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Legend Group Limited 聯想集團有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

2003/04 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The Directors of Legend Group Limited (the “Company”) are pleased to announce that the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended 30 June 2003 together with comparative figures for the corresponding period of last year are as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	3 months ended 30 June 2003 (unaudited) HK\$'000	3 months ended 30 June 2002 (unaudited) HK\$'000
Turnover	3	<u>5,341,739</u>	<u>4,796,352</u>
Earnings before interest, taxation depreciation and amortisation expenses		307,328	300,437
Depreciation expenses		(48,197)	(32,015)
Amortisation of intangible assets		(6,793)	(1,838)
Gains on disposal of investment securities		–	6,401
Interest income		21,045	13,591
Profit from operations	4	<u>273,383</u>	286,576
Finance costs		–	–
		273,383	286,576
Share of losses of jointly controlled entities		(8,629)	(18,251)
Share of profits of associated companies		5,109	7,207
Profit before taxation		269,863	275,532
Taxation	5	3,405	(10,919)
Profit after taxation		273,268	264,613
Minority interests		4,988	3,303
Profit attributable to shareholders		<u>278,256</u>	<u>267,916</u>
Earnings per share – basic	7	<u>3.73 cents</u>	<u>3.57 cents</u>
Earnings per share – fully diluted	7	<u>3.72 cents</u>	<u>3.56 cents</u>

CONSOLIDATED BALANCE SHEET

	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
Non-current assets		
Intangible assets	113,828	120,621
Tangible fixed assets	821,707	845,976
Construction-in-progress	211,808	174,138
Investments in jointly controlled entities	189,836	198,549
Investments in associated companies	101,085	101,613
Investment securities	83,636	73,649
Deferred tax assets	9,390	–
	<u>1,531,290</u>	<u>1,514,546</u>
Current assets		
Inventories	1,528,180	1,269,051
Trade receivables	994,097	553,516
Notes receivable	398,696	383,412
Deposits, prepayments and other receivables	238,953	226,748
Cash and bank balances	2,935,948	2,808,323
	<u>6,095,874</u>	<u>5,241,050</u>
Current liabilities		
Trade payables	1,950,904	1,588,632
Notes payable	486,171	279,381
Accruals and other payables	678,408	630,779
Tax payable	4,893	8,212
	<u>3,120,376</u>	<u>2,507,004</u>
Net current assets	<u>2,975,498</u>	<u>2,734,046</u>
Total assets less current liabilities	<u>4,506,788</u>	<u>4,248,592</u>
Financed by:		
Share capital	186,700	186,934
Reserves	4,269,929	4,001,587
	<u>4,456,629</u>	<u>4,188,521</u>
Shareholders' funds	<u>4,456,629</u>	<u>4,188,521</u>
Minority interests	50,159	59,741
Deferred tax liabilities	–	330
	<u>4,506,788</u>	<u>4,248,592</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months ended 30 June 2003 (unaudited) HK\$'000	3 months ended 30 June 2002 (unaudited) HK\$'000
Net cash inflow from operating activities	210,268	315,579
Net cash outflow from investing activities	(62,508)	(10,442)
Net cash (outflow)/inflow from financing activities	(20,124)	1,887
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Increase in cash and cash equivalents	127,636	307,024
Effect of foreign exchange rate changes	(11)	(1,482)
Cash and cash equivalents at the beginning of the period	2,808,323	2,441,169
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Cash and cash equivalents at the end of the period	2,935,948	2,746,711
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Surplus arising on consolidation (unaudited) HK\$'000	Exchange reserve (unaudited) HK\$'000	Investment revaluation reserve (unaudited) HK\$'000	Share redemption reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance as at 1 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	-	-	-	-	9,987	-	-	9,987
Exchange differences	-	-	-	(11)	-	-	-	(11)
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Net gains and losses not recognised in the profit and loss account	-	-	-	(11)	9,987	-	-	9,976
Profit for the period	-	-	-	-	-	-	278,256	278,256
Repurchase of shares	(234)	-	-	-	-	234	(20,124)	(20,124)
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As at 30 June 2003	186,700	4,734,055	27,871	4,300	(4,509)	2,823	(494,611)	4,456,629
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Balance as at 1 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	-	-	-	-	(10,344)	-	-	(10,344)
Exchange differences	-	-	-	(1,481)	-	-	-	(1,481)
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Net losses not recognised in the profit and loss account	-	-	-	(1,481)	(10,344)	-	-	(11,825)
Profit for the period	-	-	-	-	-	-	267,916	267,916
Reserve realised upon disposal of investment securities	-	-	-	-	(6,400)	-	-	(6,400)
Exercise of share options	16	1,871	-	-	-	-	-	1,887
Repurchase of shares	(50)	-	-	-	-	50	(5,765)	(5,765)
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As at 30 June 2002	187,667	4,734,055	27,893	2,674	(3,229)	1,856	(1,023,069)	3,927,847
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Notes:

1. Basis of preparation

The Directors are responsible for the preparation of the Group's unaudited quarterly financials. These unaudited quarterly financials have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. These condensed accounts should be read in conjunction with the audited accounts for the year ended 31 March 2003.

2. Principal accounting policies

The principal accounting policies and methods of calculations used in the preparation of these unaudited quarterly financials are consistent with those used in the annual accounts for the year ended 31 March 2003 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 "Income taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

3. Turnover, revenue and segment information

3A. *Primary reporting format – geographical segments*

(i) For the three months ended 30 June 2003:

	People's Republic of China ("PRC") (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Profit and loss account			
Turnover	<u>5,268,597</u>	<u>73,142</u>	<u>5,341,739</u>
Segment operating results	<u>268,533</u>	<u>(9,402)</u>	259,131
Amortisation of intangible assets	(6,793)	–	(6,793)
Finance income			21,045
Finance costs			<u>–</u>
Contribution to operating profit			273,383
Share of losses of jointly controlled entities	(8,629)	–	(8,629)
Share of profits of associated companies	5,109	–	<u>5,109</u>
Profit before taxation			269,863
Taxation			<u>3,405</u>
Profit after taxation			273,268
Minority interests			<u>4,988</u>
Profit attributable to shareholders			<u><u>278,256</u></u>

(ii) For the three months ended 30 June 2002:

	PRC (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Profit and loss account			
Turnover	<u>4,698,101</u>	<u>98,251</u>	<u>4,796,352</u>
Segment operating results	<u>259,335</u>	<u>9,087</u>	268,422
Gains on disposal of investment securities	6,401	–	6,401
Amortisation of intangible assets	(1,838)	–	(1,838)
Finance income			13,591
Finance costs			–
Contribution to operating profit			286,576
Share of losses of jointly controlled entities	(18,251)	–	(18,251)
Share of profits of associated companies	7,207	–	<u>7,207</u>
Profit before taxation			275,532
Taxation			<u>(10,919)</u>
Profit after taxation			264,613
Minority interests			<u>3,303</u>
Profit attributable to shareholders			<u><u>267,916</u></u>

3B. Secondary reporting format – business segments

(i) For the three months ended 30 June 2003:

	Turnover (unaudited) HK\$'000	Contribution to operating profit (unaudited) HK\$'000
Corporate IT business	2,578,273	177,717
Consumer IT business	2,045,080	154,684
Handheld device business	400,521	(24,257)
IT service business	109,399	(9,965)
Contract manufacturing business	208,466	(20,126)
Amortisation of goodwill	–	(4,670)
	<u>5,341,739</u>	<u>273,383</u>

(ii) For the three months ended 30 June 2002:

	Turnover (unaudited) HK\$'000	Contribution to operating profit (unaudited) HK\$'000
Corporate IT business	2,495,236	163,876
Consumer IT business	1,832,654	114,471
Handheld device business	261,092	4,173
IT service business	36,995	(10,692)
Contract manufacturing business	170,375	10,185
Gains on disposal of investment securities	–	6,401
Amortisation of goodwill	–	(1,838)
	<u>4,796,352</u>	<u>286,576</u>

4. Profit from operations

	3 months ended 30 June 2003 (unaudited) HK\$'000	3 months ended 30 June 2002 (unaudited) HK\$'000
(a) Turnover	5,341,739	4,796,352
Cost of sales	(4,507,011)	(4,053,585)
Gross profit	834,728	742,767
Other revenue	21,045	13,591
Gains on disposal of investment securities	–	6,401
Distribution expenses	(385,938)	(282,726)
Administrative expenses	(92,298)	(92,447)
Other operating expenses	(97,361)	(99,172)
Amortisation of intangible assets	(6,793)	(1,838)
Total operating expenses (see (b))	(582,390)	(476,183)
Profit from operations	<u>273,383</u>	<u>286,576</u>
(b) Analysis of operating expenses by nature:		
Selling expenses	(144,050)	(83,770)
Promotional and advertising expenses	(84,236)	(116,990)
Staff costs	(224,023)	(165,931)
Other expenses	(123,288)	(107,654)
Amortisation of intangible assets	(6,793)	(1,838)
Total operating expenses	<u>(582,390)</u>	<u>(476,183)</u>

5. Taxation

- (a) No provision for Hong Kong profits tax has been made for the three months ended 30 June 2002 and 2003 as the Group has no estimated profit assessable to Hong Kong Profits tax.
- (b) In accordance with Hong Kong's SSAP 12 "Income Tax" which came into effect on 1 January 2003, a revision was conducted on the Group's deferred taxation. The Group recognised deferred taxation assets of approximately HK\$9.72 million, which was mainly due to the difference between the carrying amounts and tax bases of the accrual of sales rebate, provision for slow-moving inventory and fixed asset depreciation.

- (c) 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.
- (d) The amount of taxation charged to the consolidated profit and loss account represents:

	3 months ended 30 June 2003 (unaudited) HK\$'000	3 months ended 30 June 2002 (unaudited) HK\$'000
Taxation outside Hong Kong	6,084	10,277
Deferred taxation	(9,720)	–
	(3,636)	10,277
Share of taxation attributable to:		
jointly controlled entities	84	–
associated companies	147	642
	(3,405)	10,919

6. Dividend

The Directors do not recommend the payment of any dividend for the period (2002/03: nil).

7. Earnings per share

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

	3 months ended 30 June 2003 (unaudited)	3 months ended 30 June 2002 (unaudited)
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	278,256	267,916
Weighted average number of shares for the purposes of basic earnings per share	7,470,491,031	7,508,347,888
Effect of potential dilutive shares	9,832,431	12,336,310
Weighted average number of shares for the purposes of diluted earnings per share	7,480,323,462	7,520,684,198

8. Ageing analysis

Ageing analysis of trade receivables as at 30 June 2003 is as follow:

	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
0–30 days	886,547	490,851
31–60 days	53,630	27,213
61–90 days	19,970	10,680
Over 90 days	33,950	24,772
	994,097	553,516

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

Ageing analysis of trade payables as at 30 June 2003 is as follow:

	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
0-30 days	1,690,267	1,339,852
31-60 days	157,111	149,535
61-90 days	24,794	20,870
Over 90 days	78,732	78,375
	<u>1,950,904</u>	<u>1,588,632</u>

9. Condensed balance sheet of the Company

	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
Tangible fixed assets	37,676	41,000
Investments	2,376,320	2,365,765
Current assets	4,050,764	4,092,032
Current liabilities	92,386	102,858
Net current assets	<u>3,958,378</u>	<u>3,989,174</u>
Total assets less current liabilities	<u>6,372,374</u>	<u>6,395,939</u>
Share capital	186,700	186,934
Reserves	6,185,674	6,208,701
Deferred tax liabilities	-	304
	<u>6,372,374</u>	<u>6,395,939</u>

FINANCIAL REVIEW

Results

For the three months ended 30 June 2003, the Group achieved a quarterly turnover of approximately HK\$5,342 million. This represents an increase of 11.37% as compared to the turnover of HK\$4,796 million recorded for the same period of last year. Profit attributable to shareholders reached approximately HK\$278 million for the quarter, representing an increase of 3.86% as compared to HK\$268 million recorded from last year.

Capital expenditure

Capital expenditures of HK\$72 million incurred during the three months ended 30 June 2003 were mainly for the construction-in-progress and acquisition of fixed assets for research and development.

Liquidity and financial resources

As at 30 June 2003, cash and bank balances amounted to HK\$2.94 billion, which consists of 31.6% in Hong Kong Dollars, 37.6% in Renminbi, 30.2% in US Dollars and 0.6% held in other currencies for overseas operations. The current ratio of the Group at the end of the period was 1.95. Consolidated available credit facilities amounted to HK\$2.9 billion.

The Group consistently adopts a hedging policy for business transactions in an effort to minimize the risk of exchange rate fluctuation. As at 30 June 2003, the Group had total outstanding forward foreign exchange contracts and currency swaps amounting to HK\$267 million.

The Group did not have any bank loan and no asset was held under finance leases in the period.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2003.

Employees

For the period ended 30 June 2003, the total number of Group employees had increased to 10,792, mainly due to the increasing demands on staff for development of the enhanced distribution network and growing after-sale services. Of this total number, 10,660 are employed in Chinese Mainland, while 132 are employed in Hong Kong and overseas. The Group's remuneration policies, discretionary bonus programme and share option scheme for employees are carried out in accordance with the performance of the Group and of individual employees. The Group also provides staff benefits such as training, insurance and medical benefits. These policies are reviewed regularly to ensure they remain competitive and appropriate to the industry.

BUSINESS REVIEW

From April to June this year, SARS posed certain short-term disruptions to China IT market. Consumers spent more time at home to reduce the chance of being infected, thus affected the retail market. On the corporate side, IT purchases from both government and the education sectors were delayed. At the same time, marketing and promotional activities were affected to a large extent by SARS. Although impacted by SARS in the short-run, China IT market continued to demonstrate great potential. During the quarter, computer became one of the major channels for acquiring news and for entertainment. The launch of "Lesson on Air" e-learning model by secondary and primary schools also resulted in increased demand for computers from consumers.

Computer shipment of the Group's core business achieved outstanding results during this quarter, representing a 22% increase as compared with last year and greatly outperformed the market's 10% growth during the same period. The Group's operational strategy for the year was to accelerate sales growth apart from the fundamental principle of maintaining a steady profit growth. Turnover of the Group in this quarter experienced an 11.37% increase from the same period last year, together with an increase in the gross profit margin. The Group's overall net profit for the quarter achieved an increase of 3.86% from the same period last year.

For corporate IT business, the Group overcame the negative impact of SARS by adopting innovative marketing strategies to keep close liaison with our customers and gained new customers from various communication channels during the quarter. In addition, demand for notebook computer increased during the period. With the all-rounded product lines covering from high to low end markets, Legend's notebook computer experienced an increased shipment of more than 52% when compared with the same period last year.

The Group introduced new market segmentation strategy. Customers prefer computer products which are not only with highly reputable brands, but also can be bought easily. Legend's consumer desktop computer recorded strong shipment with a 24.5% increase from the same period last year. During the quarter, the Group met different demands in the consumer market with 3 main product lines— "Tianjiao", "Fengxing" and "Jiayue": "Tianjiao" is a PC that emphasizes digital applications in satisfying the customers in pursuit of trendy living; "Fengxing" is a leading-edge PC with high-power performance specially designed for computer pioneers; "Jiayue" targets low income families and students, with user-friendliness and easy learning as selling points. Besides product segmentation, the Group implemented promotional activities targeting different customers in an effort to attain the highest effectiveness in marketing. To meet the customers' increasing demand on the mobility of computers, the Group launched "Tianyi" consumer notebook computer in this quarter to further penetrate the notebook market.

For the mobile handset business, the Group increased investment in product development and rolled out 6 new color-screen products in this quarter, three of which are equipped with multimedia messaging service (MMS) function. They were the first group of products that carried the new logo of the Group. In addition, "ET180" was the first PC phone model launched by a local Chinese manufacturer with Pocket PC functions that simultaneously meet the needs of commercial applications and entertainment. Legend's new mobile handset products achieved satisfying sales results, with shipment increased dramatically by over 64% as compared with the same period last year.

The Group's IT service businesses acquired last year performed as anticipated in the quarter. The businesses integrated well, leading to a healthy growth in overall sales, and further strengthened foundation for future growth of the Group's IT service business.

In the coming quarter, the Group will continue to adopt the operational strategy of both maintaining steady profit growth and accelerating sales growth. The Group will firmly pursue the strategy of "Three-tier Business", striving for better results in the core business, growth business and seed business according to different strategic targets and operation benchmarks, so as to deliver sustainable healthy returns to the shareholders in the long-term.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
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During the three months ended 30 June 2003, the Company purchased 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 <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration paid (including expenses) <i>HK\$'000</i>
April 2003	9,350,000	2.375	2.025	20,124

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 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 quarterly 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 covered by this quarterly results, in compliance with the Code of Best Practice as set out in Appendix 14 of 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, 6 August 2003

“Please also refer to the published version of this announcement in the South China Morning Post”