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# DIRECTORS' REPORT AND ACCOUNTS

# DIRECTORS' REPORT

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

## CHANGE OF ENGLISH COMPANY NAME

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

## PRINCIPAL BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

## RESULTS AND APPROPRIATIONS

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

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

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

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

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

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

## FIVE-YEAR FINANCIAL SUMMARY

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

## RESERVES

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

## DISTRIBUTABLE RESERVES

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

## BANK LOANS

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

## DONATIONS

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

## TANGIBLE FIXED ASSETS

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

## SHARE CAPITAL

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

## SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATED COMPANIES

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

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

The largest supplier	22%
Five largest suppliers combined	46%

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

## SHARE OPTION SCHEMES

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

### 1. Old Option Scheme

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

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

### 2. New Option Scheme

#### (a) Purpose

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

#### (b) Qualified participants

1. (i) any employee or officer, executive or non-executive director (or persons proposed to be appointed as such) of the Group;
- (ii) any consultant, professional or other adviser to the Group;
- (iii) any director, executive and senior officer of any associated company of the Company; and
- (iv) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons; and

## SHARE OPTION SCHEMES *(continued)*

### 2. New Option Scheme *(continued)*

#### *(b) Qualified participants (continued)*

2. (i) any customer, supplier, agent, partner, distributor, professional or other advisers of, or consultants or contractors to, the Group; and
- (ii) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons.

#### *(c) Maximum number of shares*

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

#### *(d) Maximum entitlement of each qualified participant*

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

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

#### *(e) Timing for exercise of options*

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

#### *(f) Acceptance of offers*

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

#### *(g) Basis for determination of exercise price*

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

#### *(h) Life of the scheme*

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

**SHARE OPTION SCHEMES** (continued)

**3. Outstanding options**

Particulars of the outstanding options are as follows:

	Options held at 01.04.2003	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at 31.03.2004	Exercise price per share HK\$	Grant date	Exercise period
<b>Old Option Scheme</b>								
<i>Directors</i>								
Mr Liu Chuanzhi	2,250,000	–	–	–	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Mr Yang Yuanqing	6,000,000	–	–	–	6,000,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	2,250,000	–	–	–	2,250,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
Ms Ma Xuezheng	2,920,000	–	–	–	2,920,000	4.072	16.04.2001	16.04.2001 to 15.04.2011
	1,600,000	–	–	–	1,600,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
<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	–	6,930,000	–	108,050,000	2.876	31.08.2001	31.08.2001 to 30.08.2011
<b>New Option Scheme</b>								
<i>Directors</i>								
Mr Liu Chuanzhi	–	3,000,000	–	–	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Zeng Maochao	–	1,600,000	–	–	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Mr Yang Yuanqing	–	3,000,000	–	–	3,000,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
Ms Ma Xuezheng	–	1,600,000	–	–	1,600,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
<i>Continuous contract employees</i>	35,026,000	–	2,680,000	558,000	31,788,000	2.435	10.10.2002	10.10.2002 to 09.10.2012
	–	127,372,000	430,000	–	126,942,000	2.245	26.04.2003	26.04.2003 to 25.04.2013
<i>Other participants</i>	17,780,000	–	540,000	1,098,000	16,142,000	2.435	10.10.2002	10.10.2002 to 09.10.2012

## SHARE OPTION SCHEMES *(continued)*

### 3. Outstanding options *(continued)*

Notes:

1. In respect of the share options granted on 26th April 2003, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.05.
2. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK\$3.34.
3. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK\$3.38.
4. Weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK\$3.39.
5. A total of 1,656,000 options at exercise price of HK\$2.435 were lapsed.

### 4. Valuation of share options

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

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

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

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

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

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

## DIRECTORS

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

### Executive directors

Mr Liu Chuanzhi  
Mr Yang Yuanqing  
Ms Ma Xuezheng

### Non-executive director

Mr Zeng Maochao

### Independent non-executive directors

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

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

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

### Executive directors

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

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

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

### Non-executive director

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

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

### Independent non-executive directors

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

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

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

### Senior Vice President

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

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

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

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

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

### Vice President

(The followings are in alphabetical order)

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

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

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



## **BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT** *(continued)*

### **Vice President** *(continued)*

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

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

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

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

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

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

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

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

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

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

### **Qualified Accountant**

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

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

## DIRECTORS' INTERESTS IN SECURITIES

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

### Long position in the shares of the Company

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

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

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

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

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

	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	2,787,340,724	1,469,311,247 (Note 2)	4,256,651,971	56.9%
	Short position	119,704,000	–	119,704,000	1.6%
Employees' Shareholding Society of Legend Holdings Limited (Note 3)	Long position	–	4,256,651,971	4,256,651,971	56.9%
	Short position	–	119,704,000	119,704,000	1.6%

Notes:

1. The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name "聯想控股有限公司".
2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested, or has short positions, in any shares in which they are interested or have short positions.
4. The calculation of percentage figure is based on the aggregate long/short position as a percentage of the number of issued shares of the Company in issue as at 31st March 2004.

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

## RETIREMENT SCHEME ARRANGEMENTS

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

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

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

## CONNECTED TRANSACTIONS

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

1. Pursuant to a tenancy agreement dated 16th January 2002, a subsidiary of the Company has leased from Shenzhen Legend Science Park Company Limited, a subsidiary of the Company's controlling shareholder, certain office premises and car parking spaces situated at Legend Research and Development Building, Hi-Tech Industrial Park, Shenzhen, China. The tenancy is for a term of 46 months expiring on 15th November 2005. The rental was determined based on confirmation of an independent firm of professional property valuers of their assessment of its market rental when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental expenses amounted to HK\$10,373,000.
2. Subsequent to the spin off of Digital China Holdings Limited ("DCHL") and its subsidiaries (collectively, "DCHL Group") from the Group for separate listing in June 2001, DCHL became an associate of the Company's controlling shareholder. DCHL is deemed as a connected person in relation to the Company for the purpose of the Listing Rules.
  - (a) Pursuant to a tenancy agreement dated 27th March 2000 between a subsidiary of the Company and a subsidiary of DCHL, the Group has sub-leased to DCHL Group certain office space situated at Lian Xiang Building, Southeastern Corner of 1 Tai Yi Road, Belin District, Xian, China. The tenancy is for a term of 5 years commencing from 1st October 1999. The rental was agreed upon based on the market value for premises of similar type as certified by an independent firm of professional property valuers when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental fee amounted to HK\$740,000.
  - (b) The Group purchased information technology products from DCHL Group. For the year ended 31st March 2004, such purchases amounted to HK\$27,992,000.
  - (c) The Group sold Legend/lenovo brand computers and related products to DCHL Group on an irregular basis. For the year ended 31st March 2004, no such sales were made.

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

- (i) conducted in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties;
- (iv) in respect of transaction stated in paragraph 2(b) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK\$46.3 million, in the financial year; and
- (v) in respect of transaction stated in paragraph 2(c) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK\$14.2 million, in the financial year.

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

- (i) have been approved by the board of directors of the Company;
- (ii) were conducted in accordance with the pricing policy of the Company;
- (iii) were entered into in accordance with the terms of relevant agreements or on terms no less favourable than terms available to or from independent third parties; and
- (iv) have not exceeded the cap.

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

## CONNECTED TRANSACTIONS *(continued)*

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

- (a) Pursuant to a tenancy agreement dated 19th June 2002 between the JV and Xoceco, the JV has leased from Xoceco certain factory and office space situated at Xiamen Overseas Chinese Electronics Science Park, Huoju High Technology Development Zone, Xiamen, China for the period of 5 years expiring on 5th April 2007. The rental was determined with reference to the prevailing market rents when the tenancy agreement was entered into. For the year ended 31st March 2004, such rental expenses amounted to HK\$1,144,000.
- (b) The JV made purchases from Xoceco and/or its associates such as raw materials, semi-finished products, moulds and module for production and business operations of mobile handsets. For the year ended 31st March 2004, such purchases amounted to HK\$701,000.

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

- (i) entered into in the ordinary and usual course of the Group's business;
- (ii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) not excessive of RMB38 million.

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

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

- (i) in the financial year, not excessive of the higher of HK\$10 million or 3% of the consolidated net tangible assets of the Company;
- (ii) entered into in the ordinary and usual course of the Group's business;
- (iii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) entered into in accordance with the terms of the relevant agreements.

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

- (i) have been approved by the board of directors of the Company;
- (ii) were entered into in the ordinary and usual course of the Group's business;
- (iii) were conducted on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) have not exceeded the cap.

## CONNECTED TRANSACTIONS *(continued)*

5. Subsequent to the disposal of 50% equity interest in QDI Holdings Limited to Swift Glory Limited pursuant to a sale and purchase agreement dated 1st November 2003, QDI Holdings Limited became a 50%-owned subsidiary of the Company. As a result, the following transactions entered into by the Group after completion of the disposal would be regarded as connected transactions:
- (a) purchase of information technology products from Ramaxel Technology Limited ("Type 1 Purchase Arrangement"), which amounted to HK\$180,541,000;
  - (b) sale of information technology products to Ramaxel Technology Limited ("Type 1 Sales Arrangement"), which amounted to HK\$215,333,000;
  - (c) purchase of information technology products from QDI Holdings Limited and its subsidiaries ("Type 2 Purchase Arrangement"), which amounted to HK\$72,164,000; and
  - (d) sale of information technology products to QDI Holdings Limited and its subsidiaries ("Type 2 Sales Arrangement"), which amounted to HK\$29,587,000.

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

- (i) entered into in the ordinary and usual course of the Group's business;
  - (ii) conducted either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
  - (iii) entered into in accordance with the terms of the relevant agreements or on terms no less favourable than terms available to or from independent third parties;
  - (iv) in respect of the Type 1 Purchase Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK\$1,300 million in the financial year, whichever is higher;
  - (v) in respect of the Type 1 Sales Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK\$1,300 million in the financial year, whichever is higher;
  - (vi) in respect of the Type 2 Purchase Arrangement, not excessive of the cap amount of 4% of the audited consolidated turnover of the Group or HK\$860 million in the financial year, whichever is higher; and
  - (vii) in respect of the Type 2 Sales Arrangement, not excessive of the cap amount of 1.5% of the audited consolidated turnover of the Group or HK\$260 million in the financial year, whichever is higher.
6. On 18th May 2004, Lenovo Pioneer Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional master agreement with Peak Champion Investment Limited, a direct wholly-owned subsidiary of the substantial shareholder of the Company, pursuant to which, among other things, Peak Champion Investment Limited has agreed to acquire, directly or indirectly, 25% of the entire interest in Lenovo Networks (Shenzhen) Limited from Lenovo Pioneer Limited at a cash consideration of RMB17,550,000. As at the date of this report, the conditions precedent to completion of the master agreement have not been satisfied.

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

### AUDIT COMMITTEE

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

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

### REMUNERATION COMMITTEE

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

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

### CODE OF BEST PRACTICE

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

### AUDITORS

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

On behalf of the Board



**Liu Chuanzhi**

*Chairman*

Hong Kong, 2nd June 2004