of finance	(151,795)	(99,097)
Total taxation paid	(13,109)	(6,590)
Net cash outflow from investing activities	(515,971)	(385,889)
Net cash outflow before financing	(603,075)	(312,356)
Net cash inflow from financing	59,186	224,120
Decrease in cash and cash equivalents	(543,889)	(88,236)
Effect of foreign exchange rate changes	4,813	4,318
Cash and cash equivalents at the beginning of the period	2,633,651	2,037,713
Cash and cash equivalents at the end of the period	2,094,575	1,953,795

Notes:

1. Basis of preparation

- (a) The Directors are responsible for the preparation of the Group's unaudited interim financials. 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.
- (b) As the spin-off of Digital China Holdings Limited and its subsidiaries (collectively known as "DCHL") from the Group (the "Spin-off") was substantial to the operating results of the Group, the Directors have prepared unaudited proforma consolidated results of the Group for the corresponding periods as if the Spin-off had been completed as at 31 March 2000. The unaudited proforma consolidated results are prepared on a combined basis as if the current group structure had been in existence throughout the corresponding periods.
- (c) The unaudited proforma consolidated balance sheet of the Group as at 31 March 2001 has been prepared on a basis that the individual assets and liabilities of DCHL were grouped under investments and amount due from DCHL.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these unaudited condensed interim financials are consistent with those adopted by the Group in the annual accounts for the year ended 31 March 2001, except for those changes as a result of adoption of the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1 July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

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

(a) SSAP 9 (revised) "Events after balance sheet date"

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative figures have been restated to conform with the current year's policy.

Opening accumulated losses at 1 April 2000 have decreased by approximately HK\$134 million which is the reversal of the provision for proposed final dividend for year 1999/2000 previously recorded as a liability as at 31 March 2000 although declared after balance sheet date. Opening accumulated losses at 1 April 2001 have decreased by approximately HK\$990 million which is the reversal of the provisions for proposed special interim dividend and final dividend both for year 2000/01 previously recorded as liabilities as at 31 March 2001 although declared after balance sheet date. This adjustment has resulted in a decrease in current liabilities at 31 March 2001 by approximately HK\$990 million (2000: HK\$134 million) being provision for proposed dividends that is no longer required.

Changes to headings used in the balance sheet and profit and loss account relating to dividends and retained profit for the year as previously reported in 2000/01 annual report have also been made to reflect the changes resulting from the application of SSAP 9 (revised).

(b) SSAP 29 "Intangible assets"

Effective in December 1997, the Group acquired the entire equity interest in Legend (Beijing) Limited from its controlling shareholder. The intangible assets arising thereon were regarded as trademarks which were valued by an independent valuer on an open market value basis and capitalised in the consolidated balance sheet with no amortisation.

Under the new SSAP 29, the intangible assets should be regarded as goodwill on acquisition and amortised over their estimated useful lives. In view of the fact that DCHL contributed a substantial part of the operating results of the Group since the acquisition of Legend (Beijing) Limited and the rapid changing in computer technology, the Directors consider that it is prudent and appropriate to amortise the goodwill from the date of acquisition (i.e. December 1997) up to the date of announcement of the Spin-off of DCHL in March 2001. The change in accounting policy arising from the adoption of the new SSAP 29 has been applied retrospectively so that the comparatives presented have been restated to conform with the change in accounting policy.

Opening accumulated losses at 1 April 2000 have increased by approximately HK\$1,307 million which is the amount of the adjustment in respect of amortisation of goodwill relating to periods prior to year ended 31 March 2000. Opening accumulated losses at 1 April 2001 have increased by approximately HK\$1,888 million which is the amount of the adjustment in respect of amortisation of goodwill relating to periods prior to year ended 31 March 2001. A corresponding decrease in intangible fixed assets by approximately HK\$1,888 million has been reflected in the comparative 31 March 2001 consolidated balance sheet.

2. Principal accounting policies (Continued)

(b) SSAP 29 "Intangible assets" (Continued)

This adjustment in respect of amortisation of the goodwill has resulted in a decrease in profit for the 6 months ended 30 September 2000 by approximately HK\$290 million, and for the year ended 31 March 2001 by approximately HK\$581 million.

(c) SSAP 30 "Business combinations", SSAP 31 "Impairment of assets" and Interpretation 13

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 income statement.

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 income statement.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. The Group has retrospectively restated its previously reported net profits for the period ended 30 September 2000 and the year ended 31 March 2001 by decrease of HK\$nil and approximately HK\$166 million respectively for the impairment of goodwill arising from the acquisition of an associated company.

(d) For the six months ended 30 September 2000, the profit attributable to shareholders before any restatement as a result of Note 2 (b) above amounted to approximately HK\$408 million.

3. Principal activities and geographical analysis of operations

	6 months ended 30 September 2001 (unaudited)		6 months ended 30 September 2000 Restated (Note 2) (unaudited)	
	Turnover HK\$'000	Contribution to operating profit HK\$'000	Turnover HK\$'000	Contribution to operating profit HK\$'000
Consumer IT business	3,951,223	153,140	3,635,071	135,796
Corporate IT business	4,952,494	284,119	4,103,963	199,383
Handheld access devices business	125,969	(9,724)	56,884	(11,554)
Contract manufacturing business	893,420	67,446	874,970	82,209
Internet business	34,234	(34,790)	59,382	(47,030)
Others	1,585,871	21,877	4,360,062	79,886
Amortisation of goodwill	–	–	–	(290,438)
Total	11,543,211	482,068	13,090,332	148,252
People's Republic of China (the "PRC")	10,916,978	428,635	12,445,102	370,305
Asia Pacific (excluding the PRC)	210,337	17,996	208,029	19,207
North America	60,515	14,210	154,456	23,962
Europe	355,381	21,227	282,745	25,216
Amortisation of goodwill	–	–	–	(290,438)
Total	11,543,211	482,068	13,090,332	148,252

4. Profit from operations

	3 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2001 (unaudited) HK\$'000	3 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
(a) Turnover	5,449,065	11,543,211	7,232,456	13,090,332
Cost of sales	(4,780,170)	(10,034,430)	(6,391,884)	(11,480,791)
Gross profit	668,895	1,508,781	840,572	1,609,541
Other revenue	18,901	41,476	25,215	53,378
Distribution expenses	(365,673)	(747,575)	(388,482)	(711,759)
Administrative expenses	(84,633)	(208,301)	(180,860)	(383,892)
Other operating expenses	(26,747)	(100,774)	(55,236)	(110,335)
Amortisation of goodwill	-	-	(145,219)	(290,438)
Total operating expenses (see (b))	(477,053)	(1,056,650)	(769,797)	(1,496,424)
Profit from operations	210,743	493,607	95,990	166,495
(b) Analysis of operating expenses by nature:				
Selling expenses	(116,897)	(227,357)	(106,171)	(237,552)
Promotional and advertising expenses	(118,632)	(251,066)	(111,658)	(238,783)
Staff costs	(150,216)	(337,258)	(212,981)	(412,781)
Other expenses	(91,308)	(240,969)	(193,768)	(316,870)
Amortisation of goodwill	-	-	(145,219)	(290,438)
Total	(477,053)	(1,056,650)	(769,797)	(1,496,424)

5. Taxation

The amount of taxation charged to the consolidated income statement represents:

	3 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2001 (unaudited) HK\$'000	3 months ended 30 September 2000 (unaudited) HK\$'000	6 months ended 30 September 2000 (unaudited) HK\$'000
Hong Kong profits tax	942	2,426	2,370	7,745
Overseas taxation	(775)	8,873	2,060	6,064
	167	11,299	4,430	13,809
Share of taxation attributable to associated companies	(629)	(339)	283	285
	(462)	10,960	4,713	14,094

6. Dividends

	6 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
Dividends declared before period end (Note 2 (a))		
Special interim dividend in respect of the Spin-off of DCHL	808,538	–
Final dividend – 2.4 HK cents per share (1.8 HK cents in the last corresponding period)	<u>181,732</u>	<u>133,510</u>
	<u>990,270</u>	<u>133,510</u>
Dividends declared after period end		
Interim dividend – 1.5 HK cents per share (1.1 HK cents in the last corresponding period)	<u>112,828</u>	<u>82,942</u>

7. Earnings per share

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

	6 months ended 30 September 2001 (unaudited) HK\$'000	6 months ended 30 September 2000 Restated (Note 2) (unaudited) HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>453,441</u>	<u>117,842</u>
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share	7,558,191,933	7,442,876,075
Effect of dilutive potential shares:		
Share options	<u>66,380,546</u>	<u>82,067,127</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>7,624,572,479</u>	<u>7,524,943,202</u>

8. Ageing analysis

Ageing analysis of accounts receivable as at 30 September 2001 is as follow:

	As at 30 September 2001 (unaudited) HK\$'000	As at 30 June 2001 (unaudited) HK\$'000	As at 31 March 2001 (audited) HK\$'000
0-30 days	1,290,665	1,410,964	1,248,743
31-60 days	27,761	47,750	257,662
61-90 days	8,536	5,601	62,752
Over 90 days	15,774	9,761	176,695
	<u>1,342,736</u>	<u>1,474,076</u>	<u>1,745,852</u>

Ageing analysis of accounts payable as at 30 September 2001 is as follow:

	As at 30 September 2001 (unaudited) HK\$'000	As at 30 June 2001 (unaudited) HK\$'000	As at 31 March 2001 (audited) HK\$'000
0-30 days	1,306,272	1,662,776	1,754,351
31-60 days	80,912	16,317	136,744
61-90 days	61,637	31,006	33,698
Over 90 days	413,582	322,422	354,011
	<u>1,862,403</u>	<u>2,032,521</u>	<u>2,278,804</u>

9. Share capital

	As at 30 September 2001 (unaudited) HK\$'000	As at 31 March 2001 Restated (Note 2) (audited) HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
Beginning of period/year	187,849	185,030
Exercise of share options	1,456	2,532
Issue and allotment of consideration shares	–	287
Shares repurchased and cancelled	<u>(1,258)</u>	<u>–</u>
End of period/year	<u>188,047</u>	<u>187,849</u>

10. Reserves

	As at 30 September 2001 (unaudited) HK\$'000	As at 31 March 2001 Restated (Note 2) (audited) HK\$'000
Share premium account		
Balance brought forward	4,589,893	4,403,611
Issue of new shares	119,238	186,351
New issue expenses	–	(69)
	<hr/>	<hr/>
Balance carried forward	4,709,131	4,589,893
Surplus arising on consolidation		
Balance brought forward	4,715	32,933
Goodwill arising from acquisition of subsidiaries and associated companies	–	(27,845)
Goodwill written off arising from disposal of subsidiaries and associated companies	–	(373)
	<hr/>	<hr/>
Balance carried forward	4,715	4,715
Exchange reserve		
Balance brought forward	336	1,464
Movement during the period/year	4,813	(1,128)
	<hr/>	<hr/>
Balance carried forward	5,149	336
Investment revaluation reserve		
Balance brought forward	63,091	70,005
Decrease in fair market value	(59,601)	(6,914)
	<hr/>	<hr/>
Balance carried forward	3,490	63,091
Share redemption reserve		
Balance brought forward	–	–
Movement during the period/year	1,258	–
	<hr/>	<hr/>
Balance carried forward	1,258	–
Total	<hr/> 4,723,743 <hr/>	<hr/> 4,658,035 <hr/>

11. Accumulated losses

	As at 30 September 2001 (unaudited) HK\$'000	As at 31 March 2001 Restated (Note 2) (audited) HK\$'000
At 1 April 2001/2000 as previously reported	30,866	347,135
Effect of adopting SSAP 9 (Revised)	989,730	133,510
Effect of adopting SSAP 29	(1,887,850)	(1,306,973)
Effect of adopting SSAP 31	(165,640)	-
Reversal of transfer to other reserves	103,628	-
As at 1 April 2001/2000 as restated	(929,266)	(826,328)
Dividend paid	(990,270)	(216,452)
Profit for the period/year	453,441	113,514
Repurchase of shares	(179,809)	-
Accumulated losses	<u>(1,645,904)</u>	<u>(929,266)</u>

12. Condensed balance sheet of the Company

	As at 30 September 2001 (unaudited) HK\$'000	As at 31 March 2001 Restated (Note 2) (audited) HK\$'000
Tangible fixed assets	4,418	5,713
Investments	2,327,875	2,327,975
Current assets	3,251,860	3,875,484
Current liabilities	(374,979)	(63,008)
Net current assets	<u>2,876,881</u>	<u>3,812,476</u>
Total assets less current liabilities	<u>5,209,174</u>	<u>6,146,164</u>
Capital	188,047	187,849
Reserves	4,710,389	4,589,893
Retained profits	310,434	1,368,118
Long-term liabilities	304	304
	<u>5,209,174</u>	<u>6,146,164</u>

DECLARED INTERIM DIVIDEND

The Directors have declared an interim dividend of 1.5 HK cents per share for the year ending 31 March 2002, absorbing an aggregate amount of approximately HK\$113 million, to shareholders whose names appear on the Register of Members of the Company on 28 November 2001. The interim dividend will be paid on or before 18 December 2001.

An interim dividend of 1.1 HK cents per share, totalling approximately HK\$83 million, was paid in the corresponding period of last year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26 November 2001 to 28 November 2001, 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 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong, for registration not later than 4:00 p.m. on 23 November 2001.

BUSINESS REVIEW

The first half of the financial year has seen sluggish growth at best across major world markets, and the information technology ("IT") industry has not been immune from the global slowdown. In China, however, the economic situation has proved much more positive. Gross Domestic Product ("GDP") has grown by 7.6% across the first three quarters of the year, while at the same time the disposable income of the urban population has risen a healthy 7.4%. Statistics compiled by market research company show that the PRC's PC market still maintained healthy development across the first three quarters of the year. However, due to the cooling down of the Internet fever, stock market slump and slower export growth, the growth of China PC market slowed down as compared to last year.

Throughout this period, management has adopted prompt and flexible measures for stimulating growth. To maintain its competitive edge, Legend has continued to introduce both exciting new products and enhanced value-added services, all the time maintaining keen pricing structures and market competitiveness. On the other hand, the Group has adjusted procurement and production plan and also tightened cost and inventory controls, resulting in satisfactory overall growth in both turnover and profit.

The Group's pro-forma turnover in the first half of the financial year amounted to HK\$9,957 million, an increase of 10% over last year's corresponding period. Pro-forma profit attributable to shareholders was HK\$435 million, a 27.4% rise when compared to the same period a year ago (before amortisation of goodwill). 1,446,600 Legend PCs were sold in the period under review, and the Group expects to maintain its 30% share of the PC market.

The management strongly believes that IT industry in the PRC has great development potential. This is especially true in small-and-medium-sized enterprises ("SMEs") and government organisations where demand for IT services is particularly strong. Earlier this year the Group announced its new business strategy of transforming from a product-oriented to a service-oriented company, and since then it has introduced a number of measures to streamline this transformation. Enhanced training of staff, channel and customer is now being provided, along with transformation of the existing channels and developing new ones. The Group is also continuing to actively promote development of management information system. The first phase of the Customer Relationship Management ("CRM") system was in place by September, handling marketing, channel management and services. Investment in research and development ("R&D") has also increased, and new R&D alliances have been established with foreign companies with the aim of tapping into the best of international technology and design developments. During the period under review, the Group has achieved initial success in forward-looking technologies including information securities and wireless technology. This range of activities has laid a very solid foundation for the Group's future.

Legend's major business developments during the first half of 2001/02 are as follows:

Consumer IT Business: During the first half of the financial year, turnover grew 9%, with a total of 603,700 computers being sold. The Group introduced LCD computers in this period, bringing the PRC's PC market into the LCD computer era ahead of most parts of the world. Legend's mainstream models P4 and LCD computers each accounted for nearly 40% of sales in the home PC market during the first half of the financial year. To maintain its dominant market share, the Group launched a series of promotional activities during the summer, and enhanced PC configuration at competitive prices.

The Group has expanded its sales channels, with the number of Legend 1+1 Specialty Shops increasing from 260 in last financial year to 450 this year. This expansion means that, together with its distributors and other retail outlets, Legend now has a more comprehensive consumer product distribution network around the country, allowing it to stay closer to its customers and to provide even higher levels of service.

Corporate IT Business: Turnover grew 21% in the period under review, unit shipment reached 735,300, operating profits also increased by 42%. These results prove that the Group's new service-oriented business strategy has achieved strong initial success. To support the PRC government's "School Link" promotion, the Group has developed and introduced PCs and servers specially designed for educational use. The Group's "Legend e-classroom" solution has helped it bid successfully for the tenders of over twenty education projects during the second quarter. Elsewhere, the PRC government's active promotion of development of IT infrastructure has increased the awareness of various government departments in computerisation. During the review period, the Group successfully won the China State Tax Bureau tender for its "Golden Tax Project" for 22 provinces.

Also in this period, the Group launched a number of new commercial PCs with its "Kaitian", "Qitian" and "Yangtian" series. The successful "Kaitian" series has obtained 34 national patents, and received the CCID's "Innovative Technology Award".

To make its sales channels more service-oriented, the Group has been providing systematic management training to its core agents' management personnel. Channel engineers are also provided with a course of professional training, with final certification. The Group has targeted SME owners with a series of consultative training sessions on management information systems, and has introduced a number of SME solution packages. In addition, a series of one-on-one promotions targeting over a thousand SMEs, called the "Hand-in-hand" project, has been implemented. SMEs will shortly be even better served with 186 Commercial IT Specialty Shops being set up.

Handheld Access Device Business: In the first half of the financial year, 217,500 handheld access devices were sold, representing a rise of 80% over the corresponding period of last year. Since the launch of the high-end pocket PC, sales have surged, making Legend now the major supplier in the PRC market. This period also saw the Group form a strategic alliance with Siemens to develop the first batch of handheld devices using GPRS wireless communication technology, a product on course for rolling out next year.

Legend is also committed to developing handheld device applications for different specific industries, and to this end has formed the Handheld Device Alliance, now with over fifty developers as members. The alliance has received strong backing from Microsoft and Intel, and is currently providing application solutions to sectors as diverse as insurance, securities, military, transport, medicine and the retail logistics management.

Internet Service Business: During the review period, the Group announced to contemplate to form a joint venture with the renowned interactive service provider, AOL, with the aim of jointly developing the PRC market. Business plans, currently under development, will be launched in the near future.

Contract Manufacturing Business: In the first half of the financial year, the Group sold 1,790,000 motherboards and 4,840,000 square feet of printed circuit boards. A survey conducted by China's *Computer Magazine* revealed that Legend's motherboard production ranked fourth in the PRC market in 2001 for its stability, reasonable pricing and cutting-edge technology.

Legend and Gigabyte recently announced to contemplate to form a joint venture for developing a large-scale contract manufacturing business, with the production base located in the PRC. Each company owns a 50% interest in the joint venture and will inject their motherboard production facilities in Huiyang and Dongguan respectively into the joint venture. The total investment cost is expected to be HK\$250 million.

PROSPECTS

Management is confident that the PRC's economy will continue to maintain stable growth. This is particularly evident from a number of major recent developments, including Beijing's successful bid to host the 2008 Olympic Games, China's WTO accession, the PRC government's increasing investment which in turn is driving internal demand, and the rapid development of SMEs and private companies. The business opportunities in the PRC's computer market are extensive and valuable. Legend will play a major role in the PRC's IT future, as the Group's flexible strategies continue to enable it to react promptly to an ever-changing market, ensuring healthy business growth. Undistracted by short-term market uncertainties, Legend will remain focused on enhancing its core competitiveness, laying a solid foundation for future development.

DIRECTORS' INTERESTS IN SHARES

Interests in shares

As at 30 September 2001, according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of each Director in shares of the Company or any associated corporations were as follows:

	Number of shares in the Company		
	Personal interest	Family interest	Total interest
LIU Chuanzhi	9,260,000	256,000	9,516,000
ZENG Maochao	4,080,000	–	4,080,000
YANG Yuanqing	5,450,000	–	5,450,000
MA Xuezheng	16,714,000	2,360,000	19,074,000

	Number of shares in Digital China Holdings Limited (an associated corporation of the Company)		
	Personal interest	Family interest	Total interest
LIU Chuanzhi	896,000	25,600	921,600
ZENG Maochao	408,000	–	408,000
YANG Yuanqing	520,000	–	520,000
MA Xuezheng	1,646,400	–	1,646,400

Rights to acquire shares

Share options to subscribe for shares of the Company have been granted to the following Directors pursuant to the Company's share option scheme adopted on 18 January 1994. Particulars of the outstanding share options as at 30 September 2001 were as follows:

	Date of grant	Number of share options granted	Exercise price per share (HK\$)	Exercise period	Number of shares issuable upon exercise of the options as at 30.09.2001
LIU Chuanzhi	31.08.2001	3,000,000	2.876	31.08.2001 to 30.08.2011	3,000,000
YANG Yuanqing	16.04.2001	6,000,000	4.072	16.04.2001 to 15.04.2011	6,000,000
	31.08.2001	3,000,000	2.876	31.08.2001 to 30.08.2011	3,000,000
MA Xuezheng	16.04.2001	2,920,000	4.072	16.04.2001 to 15.04.2011	2,920,000
	31.08.2001	1,600,000	2.876	31.08.2001 to 30.08.2011	1,600,000

The Directors have not yet exercised any of the above share options.

DIRECTORS' INTERESTS IN SHARES (Continued)

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

	Number of shares		
	Personal interest	Family interest	Total interest
LIU Chuanzhi	6,000,000	720,000	6,720,000
ZENG Maochao	4,000,000	600,000	4,600,000
YANG Yuanqing	4,000,000	–	4,000,000
MA Xuezheng	4,000,000	–	4,000,000

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 2001, 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 INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 September 2001, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance and so far as is known to the Directors, the persons who are, directly or indirectly, interested in ten per cent or more of the issued share capital of the Company were as follows:

	Note	Number of shares	% of total issued shares
Legend Group Holdings Limited	1	4,278,407,144	57%
Employees' Shareholding Society of Legend Group Holdings Limited	2	4,278,407,144	57%
Right Lane Limited	3	1,390,490,420	18%

Notes:

1. The controlling shareholder of the Company has changed its name from “聯想集團控股公司” to “聯想控股有限公司”. Its English name is translation of registered name in Chinese.
2. Employees' Shareholding Society of Legend Group Holdings Limited is an equity holder of Legend Group Holdings Limited which in turn wholly owns Right Lane Limited and is therefore taken to be interested in the shares held by those two companies respectively.
3. Right Lane Limited is a wholly-owned subsidiary of Legend Group Holdings Limited. 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 Limited is shown to be interested.

LIQUIDITY AND FINANCIAL RESOURCES

At the period end, the Group had cash and bank deposits of approximately HK\$2,095 million (2000/01: HK\$2,634 million) and outstanding bank borrowings and other loans of approximately HK\$16 million (2000/01: HK\$832 million, of which HK\$813 million was borrowed for DCHL business). There are no assets held under finance lease as at the period end (2000/01: nil).

The Group continued to follow the practice of prudent cash management during the period. When necessary, the Group will engage in currency hedging against exchange risks.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

The Group's gearing ratio at the period end was 0.005 (2000/01: 0.21) which is calculated based on the Group's total borrowings at approximately HK\$16 million (2000/01: HK\$832 million) and shareholders' funds of approximately HK\$3,266 million (2000/01: HK\$3,917 million). The Group has adopted a prudent borrowing policy with its gearing ratio being maintained at an acceptable level.

The capital expenditure of the Group for the period amounted to approximately HK\$202 million (2000/01: HK\$386 million).

Management is comfortable that the existing financial resource will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management believes that the Group is in a good position to obtain financing on favourable terms.

Contingent liabilities and capital commitments

The Group had no material contingent liabilities and capital commitments as at the period end and at 31 March 2001.

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

During the six months ended 30 September 2001, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration paid (including expenses) HK\$'000
August 2001	30,882,000	4.225	3.400	122,686
September 2001	19,422,000	3.375	2.575	57,123

The repurchased shares were subsequently cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share redemption reserve 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 period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim financials.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period under review, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, except that Non-Executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

By Order of the Board
Liu Chuanzhi
Chairman

Hong Kong, 7 November 2001