

LEGEND GROUP LIMITED | 聯想集團有限公司

interim report
2003/04



lenovo 联想

INTERIM 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 six months ended 30 September 2003 together with comparative figures for the corresponding period of last year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		3 months ended 30 September 2003 (unaudited)	6 months ended 30 September 2003 (unaudited)	3 months ended 30 September 2002 (unaudited)	6 months ended 30 September 2002 (unaudited)
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	6,247,401	11,589,140	5,573,185	10,369,537
Earnings before interest, taxation, depreciation and amortisation expenses		294,842	602,170	279,736	580,173
Depreciation expenses		(49,139)	(97,336)	(34,306)	(66,321)
Amortisation of intangible assets		(8,441)	(15,234)	(4,063)	(5,901)
Gains on disposal of investments		6,002	6,002	–	6,401
Interest income		19,004	40,049	19,348	32,939
Profit from operations	4	262,268	535,651	260,715	547,291
Finance costs		–	–	–	–
		262,268	535,651	260,715	547,291
Share of losses of jointly controlled entities		(4,910)	(13,539)	(16,372)	(34,623)
Share of profits of associated companies		270	5,379	8,020	15,227
Profit before taxation		257,628	527,491	252,363	527,895
Taxation	5	(2,079)	1,326	571	(10,348)
Profit after taxation		255,549	528,817	252,934	517,547
Minority interests		5,613	10,601	3,335	6,638
Profit attributable to shareholders		261,162	539,418	256,269	524,185
Dividend	6	N/A	149,367	N/A	135,034
Earnings per share – basic	7	3.49 cents	7.22 cents	3.41 cents	6.98 cents
Earnings per share – fully diluted	7	3.47 cents	7.19 cents	3.41 cents	6.97 cents

CONSOLIDATED BALANCE SHEET

		As at 30 September 2003 (unaudited)	As at 31 March 2003 (audited)
	Note	HK\$'000	HK\$'000
Non-current assets			
Intangible assets		154,839	120,621
Tangible fixed assets		883,285	845,976
Construction-in-progress		263,718	174,138
Investments in jointly controlled entities		184,922	198,549
Investments in associated companies		101,372	101,613
Investment securities		87,420	73,649
Deferred tax assets		12,767	–
		1,688,323	1,514,546
Current assets			
Inventories		1,283,798	1,269,051
Trade receivables	8	1,300,281	553,516
Bills receivable		592,415	383,412
Deposits, prepayments and other receivables		274,977	226,748
Cash and bank balances		2,112,970	2,808,323
		5,564,441	5,241,050
Current liabilities			
Trade payables	8	1,784,579	1,588,632
Bills payable		432,149	279,381
Accruals and other payables		876,335	630,779
Tax payable		5,128	8,212
		3,098,191	2,507,004
Net current assets		2,466,250	2,734,046
Total assets less current liabilities		4,154,573	4,248,592
Financed by:			
Share capital		186,708	186,934
Reserves		3,922,857	4,001,587
Shareholders' funds		4,109,565	4,188,521
Minority interests		45,008	59,741
Deferred tax liabilities		–	330
		4,154,573	4,248,592

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 September 2003 (unaudited)	6 months ended 30 September 2002 (unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	110,401	715,495
Net cash outflow from investing activities	(174,014)	(101,778)
Net cash outflow from financing activities	(631,736)	(274,119)
(Decrease)/increase in cash and cash equivalents	(695,349)	339,598
Effect of foreign exchange rate changes	(4)	(17)
Cash and cash equivalents at the beginning of the period	2,808,323	2,441,169
Cash and cash equivalents at the end of the period	2,112,970	2,780,750

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (unaudited)	Share premium (unaudited)	Surplus arising on consolidation (unaudited)	Exchange reserve (unaudited)	Investment revaluation reserve (unaudited)	Share redemption reserve (unaudited)	Accumulated losses (unaudited)	Total (unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	-	-	-	-	13,707	-	-	13,707
Exchange differences	-	-	-	(4)	-	-	-	(4)
Net gains and losses not recognised in the profit and loss account	-	-	-	(4)	13,707	-	-	13,703
Profit for the period	-	-	-	-	-	-	539,418	539,418
Reserve realised upon disposal of investment securities	-	-	-	-	(341)	-	-	(341)
Exercise of share options	8	758	-	-	-	-	-	766
Repurchase of shares	(234)	-	-	-	-	234	(20,124)	(20,124)
Dividend paid	-	-	-	-	-	-	(612,378)	(612,378)
As at 30 September 2003	186,708	4,734,813	27,871	4,307	(1,130)	2,823	(845,827)	4,109,565
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	-	-	-	-	(14,893)	-	-	(14,893)
Exchange differences	-	-	-	(17)	-	-	-	(17)
Net losses not recognised in the profit and loss account	-	-	-	(17)	(14,893)	-	-	(14,910)
Profit for the period	-	-	-	-	-	-	524,185	524,185
Reserve realised upon disposal of investment securities	-	-	-	-	(6,400)	-	-	(6,400)
Exercise of share option	16	1,871	-	-	-	-	-	1,887
Repurchase of shares	(50)	-	-	-	-	50	(5,765)	(5,765)
Dividend paid	-	-	-	-	-	-	(270,241)	(270,241)
As at 30 September 2002	187,667	4,734,055	27,893	4,138	(7,778)	1,856	(1,037,041)	3,910,790

Notes:

1. Basis of preparation

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 ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). 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 interim financials are consistent with those used in the annual accounts for the year ended 31 March 2003 except that the Group has changed an accounting policy following its adoption of SSAP 12 "Income Taxes" issued by the HKSA which is 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 six months ended 30 September 2003:

	People's Republic of China ("PRC") (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Profit and loss account			
Turnover	11,447,310	141,830	11,589,140
Segment operating results	524,009	(19,175)	504,834
Gains on disposal of investments	6,002	–	6,002
Amortisation of intangible assets	(15,234)	–	(15,234)
Finance income			40,049
Finance costs			–
Contribution to operating profit			535,651
Share of losses of jointly controlled entities	(13,539)	–	(13,539)
Share of profits of associated companies	5,379	–	5,379
Profit before taxation			527,491
Taxation			1,326
Profit after taxation			528,817
Minority interests			10,601
Profit attributable to shareholders			539,418

3. Turnover, revenue and segment information (continued)

3A. Primary reporting format – geographical segments (continued)

(ii) For the six months ended 30 September 2002:

	PRC (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Profit and loss account			
Turnover	10,142,858	226,679	10,369,537
Segment operating results	501,801	12,051	513,852
Gains on disposal of investments	6,401	–	6,401
Amortisation of intangible assets	(5,901)	–	(5,901)
Finance income			32,939
Finance costs			–
Contribution to operating profit			547,291
Share of losses of jointly controlled entities	(34,623)	–	(34,623)
Share of profits of associated companies	15,227	–	15,227
Profit before taxation			527,895
Taxation			(10,348)
Profit after taxation			517,547
Minority interests			6,638
Profit attributable to shareholders			524,185

3B. Secondary reporting format – business segments

(i) For the six months ended 30 September 2003:

	Turnover (unaudited) HK\$'000	Contribution to operating profit (unaudited) HK\$'000
Corporate IT business	5,855,356	391,140
Consumer IT business	4,138,201	252,882
Handheld device business	908,359	(42,724)
IT service business	266,443	(19,581)
Contract manufacturing business	420,781	(41,079)
Gains on disposal of investments	–	6,002
Amortisation of goodwill	–	(10,989)
	11,589,140	535,651

3B. Secondary reporting format – business segments (continued)

(ii) For the six months ended 30 September 2002:

	Turnover (unaudited) HK\$'000	Contribution to operating profit (unaudited) HK\$'000
Corporate IT business	5,558,834	372,405
Consumer IT business	3,645,060	171,098
Handheld device business	666,986	17,874
IT service business	71,659	(23,363)
Contract manufacturing business	426,998	8,777
Gains on disposal of investments	–	6,401
Amortisation of goodwill	–	(5,901)
	10,369,537	547,291

4. Profit from operations

	3 months ended 30 September 2003 (unaudited) HK\$'000	6 months ended 30 September 2003 (unaudited) HK\$'000	3 months ended 30 September 2002 (unaudited) HK\$'000	6 months ended 30 September 2002 (unaudited) HK\$'000
(a) Turnover	6,247,401	11,589,140	5,573,185	10,369,537
Cost of sales	(5,357,790)	(9,864,801)	(4,758,966)	(8,812,551)
Gross profit	889,611	1,724,339	814,219	1,556,986
Other revenue	19,004	40,049	19,348	32,939
Gains on disposal of investments	6,002	6,002	–	6,401
Distribution expenses	(446,224)	(832,162)	(438,519)	(721,245)
Administrative expenses	(88,894)	(181,192)	(82,450)	(174,897)
Other operating expenses	(108,790)	(206,151)	(47,820)	(146,992)
Amortisation of intangible assets	(8,441)	(15,234)	(4,063)	(5,901)
Total operating expenses (see (b))	(652,349)	(1,234,739)	(572,852)	(1,049,035)
Profit from operations	262,268	535,651	260,715	547,291
(b) Analysis of operating expenses by nature:				
Selling expenses	(147,902)	(291,952)	(110,576)	(194,346)
Promotional and advertising expenses	(105,109)	(189,345)	(154,586)	(271,576)
Staff costs	(234,473)	(458,496)	(179,471)	(345,402)
Other expenses	(156,424)	(279,712)	(124,156)	(231,810)
Amortisation of intangible assets	(8,441)	(15,234)	(4,063)	(5,901)
Total operating expenses	(652,349)	(1,234,739)	(572,852)	(1,049,035)

5. Taxation

- (a) No provision for Hong Kong profits tax has been made for the six months ended 30 September 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 Taxes" which came into effect on 1 January 2003, a revision was conducted on the Group's deferred tax. The Group recognised deferred tax assets of approximately HK\$13 million, which was mainly due to the differences 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 estimated 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 September 2003 (unaudited)	6 months ended 30 September 2003 (unaudited)	3 months ended 30 September 2002 (unaudited)	6 months ended 30 September 2002 (unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Taxation outside Hong Kong	5,470	11,554	(1,229)	9,048
Deferred taxation	(3,377)	(13,097)	-	-
	2,093	(1,543)	(1,229)	9,048
Share of taxation attributable to:				
jointly controlled entities	-	84	-	-
associated companies	(14)	133	658	1,300
	2,079	(1,326)	(571)	10,348

6. Dividend

	6 months ended 30 September 2003 (unaudited)	6 months ended 30 September 2002 (unaudited)
	HK\$'000	HK\$'000
Interim dividend, declared after period end, of 2.0 HK cents (2002 : 1.8 HK cents) per share	149,367	135,034

7. Earnings per share

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

	6 months ended 30 September 2003 (unaudited)	6 months ended 30 September 2002 (unaudited)
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	539,418	524,185
Weighted average number of shares for the purposes of basic earnings per share	7,469,327,977	7,507,560,195
Effect of potential dilutive shares	30,914,415	6,474,236
Weighted average number of shares for the purposes of diluted earnings per share	7,500,242,392	7,514,034,431

8. Ageing analysis

Ageing analysis of trade receivables as at 30 September 2003 is as follows:

	As at 30 September 2003 (unaudited) HK\$'000	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
0–30 days	1,102,507	886,547	490,851
31–60 days	110,420	53,630	27,213
61–90 days	32,964	19,970	10,680
Over 90 days	54,390	33,950	24,772
	1,300,281	994,097	553,516

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

Ageing analysis of trade payables as at 30 September 2003 is as follows:

	As at 30 September 2003 (unaudited) HK\$'000	As at 30 June 2003 (unaudited) HK\$'000	As at 31 March 2003 (audited) HK\$'000
0–30 days	1,479,988	1,690,267	1,339,852
31–60 days	180,463	157,111	149,535
61–90 days	56,016	24,794	20,870
Over 90 days	68,112	78,732	78,375
	1,784,579	1,950,904	1,588,632

9. Condensed balance sheet of the Company

	As at 30 September 2003 (unaudited)	As at 31 March 2003 (audited)
	HK\$'000	HK\$'000
Tangible fixed assets	34,211	41,000
Investments	2,382,003	2,365,765
Current assets	3,589,790	4,092,032
Current liabilities	248,220	102,858
Net current assets	3,341,570	3,989,174
Total assets less current liabilities	5,757,784	6,395,939
Share capital	186,708	186,934
Reserves	5,571,076	6,208,701
Deferred tax liabilities	–	304
	5,757,784	6,395,939

INTERIM DIVIDEND

The Directors have declared an interim dividend of 2.0 HK cents per share for the year ending 31 March 2004, absorbing an aggregate amount of approximately HK\$149 million, to shareholders whose names appear on the Register of Members of the Company on 27 November 2003. The interim dividend will be paid on 4 December 2003.

An interim dividend of 1.8 HK cents per share, totalling approximately HK\$135 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 21 November 2003 to 27 November 2003, 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 registrar, Abacus Share Registrars Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 20 November 2003.

FINANCIAL REVIEW

Results

For the six months ended 30 September 2003, the Group achieved a turnover of approximately HK\$11,589 million, representing an increase of 11.76% as compared to the turnover of HK\$10,370 million recorded in the same period last year. Profit attributable to shareholders rose to approximately HK\$539 million for the period, representing an increase of 2.91% when compared to the HK\$524 million achieved in the same period last year.

Significant Investment and Capital Expenditure Expenses

During the period, capital expenditure expenses of HK\$220 million were incurred. Of this amount, HK\$51 million was used for investment in a subsidiary which develops and manufactures networking hardware products for the corporate IT business. HK\$169 million was mainly used for acquisition of fixed assets and injection into construction-in-progress.

Liquidity and Financial Resources

As at 30 September 2003, cash and bank balance amounted to HK\$2.11 billion, which consists of 39.5% in Hong Kong Dollars, 19.68% in Renminbi, 40.8% in US Dollars, and 0.02% being held in other currencies for the Group's overseas operations. During the period, the Group maintained strong cash position even with the payment of the final dividend and the special dividend for last year, which amounted to a total of HK\$612 million. The Group's current ratio at the end of the period was 1.8 while available credit facilities amounted to HK\$3 billion.

The Group consistently adopts a hedging policy for business transactions in an effort to minimise the risk of exchange rate fluctuation. As of 30 September 2003, the Group had total outstanding forward foreign exchange contracts and currency swaps amounting to HK\$21 million.

The Group did not have any bank loans and there were no assets held under finance leases at the period end.

Commitments and Contingent Liabilities

The Group had no material commitments or contingent liabilities as at 30 September 2003.

FINANCIAL REVIEW (continued)

Employees

For the six months ended 30 September 2003, total number of Group employees had increased to 13,072, mainly due to increased demand in staff for the enhanced construction of the distribution network, growing after-sales services and acquisition of new businesses. Of this number, 12,944 are employed in Chinese Mainland, while 128 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 training, job rotation, insurance and medical benefits to staff. These policies are reviewed regularly to ensure they remain competitive and appropriate to the industry.

BUSINESS REVIEW AND PROSPECTS

In the first half of the 2003/04 fiscal year, the Chinese economy maintained healthy growth. With this momentum, IT market experienced further recovery and market demand continued to increase on a healthy trend. Although the market growth rate did not meet our earlier expectations because of SARS, the impact for the second quarter was significantly reduced. The long-term driving forces for China IT market remain strong. During the period, the Group's core businesses attained healthy growth in spite of SARS. Lenovo PC unit shipment outperformed the market average with a 15.9% increase, while the consumer IT business demonstrated the most outstanding performance by achieving 13.5% revenue increase and 47.8% profit increase year on year. At the same time, many of the Group's strategically positioned growth businesses experienced rapid growth. These factors enabled the Group's overall healthy growth. However, some of the new businesses and non-core businesses were affected quite severely by some of the unfavorable market elements and fell short of our initial expectations, such as mobile handset and motherboard businesses.

During the period, the Group committed itself to developing new businesses and fighting SARS. At the same time, it persisted in technology innovations. As one of the leading players in China IT market, Legend pursues a differentiation strategy by investing in R&D that will create more value-added products and competitive edge in the future. During the period, home PC unit shipment and profits achieved significant increase and this result is strongly correlated with last year's launch of the dual-mode PC. In addition, the Group launched a new commercial PC model "Kaitian II" in September and its unique features such as security, collaborativity, and manageability are second to none. The Group firmly convinced that this will further strengthen its competitive advantage in corporate IT market. In the last six months, Legend released a series of self-developed mobile handset models, and especially high-end products already represented a large portion of the Group's handset shipment.

BUSINESS REVIEW AND PROSPECTS (continued)

Collaborating Applications created favorable conditions for Legend to both create new market opportunities and develop new businesses. We are very excited that since we rolled out the concept of Collaborating Applications at "Legend World 2002", Collaborating Applications are migrating from laboratory concepts to technology applications and new products. At this moment, technologies for Collaborating Applications are becoming more mature and business opportunities are on the horizon. Notebooks, projectors, and printers with Collaborating Technologies will be launched first. The wireless collaborating features will greatly enhance the product value for terminal devices which in term stimulate huge market demand. In the meantime, equipping mobile handset with Collaborating Applications make MMS, picturing, and other applications much more user friendly and valuable. Collaborating Applications have attracted extensive interests in telecommunications industries and Legend believes that this technology will become the next big wave for value-added services. Besides, Collaborating Applications can also enhance interconnections among terminal devices and integration with Internet resources. For example, Collaborating Applications can easily distribute content downloaded through broadband to multiple display devices in a household, making it more convenient for users to enjoy the broadband content and services. Legend believes that Collaborating Applications will further promote the digital home applications, and lead the migration of IT products towards consumer electronics arenas.

In order to promote the concept of Collaborating Applications, this year the Group launched the most scalable technology roadshow in China, the "Lenovo Tech Show", which has been well perceived by the local governments, corporate clients and media. So far it already went through 20 largest cities and more than 50,000 people attended those events.

Legend will follow the differentiation strategy by investing in new technology development. By doing so, we strongly believe that we can bring long-term sustainable returns to our shareholders. Our shareholders will see an ever competitive Legend.

SHARE OPTION SCHEME

The Company has adopted a new share option scheme (the “New Option Scheme”) and terminated the old share option scheme (the “Old Option Scheme”) with effect from 26 April 2002. Despite the fact that no further options may be granted under the Old Option Scheme, all other provisions herein will remain in force to govern the exercise of all the options previously granted.

Share options to subscribe for shares in the Company

	Options held at 1.4.2003	Options granted during the period	Options exercised during the period	Options cancelled/ lapsed during the period	Options held at 30.9.2003	Exercise price per share HK\$	Grant date	Exercise period
Old Option Scheme								
<i>Directors</i>								
Liu Chuanzhi	2,250,000	-	-	-	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
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
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
<i>Continuous contract employees</i>								
	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	-	20,000	-	114,960,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
New Option Scheme								
<i>Directors</i>								
Liu Chuanzhi	-	3,000,000	-	-	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Zeng Maochao	-	1,600,000	-	-	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Yang Yuanqing	-	3,000,000	-	-	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Ma Xuezheng	-	1,600,000	-	-	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
<i>Continuous contract employees</i>								
	35,026,000	-	186,000	-	34,840,000	2.435	10.10.2002	10.10.2002 to 09.10.2012
	-	127,372,000	92,000	-	127,280,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
<i>Other participants</i>								
	17,780,000	-	20,000	1,098,000	16,662,000	2.435	10.10.2002	10.10.2002 to 09.10.2012

SHARE OPTION SCHEME (continued)

Notes:

1. In respect of the share options granted on 26 April 2003, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.050.
2. Weighted average closing price of the shares of the Company immediately before the date on which the options were exercised by continuous contract employees was HK\$2.93.
3. Weighted average closing price of the shares of the Company immediately before the date on which the options were exercised by other participants was HK\$3.00.
4. No cost is recognised when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

DIRECTORS' INTERESTS

As at 30 September 2003, 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

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

Note:

1. Particulars of interests in the share options of the Company are set out under the section headed "Share Option Scheme".

DIRECTORS' INTERESTS (continued)

Long position in the shares of Digital China Holdings Limited

	Capacity and number of shares held		
	Personal interests	Family interests	Aggregate interests
Liu Chuanzhi	1,496,000	97,600	1,593,600
Zeng Maochao	808,000	60,000	868,000
Ma Xuezheng	1,046,400	–	1,046,400

Save as disclosed above, as at 30 September 2003, 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 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, 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:

	Long/short position	Capacity and number of shares held			Percentage (note 4)
		Beneficial owner	Corporate interests	Aggregate long/short position	
Legend Holdings Limited (note 1)	Long position	2,816,878,724	1,469,311,247 (note 2)	4,286,189,971	57.3%
	Short position	149,242,000	–	149,242,000	1.9%
Employees' Shareholding Society of Legend Holdings Limited (note 3)	Long position	–	4,286,189,971	4,286,189,971	57.3%
	Short position	–	149,242,000	149,242,000	1.9%

Notes:

1. The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name.
2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.

SUBSTANTIAL SHAREHOLDERS (continued)

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 shares of the Company in issue as at 30 September 2003. The percentage figure is cut off at 1 decimal place and without round up.

Save as disclosed above, as at 30 September 2003, 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.

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

During the six months ended 30 September 2003, the Company purchased its own shares on the Stock Exchange of Hong Kong as follows:

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

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.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company 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 covered by this interim 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 of Hong Kong Limited, 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, 5 November 2003