

# NOTES TO THE ACCOUNTS

## 1 Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment securities are stated at fair value.

In the current year, the Group adopted SSAP 12 “Income Taxes” issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below.

## 2 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

### (a) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill taken to reserve and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated exchange reserve.

- (ii) All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- (iii) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.
- (iv) In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) Joint ventures

- (i) A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.
- (ii) The consolidated profit and loss account includes the Group’s share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.
- (iii) In the Company’s balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

## 2 Principal accounting policies *(continued)*

### (c) Associated companies

- (i) An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.
- (ii) The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.
- (iii) Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.
- (iv) Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.
- (v) In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

### (d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (e) Tangible fixed assets

#### (i) *Land use rights, leasehold land and buildings/improvements*

Land use rights, leasehold land and buildings/improvements are stated at cost less accumulated amortisation or depreciation and accumulated impairment losses.

Land use rights are amortised on a straight-line basis over the land use rights periods ranging from 20 to 50 years.

Amortisation of leasehold land is calculated to write off its cost to its estimated residual value over the unexpired period of the lease or their expected useful lives to the Group of 50 years whichever is shorter. The principal annual rates used for this purpose are 2% to 5%.

Depreciation on buildings is calculated to write off their cost to their estimated residual value over the unexpired period of the leases or their expected useful lives to the Group of 50 years whichever is shorter. The principal annual rates used for this purpose are 2% to 5%.

Depreciation of leasehold improvements is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group of 5 to 10 years or unexpired periods of the leases whichever is shorter. The principal annual rate used for this purpose is 10% to 20%.

#### (ii) *Other tangible fixed assets*

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other tangible fixed assets is calculated to write off their cost to their estimated residual value on the straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are 20% to 33%.

## 2 Principal accounting policies *(continued)*

### (e) Tangible fixed assets *(continued)*

#### (iii) Impairment of tangible fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress and tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

#### (iv) Gain or loss on disposal of tangible fixed assets

Gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (v) Cost of restoring and improving tangible fixed assets

Major costs incurred in restoring tangible fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

### (f) Construction-in-progress

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the commencement date, less any accumulated impairment losses. No depreciation is provided for on construction-in-progress. On completion, the building and plant and machinery are transferred to tangible fixed assets at cost less accumulated impairment losses.

### (g) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the date of acquisition.

Goodwill on acquisition occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years. For all other acquisitions goodwill is generally amortised over 3 to 10 years.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the consolidated profit and loss account.

In accordance with the provisions of interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the consolidated profit and loss account.

#### (ii) Patents and marketing rights

Expenditure on acquired patents and marketing rights is capitalised and amortised on a systematic basis over their useful lives, but not exceeding 20 years. Patents and marketing rights are not revalued as there is no active market for these assets.

#### (iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

## 2 Principal accounting policies *(continued)*

### (h) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

### (i) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and in the case of work-in-progress and finished goods (except for trading products), cost comprises direct materials, direct labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (j) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks and highly liquid investment which are subject to an insignificant risk of changes in value.

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. The provision is calculated based on past history of the level of repairs and replacements.

### (m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### (n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2 Principal accounting policies *(continued)*

### (n) Deferred taxation *(continued)*

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The effect of this change is not significant to the accounts of prior years.

### (o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### (p) Revenue

Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of shipment. Revenue from provision of systems integration service is recognised when services are rendered. Revenue from provision of information technology technical service is recognised when services are rendered. Interest income is accrued on a time proportion basis on the principal amounts outstanding and at the rates applicable. Dividend income is recognised when the right to receive payment is established.

### (q) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave, sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme for qualified Hong Kong employees are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In addition, the Group's contributions to a local municipal government retirement scheme in Chinese mainland are expensed as incurred while the local municipal government in Chinese mainland undertakes to assume the retirement benefit obligations of the qualified employees in Chinese mainland.

#### (iii) Share options

No employee benefits cost is recognised when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

### (r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets of geographical segments consist primarily of tangible fixed assets, construction-in-progress, inventories, trade receivables and notes receivable, and mainly exclude intangible assets, investments in jointly controlled entities, investments in associated companies, investment securities, deferred tax assets, other receivables, tax recoverable and cash and cash equivalents. Segment liabilities comprise operating liabilities and exclude tax payable and liabilities payable for acquisition of intangible assets. Capital expenditure mainly comprises additions to tangible fixed assets (Note 14) and construction-in-progress (Note 15).

In presenting information on the basis of business segments, intangible assets, tangible fixed assets and construction-in-progress are excluded from segment assets.

### 3 Turnover, revenue and segment information

The Group is principally engaged in the provision of advanced information technology (“IT”) products and services. Revenues recognised during the year are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Corporate IT business	<b>11,925,240</b>	10,803,311
Consumer IT business	<b>7,760,668</b>	6,822,633
Handheld device business	<b>2,050,164</b>	1,440,328
IT service business	<b>547,780</b>	183,800
Contract manufacturing business	<b>892,092</b>	983,218
	<b>23,175,944</b>	20,233,290

#### Primary reporting format – geographical segments

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in four major geographical regions – the People’s Republic of China, including Chinese mainland and Hong Kong (the “PRC”), Asia Pacific (excluding PRC), North America and Europe. The later three regions are grouped as “others” for presentation purpose.

There are no material sales or other transactions among the geographical segments.

In presenting information on the basis of geographical segments, segment turnover and segment operating results are based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The segment turnover and segment operating results, if based on geographical location of assets, are all categorised under PRC operations.

#### Secondary reporting format – business segments

The Group is categorised into five main business segments:

- Corporate IT business
- Consumer IT business
- Handheld device business
- IT service business
- Contract manufacturing business

There are no material sales or other transactions among the business segments.

**3 Turnover, revenue and segment information** *(continued)*
**(a) Primary reporting format – geographical segments**

	PRC 2004 HK\$'000	Others 2004 HK\$'000	Total 2004 HK\$'000
<b>Profit and loss account</b>			
Turnover	22,878,303	297,641	23,175,944
Segment operating results	947,125	(33,157)	913,968
Gains on disposal of investments	47,558	–	47,558
Amortisation of intangible assets	(34,999)	–	(34,999)
Finance income			93,368
Finance costs			(2,881)
Contribution to operating profit			1,017,014
Share of losses of jointly controlled entities	(39,053)	–	(39,053)
Share of profits of associated companies	16,891	–	16,891
Profit before taxation			994,852
Taxation			20,150
Profit after taxation			1,015,002
Minority interests			37,883
Profit attributable to shareholders			1,052,885
<b>Balance sheet</b>			
Segment assets	4,347,982	43,950	4,391,932
Investment in a jointly controlled entity	124,124	–	124,124
Investments in associated companies	112,682	–	112,682
Investment securities	75,982	–	75,982
Unallocated assets			3,637,321
Consolidated total assets			8,342,041
Segment liabilities	3,300,576	11,380	3,311,956
Unallocated liabilities			512,031
Consolidated total liabilities			3,823,987
Capital expenditure	364,353	–	364,353
Depreciation	209,520	1,641	211,161

### 3 Turnover, revenue and segment information *(continued)*

#### (a) Primary reporting format – geographical segments *(continued)*

	PRC 2003 HK\$'000	Others 2003 HK\$'000	Total 2003 HK\$'000
<b>Profit and loss account</b>			
Turnover	19,738,075	495,215	20,233,290
Segment operating results	1,011,204	3,212	1,014,416
Losses on disposal of investments	(26,802)	–	(26,802)
Amortisation of intangible assets	(15,246)	–	(15,246)
Finance income			77,233
Finance costs			(20)
Contribution to operating profit			1,049,581
Share of losses of jointly controlled entities	(34,756)	–	(34,756)
Share of profits of associated companies	13,826	–	13,826
Profit before taxation			1,028,651
Taxation			(26,018)
Profit after taxation			1,002,633
Minority interests			14,519
Profit attributable to shareholders			1,017,152
<b>Balance sheet</b>			
Segment assets	3,184,037	42,056	3,226,093
Investments in jointly controlled entities	198,549	–	198,549
Investments in associated companies	101,613	–	101,613
Investment securities	71,392	2,257	73,649
Unallocated assets			3,155,692
Consolidated total assets			6,755,596
Segment liabilities	2,492,220	6,572	2,498,792
Tax liabilities			8,542
Consolidated total liabilities			2,507,334
Capital expenditure	337,161	–	337,161
Depreciation	158,985	1,319	160,304



**3 Turnover, revenue and segment information** *(continued)*
**(b) Secondary reporting format – business segments**

	Turnover 2004 <i>HK\$'000</i>	Contribution to operating profit 2004 <i>HK\$'000</i>	Consolidated total assets 2004 <i>HK\$'000</i>
Corporate IT business	11,925,240	777,698	1,560,895
Consumer IT business	7,760,668	466,814	753,854
Handheld device business	2,050,164	(74,565)	431,377
IT service business	547,780	(58,009)	241,564
Contract manufacturing business	892,092	(95,208)	156,593
Amortisation of goodwill	–	(25,274)	–
Gains on disposal of investments	–	47,558	–
Others	–	(22,000)	–
Investment in a jointly controlled entity	–	–	124,124
Investments in associated companies	–	–	112,682
Investment securities	–	–	75,982
Unallocated assets	–	–	4,884,970
	<b>23,175,944</b>	<b>1,017,014</b>	<b>8,342,041</b>

	Turnover 2003 <i>HK\$'000</i>	Contribution to operating profit 2003 <i>HK\$'000</i>	Consolidated total assets 2003 <i>HK\$'000</i>
Corporate IT business	10,803,311	744,153	1,270,124
Consumer IT business	6,822,633	363,527	384,831
Handheld device business	1,440,328	29,017	316,471
IT service business	183,800	(61,405)	78,111
Contract manufacturing business	983,218	8,554	156,442
Amortisation of goodwill	–	(7,463)	–
Losses on disposal of investments	–	(26,802)	–
Investments in jointly controlled entities	–	–	198,549
Investments in associated companies	–	–	101,613
Investment securities	–	–	73,649
Unallocated assets	–	–	4,175,806
	<b>20,233,290</b>	<b>1,049,581</b>	<b>6,755,596</b>

## 4 Profit from operations

(a)

	2004 HK\$'000	2003 HK\$'000
Turnover	23,175,944	20,233,290
Cost of sales	<b>(19,787,944)</b>	(17,234,746)
Gross profit	<b>3,388,000</b>	2,998,544
Finance income	<b>93,368</b>	77,233
Gains/(losses) on disposal of investments	<b>47,558</b>	(26,802)
	<b>3,528,926</b>	3,048,975
Distribution expenses	<b>(1,686,932)</b>	(1,393,990)
Administrative expenses	<b>(343,306)</b>	(328,736)
Other operating expenses	<b>(443,794)</b>	(261,402)
Amortisation of intangible assets	<b>(34,999)</b>	(15,246)
Total operating expenses (Note (b))	<b>(2,509,031)</b>	(1,999,374)
Profit from operations	<b>1,019,895</b>	1,049,601

(b) Analysis of total operating expenses by nature:

Selling expenses	<b>(558,124)</b>	(379,842)
Promotional and advertising expenses	<b>(395,905)</b>	(425,143)
Staff costs (including directors' emoluments) (Note 8)	<b>(851,476)</b>	(688,519)
Other expenses	<b>(668,527)</b>	(490,624)
Amortisation of intangible assets	<b>(34,999)</b>	(15,246)
Total operating expenses	<b>(2,509,031)</b>	(1,999,374)

## 5 Profit before taxation

	2004 HK\$'000	2003 HK\$'000
Profit before taxation is stated after (crediting)/charging the following:		
Auditors' remuneration	<b>2,689</b>	2,698
Depreciation of owned tangible fixed assets	<b>211,161</b>	160,304
Amortisation of intangible assets	<b>34,999</b>	15,246
Cost of inventories sold	<b>19,604,591</b>	16,965,244
Rental expenses under operating leases	<b>67,023</b>	67,900
Research and development expenses	<b>499,572</b>	314,182
Loss on disposal of tangible fixed assets	<b>2,308</b>	3,110
Net exchange (gain)/loss	<b>(7,379)</b>	13,346

## NOTES TO THE ACCOUNTS *(continued)*

### 6 Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest payable on bank loans and overdrafts	2,365	20
Other interest	516	–
Total finance cost	<b>2,881</b>	20

### 7 Taxation

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation:		
– Taxation outside Hong Kong	14,482	23,730
– Overprovision in prior years	–	(339)
Deferred taxation relating to the origination and reversal of temporary differences	<b>(35,048)</b>	–
	<b>(20,566)</b>	23,391
Share of taxation attributable to:		
Jointly controlled entities	84	1,416
Associated companies	332	1,211
Taxation (credit)/charge	<b>(20,150)</b>	26,018

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	994,852	1,028,651
Calculated at a taxation rate of 17.5% (2003: 16%)	174,099	164,584
Effect of different taxation rates in other countries	<b>(117,494)</b>	(121,286)
Income not subject to taxation	<b>(103,801)</b>	(27,351)
Expenses not deductible for taxation purposes	14,240	14,762
Utilisation of previously unrecognised tax losses	–	(3,269)
Recognition of deferred taxes previously not recognised	<b>(29,067)</b>	–
Tax credit for capital expenditure	<b>(1,271)</b>	(6,526)
Overprovision in prior years	–	(339)
Net deferred tax assets not recognised	<b>43,144</b>	5,443
Taxation (credit)/charge	<b>(20,150)</b>	26,018

No provision for Hong Kong profits tax has been made in the accounts as the Company and its subsidiaries have no estimated assessable profits for the year (2003: Nil). In 2003, the Government of Hong Kong Special Administrative Region enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/04.

## 7 Taxation (continued)

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.

Pursuant to various approval documents issued by the Chinese mainland tax authority, certain Chinese mainland subsidiaries of the Group are entitled to preferential Chinese mainland income tax treatments.

Lenovo (Beijing) Limited was entitled to preferential Chinese mainland income tax rate of 7.5% for the three years ended 31st December 2003. From 1st January 2004 onwards, it is subject to income tax rate of 10% up to 31st December 2006.

Lenovo Mobile Communication Co., Ltd., Shanghai Lenovo Electronic Co., Ltd. and Lenovo Computer System and Technology Service Co., Ltd. are exempted from Chinese mainland income tax for two years commencing 1st January 2002 and a 50% Chinese mainland tax reduction for the following three years.

Other major Chinese mainland subsidiaries of the Group in Shenzhen, Beijing and Huiyang are exempted from Chinese mainland income tax for two to three years commencing 1st January 2001 and a 50% Chinese mainland income tax reduction for the following three years.

## 8 Staff costs

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and bonuses	672,562	581,465
Social security costs	72,892	42,858
Pension costs (Note (b))	58,797	41,216
Others	125,776	89,898
	<b>930,027</b>	755,437

- (a) Included in the above balance are staff costs of HK\$851,476,000 (2003: HK\$688,519,000) which are included in operating expenses (Note 4(b)).
- (b) The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in Chinese mainland. Contributions to these schemes are calculated with reference to the employees' salaries, bonuses and monthly average salaries as set out by the local municipal government.

Prior to 1st December 2000, the Group provided all qualified Hong Kong employees with a defined contribution retirement scheme. Commencing 1st December 2000, the Group's Hong Kong employees are required to contribute 5% of their basic salary plus cash allowances (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation) whereas the employer's contribution is at 7.5% and 10% respectively after completion of five and ten years of service. The Group's contributions to the scheme were reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$812,638 (2003: HK\$352,811) were utilised during the year leaving no amount available at the year end to reduce further contributions. The assets of the defined contribution scheme are held separately from those of the Group in an independently administered fund.

The retirement benefit scheme cost charged to the consolidated profit and loss account represents contributions payable by the Group to the schemes.

**9 Emoluments of directors and highest paid individuals**

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Directors		Independent non-executive directors	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Fees	–	–	540	375
Other emoluments:				
Basic salaries, allowances and benefits-in-kind	26,037	20,667	–	–
Retirement benefit costs	352	339	–	–
	<b>26,389</b>	21,006	<b>540</b>	375

Certain directors of the Company have been granted options to acquire shares of the Company.

The emoluments of the directors disclosed above do not include the benefits derived or to be derived from the options granted under the Company's share option schemes. Details of the share options granted to and/or exercised by the directors are disclosed on page 36.

(b) The number of directors whose emoluments fall within the following bands is as follows:

HK\$	Directors		Independent non-executive directors	
	2004	2003	2004	2003
From 0 to 1,000,000	–	–	3	3
From 2,000,001 to 2,500,000	–	1	–	–
From 2,500,001 to 3,000,000	1	–	–	–
From 4,000,001 to 4,500,000	–	1	–	–
From 4,500,001 to 5,000,000	1	–	–	–
From 5,500,001 to 6,000,000	–	1	–	–
From 6,000,001 to 6,500,000	1	–	–	–
From 8,000,001 to 8,500,000	–	1	–	–
From 12,000,001 to 12,500,000	1	–	–	–
	<b>4</b>	4	<b>3</b>	3

(c) Among the five highest paid employees, three (2003: four) are directors whose remunerations are included in the directors' emoluments above. The emoluments payable to the remaining two (2003: one) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits-in-kind	6,458	2,079
Retirement benefit costs	25	158
	<b>6,483</b>	2,237

## 9 Emoluments of directors and highest paid individuals *(continued)*

(d) The number of employees whose emoluments fall within the following bands is as follows:

<i>HK\$</i>	2004	2003
From 2,000,001 to 2,500,000	–	1
From 3,000,001 to 3,500,000	2	–
	2	1

## 10 Profit attributable to shareholders

Included in the profit of HK\$1,052,885,000 (2003: HK\$1,017,152,000) attributable to shareholders of the Company is the profit of HK\$1,001,070,000 (2003: HK\$1,095,610,000), which is dealt with in the Company's own accounts.

## 11 Dividends

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim dividend of 2.0 HK cents per share (2003: 1.8 HK cents)	149,436	135,034
Proposed final dividend of 3.0 HK cents per share (2003: 3.0 HK cents)	224,268	224,040
Special dividend of 5.2 HK cents per share for 2003	–	388,338
	373,704	747,412

At a board meeting held on 2nd June 2004, the directors recommended a final dividend of 3.0 HK cents per share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

## 12 Earnings per share

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

	2004	2003
Earnings for the purposes of basic and diluted earnings per share (HK\$'000)	1,052,885	1,017,152
Weighted average number of shares for the purposes of basic earnings per share	7,471,766,157	7,504,340,579
Effect of potential dilutive shares	53,541,036	9,827,387
Weighted average number of shares for the purposes of diluted earnings per share	7,525,307,193	7,514,167,966

**13 Intangible assets**

	<b>Group</b>			<b>Total</b>
	<b>Goodwill</b>	<b>Patent</b>	<b>Marketing right</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31st March 2004				
Opening net book amount	85,951	34,670	–	120,621
Additions	–	4,912	507,000	511,912
Acquisition of a subsidiary	49,452	–	–	49,452
Amortisation charge	(25,274)	(9,725)	–	(34,999)
Closing net book amount	110,129	29,857	507,000	646,986
As at 31st March 2004				
Cost	142,866	47,365	507,000	697,231
Accumulated amortisation	(32,737)	(17,508)	–	(50,245)
Net book amount	110,129	29,857	507,000	646,986
As at 31st March 2003				
Cost	93,414	42,453	–	135,867
Accumulated amortisation	(7,463)	(7,783)	–	(15,246)
Net book amount	85,951	34,670	–	120,621

## 14 Tangible fixed assets

	Group						
	Land use rights, leasehold land and buildings (Note (a)) HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Costs</b>							
At 1st April 2003	469,557	138,065	90,676	17,109	474,120	24,824	1,214,351
Exchange adjustment	–	–	–	466	218	199	883
Additions	–	8,369	10,590	4,256	71,203	1,800	96,218
Acquisition of subsidiaries	–	3,513	61,990	225	18,330	330	84,388
Transfer from construction-in-progress	80,669	44,611	16,989	–	39,627	–	181,896
Disposals	–	(1,954)	(4,849)	(981)	(21,710)	(1,521)	(31,015)
At 31st March 2004	550,226	192,604	175,396	21,075	581,788	25,632	1,546,721
<b>Accumulated depreciation</b>							
At 1st April 2003	68,397	41,152	29,868	8,445	205,971	14,542	368,375
Exchange adjustment	–	–	–	339	152	70	561
Charge for the year	20,252	43,588	21,318	4,404	118,799	2,800	211,161
Disposals	–	(1,750)	(2,459)	(603)	(14,675)	(1,161)	(20,648)
At 31st March 2004	88,649	82,990	48,727	12,585	310,247	16,251	559,449
<b>Net book value</b>							
At 31st March 2004	461,577	109,614	126,669	8,490	271,541	9,381	987,272
At 31st March 2003	401,160	96,913	60,808	8,664	268,149	10,282	845,976



# NOTES TO THE ACCOUNTS *(continued)*

## 14 Tangible fixed assets *(continued)*

	<b>Company</b>				
	<b>Leasehold improvements</b>	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Costs</b>					
At 1st April 2003	2,325	658	39,778	1,562	44,323
Additions	27	23	5,017	1,280	6,347
Disposals	–	–	(38)	–	(38)
At 31st March 2004	2,352	681	44,757	2,842	50,632
<b>Accumulated depreciation</b>					
At 1st April 2003	319	315	2,403	286	3,323
Charge for the year	832	150	13,837	404	15,223
Disposals	–	–	(29)	–	(29)
At 31st March 2004	1,151	465	16,211	690	18,517
<b>Net book value</b>					
At 31st March 2004	1,201	216	28,546	2,152	32,115
At 31st March 2003	2,006	343	37,375	1,276	41,000

(a) The net book value of land use rights, leasehold land and buildings comprises:

	<b>Group</b>					
	<b>2004</b>			<b>2003</b>		
	<b>Hong Kong</b>	<b>Chinese mainland</b>	<b>Total</b>	<b>Hong Kong</b>	<b>Chinese mainland</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium leases (less than 50 years but not less than 10 years)	–	461,577	461,577	–	401,160	401,160

## 15 Construction-in-progress

Construction-in-progress comprises:

	Group					
	Buildings under development		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At the beginning of the year	130,107	24,453	44,031	19,413	174,138	43,866
Additions	180,611	123,226	87,524	45,774	268,135	169,000
Transfer to tangible fixed assets	(109,720)	(17,572)	(72,176)	(21,156)	(181,896)	(38,728)
At the end of the year	200,998	130,107	59,379	44,031	260,377	174,138

No interest expenses were capitalised in construction-in-progress at the balance sheet date.

## 16 Subsidiaries

### (a) Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	2,327,875	2,327,875

The following includes the principal subsidiaries of the Company which were directly and indirectly held by the Company and, in the opinion of the directors, significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding		Principal activities
			2004	2003	
<i>Held directly:</i>					
Lenovo (Beijing) Limited*	Chinese mainland	HK\$78,000,000	100%	100%	Manufacturing and distribution of IT products and provision of IT services
Lenovo (Shanghai) Co., Ltd.*	Chinese mainland	HK\$10,000,000	100%	100%	Distribution of IT products and provision of IT services

**16 Subsidiaries** *(continued)*
**(a) Investments in subsidiaries** *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding		Principal activities
			2004	2003	
<i>Held indirectly:</i>					
Beijing Lenovo Software Limited*	Chinese mainland	HK\$5,000,000	100%	100%	Provision of IT services and distribution of IT products
Han Consulting (China) Limited*	Chinese mainland	US\$6,000,000	51%	51%	Provision of IT services and distribution of IT products
Huiyang Lenovo Industry Property Limited*	Chinese mainland	US\$2,045,500	100%	100%	Property holding and property management
Lenovo AI Computer Technology Co., Ltd.*	Chinese mainland	RMB10,000,000	70%	70%	Provision of IT services
Lenovo (Chengdu) Limited*	Chinese mainland	RMB12,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo Chinaweal System & Service Co., Ltd.*	Chinese mainland	US\$6,024,000	95.1%	95.1%	Provision of IT services and distribution of IT products
Lenovo Computer Limited (formerly, Legend Computer Systems Limited)	Hong Kong	HK\$2	100%	100%	Procurement agent and distribution of IT products
Lenovo Computer System and Technology Service Co., Ltd.*	Chinese mainland	RMB50,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Huiyang) Electronic Industrial Co., Ltd.*	Chinese mainland	HK\$16,000,000	100%	100%	Manufacturing of IT products
Lenovo Industrial Development Co., (Daya Bay) Ltd.*	Chinese mainland	US\$10,000,000	100%	100%	Property holding and property management
Lenovo Mobile Communication Co., Ltd.*	Chinese mainland	RMB187,500,000	80.8%	80.8%	Manufacturing and distribution of mobile handsets
Lenovo Networks (Shenzhen) Limited*	Chinese mainland	HK\$20,000,000	80%	–	Provision of IT services

## 16 Subsidiaries (continued)

### (a) Investments in subsidiaries (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding		Principal activities
			2004	2003	
Lenovo (Shenyang) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Shenzhen) Electronic Co., Ltd.*	Chinese mainland	RMB10,000,000	100%	100%	Distribution of IT products
Lenovo (Wuhan) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Xian) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Shanghai Lenovo Electronic Co., Ltd.*	Chinese mainland	RMB20,000,000	100%	100%	Manufacturing of IT products
QDI Europe B.V.	The Netherlands	EUR18,151	50%	100%	Distribution of IT products
QDI Technology (HK) Limited	Hong Kong	HK\$2	50%	–	Procurement agent and distribution of IT products
QDI Technology (Huizhou) Limited* (formerly, Hui Yang Legend Computer Co., Ltd.)	Chinese mainland	HK\$50,000,000	50%	50%	Manufacturing of IT products
QDI Technology (Shenzhen) Limited*	Chinese mainland	HK\$8,300,000	50%	–	Distribution of IT products
Quantum Designs (H.K.) Limited	Hong Kong	HK\$2 ordinary and HK\$1,000,000 non-voting deferred	100%	100%	Procurement agent and distribution of IT products
Sunny Information Technology Service (Beijing) Co., Ltd.*	Chinese mainland	RMB20,000,000	100%	100%	Provision of repair services for computer hardware and software systems

*Notes:*

- (i) All of the above subsidiaries operate principally in their respective places of incorporation or establishment.
- (ii) All the Chinese mainland subsidiaries are limited liability companies. They have adopted 31st December as their financial year end date for statutory reporting purposes. For preparation of the consolidated accounts, accounts of these subsidiaries for the 12 months ended 31st March 2003 and 2004 have been used.
- (iii) The company whose English name with a "\*" is a direct transliteration of its Chinese registered name.

### (b) Amounts due from/(to) subsidiaries

The amounts are interest-free, unsecured and have no fixed terms of repayment.

**17 Investment in a jointly controlled entity**

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	124,124	198,549
Amount due to a jointly controlled entity (Note)	(108,471)	–
	<b>15,653</b>	198,549

Note: The amount due to a jointly controlled entity is interest-free, unsecured and have no fixed terms of repayment.

The details of the jointly controlled entity at 31st March 2004 are as follows:

Company name	Place of incorporation/ establishment	Interest held indirectly		Principal activity
		2004	2003	
Leby Technology Company Limited	British Virgin Islands	50%	50%	Dormant

**18 Investments in associated companies**

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	110,882	99,813
Unsecured loan repayable on demand (Note)	1,800	1,800
	<b>112,682</b>	101,613

Note: The loan to an associated company is interest-free.

The following is a list of the principal associated companies at 31st March 2004:

Company name	Place of incorporation/ establishment	Interest held indirectly		Principal activities
		2004	2003	
Beijing CA – Legend Software Co., Ltd.*	Chinese mainland	20%	20%	Software development
Legend Kingsoft Holdings Limited	British Virgin Islands	30%	30%	Distribution and development of software
Techwise Circuits Company Limited	Hong Kong	30.5%	30.5%	Manufacturing and distribution of printed circuit boards

Notes:

- (i) The associated companies operate principally in their respective places of incorporation or establishment, except for Legend Kingsoft Holdings Limited which operates principally in the PRC.
- (ii) The company whose English name with a "\*" is a direct transliteration of its Chinese registered name.

## 19 Investment securities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities, at fair value				
Listed in Hong Kong	12,239	52,172	–	37,890
Listed outside Hong Kong	48,716	2,257	–	–
	60,955	54,429	–	37,890
Unlisted	15,027	19,220	–	–
	75,982	73,649	–	37,890

## 20 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

The movement on the deferred assets/(liabilities) account is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At the beginning of the year	(330)	(330)
Deferred taxation credited to consolidated profit and loss account ( <i>Note 7</i> )	35,048	–
At the end of the year	34,718	(330)

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$140,356,107 (2003: HK\$5,229,967) to carry forward against future taxable income. These tax losses will expire up to fiscal year 2008/09.

## NOTES TO THE ACCOUNTS *(continued)*

### 20 Deferred taxation *(continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	Provisions		Tax depreciation allowance		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	–	–	–	–	–	–
Credited to consolidated profit and loss account	34,171	–	547	–	34,718	–
At the end of the year	34,171	–	547	–	34,718	–

Deferred tax liabilities	Tax depreciation allowance		Total	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	330	330	330	330
Credited to consolidated profit and loss account	(330)	–	(330)	–
At the end of the year	–	330	–	330

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	2003
	HK\$'000	HK\$'000
Deferred tax assets	34,718	–
Deferred tax liabilities	–	(330)
	34,718	(330)

### 21 Inventories

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	896,177	873,090
Work-in-progress	13,369	26,975
Finished goods	483,472	368,986
	1,393,018	1,269,051

At 31st March 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$136,066,000 (2003: HK\$79,785,000).

## 22 Accounts receivable

### (a) Trade receivables

At 31st March 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	944,212	490,851
31 – 60 days	84,481	27,213
61 – 90 days	20,862	10,680
Over 90 days	181,389	24,772
	<b>1,230,944</b>	553,516

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

(b) Notes receivable are bills of exchange mainly with maturity dates of within six months.

## 23 Cash and cash equivalents – Group

Included in the cash and cash equivalents of the Group are Renminbi cash and cash equivalents in the Chinese mainland of approximately HK\$1,335,636,000 (2003: HK\$802,124,000).

## 24 Accounts payable

### (a) Trade payables

At 31st March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	1,791,869	1,339,852
31 – 60 days	210,993	149,535
61 – 90 days	27,554	20,870
Over 90 days	124,641	78,375
	<b>2,155,057</b>	1,588,632

(b) Notes payable are mainly repayable within three months.



**25 Long-term liabilities**

	Group	
	2004 HK\$'000	2003 HK\$'000
Loan from a minority shareholder of a subsidiary <i>(Note (a))</i>	75,000	–
Amount payable for marketing right <i>(Note (b))</i>	507,000	–
Current portion payable within one year	(55,453)	–
	451,547	–
	526,547	–

*Notes:*

- (a) The loan from a minority shareholder of a subsidiary is unsecured and not repayable within next 12 months. Included in the balance is an amount of HK\$52,879,000 which is bearing interest at the rate of LIBOR + 1.5% per annum. The remaining balance of HK\$22,121,000 is interest free.
- (b) On 5th February 2004, the Group has entered into an agreement with the International Olympic Committee and the United States Olympic Committee regarding participation in The Olympic Partner Programme. Pursuant to which, the Group will pay a total amount of US\$65,000,000 (equivalent to approximately HK\$507,000,000) in cash and value in kind to obtain marketing rights which include the use of Olympic intellectual property rights and exclusive worldwide marketing opportunities in its products, technology and service categories from 1st January 2005 to 31st December 2008. The amount is payable in installments up to 10th November 2008.

**26 Share capital**

	2004		2003	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
At the beginning and the end of the year	20,000,000,000	500,000	20,000,000,000	500,000
Issued and fully paid:				
At the beginning of the year	7,477,364,108	186,934	7,508,038,108	187,701
Exercise of share options <i>(Note 27)</i>	10,580,000	265	656,000	16
Repurchase of shares <i>(Note)</i>	(12,350,000)	(309)	(31,330,000)	(783)
At the end of the year	7,475,594,108	186,890	7,477,364,108	186,934

*Note:* During the year, the Company repurchased 12,350,000 shares of HK\$0.025 each on the Stock Exchange of Hong Kong at an aggregate consideration of HK\$28,394,000.

## 27 Share options

Under the Company's employee share option scheme adopted on 18th January 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the higher of the nominal value of the shares and an amount which is 80% of the average of the closing prices of the shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on 26th April 2002. Despite the fact that no further options may be granted thereunder, all other provisions of the Old Option Scheme will remain in force to govern the exercise of all the options previously granted.

On 25th March 2002, an ordinary resolution approving the adoption of a new share option scheme ("New Option Scheme") was passed by shareholders at an extraordinary general meeting of the Company.

Under the New Option Scheme, the Company may grant options to qualified participants as defined in the Directors' Report to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company as at the date of adoption of the New Option Scheme. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the highest of the closing price of the shares on the date of grant; the average of the closing prices of the shares for the five trading days immediately preceding the date of grant; and the nominal value of the shares.

	2004 Number of shares	2003 Number of shares
At the beginning of the year	345,142,000	292,992,000
Granted during the year (Note (a))	136,572,000	52,806,000
Exercised during the year (Note (b))	(10,580,000)	(656,000)
Lapsed during the year (Note (c))	(1,656,000)	–
At the end of the year (Note (d))	469,478,000	345,142,000

(a) Share options granted during the year:

Exercise period	Exercise price HK\$	2004 Number of shares	2003 Number of shares
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	–	52,806,000
26.04.2003 to 25.04.2013	2.245	136,572,000	–
		136,572,000	52,806,000

**27 Share options** (continued)

(b) Details of share options exercised during the year are as follows:

(i) Year 2004

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Number of shares	Proceeds received
				HK\$
28.08.2003	2.876	3.08	20,000	57,520
10.09.2003 to 24.09.2003	2.876	3.15 - 3.43	1,676,000	4,820,176
02.10.2003 to 21.10.2003	2.876	3.05 - 3.80	342,000	983,592
03.11.2003 to 25.11.2003	2.876	3.13 - 3.18	520,000	1,495,520
01.12.2003 to 25.12.2003	2.876	3.15 - 3.40	2,666,000	7,667,416
02.01.2004 to 16.01.2004	2.876	3.40 - 3.70	1,640,000	4,716,640
19.02.2004 to 21.02.2004	2.876	3.35 - 3.43	66,000	189,816
23.07.2003 to 31.07.2003	2.245	2.88 - 3.05	46,000	103,270
11.08.2003 to 18.08.2003	2.245	3.00 - 3.23	46,000	103,270
23.09.2003	2.245	3.23	66,000	148,170
17.10.2003	2.245	3.45	110,000	246,950
08.12.2003 to 17.12.2003	2.245	3.18 - 3.40	122,000	273,890
08.01.2004	2.245	3.63	6,000	13,470
01.03.2004 to 09.03.2004	2.245	3.20 - 3.28	34,000	76,330
17.06.2003 to 25.06.2003	2.435	2.60 - 2.86	16,000	38,960
08.07.2003 to 31.07.2003	2.435	2.88 - 3.05	122,000	297,070
06.08.2003 to 23.08.2003	2.435	2.88 - 3.03	68,000	165,580
10.09.2003 to 24.09.2003	2.435	3.14 - 3.43	588,000	1,431,780
02.10.2003 to 24.10.2003	2.435	3.05 - 3.73	664,000	1,616,840
03.11.2003 to 24.11.2003	2.435	3.10 - 3.75	282,000	686,670
01.12.2003 to 26.12.2003	2.435	3.18 - 3.40	348,000	847,380
02.01.2004 to 15.01.2004	2.435	3.48 - 3.70	384,000	935,040
02.02.2004 to 24.02.2004	2.435	3.25 - 3.75	698,000	1,699,630
01.03.2004 to 09.03.2004	2.435	3.20 - 3.30	50,000	121,750
			<b>10,580,000</b>	<b>28,736,730</b>

(ii) Year 2003

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Number of shares	Proceeds received
				HK\$
02.04.2002	2.876	3.33	88,000	253,088
08.05.2002	2.876	3.35	270,000	776,520
10.06.2002	2.876	3.20	298,000	857,048
			656,000	1,886,656

## 27 Share options *(continued)*

(c) Details of share options lapsed during the year were as follows:

Exercise period	Exercise price <i>HK\$</i>	2004	2003
		Number of shares	Number of shares
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	<b>1,656,000</b>	–

(d) Details of share options at the balance sheet date were as follows:

Exercise period	Exercise price <i>HK\$</i>	2004	2003
		Number of shares	Number of shares
Old Option Scheme			
28.01.2000 to 27.01.2010	4.038	<b>7,712,000</b>	7,712,000
15.01.2001 to 14.01.2011	4.312	<b>127,162,000</b>	127,162,000
16.04.2001 to 15.04.2011	4.072	<b>35,550,000</b>	35,550,000
29.08.2001 to 28.08.2011	2.904	<b>832,000</b>	832,000
31.08.2001 to 30.08.2011	2.876	<b>114,150,000</b>	121,080,000
		<b>285,406,000</b>	292,336,000
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	<b>47,930,000</b>	52,806,000
26.04.2003 to 25.04.2013	2.245	<b>136,142,000</b>	–
		<b>184,072,000</b>	52,806,000

**28 Share capital and reserves**

	Group							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Surplus arising on consolidation HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Share redemption reserve HK\$'000	Accumulated losses HK\$'000	
As at 1st 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	-	-	-	-	20,144	-	-	20,144
Exchange differences	-	-	-	270	-	-	-	270
Reserves realised upon disposal of investment securities	-	-	-	-	(11,624)	-	-	(11,624)
Profit for the year	-	-	-	-	-	-	1,052,885	1,052,885
Exercise of share options	265	28,471	-	-	-	-	-	28,736
Repurchase of shares	(309)	-	-	-	-	309	(28,394)	(28,394)
Dividends paid	-	-	-	-	-	-	(761,814)	(761,814)
<b>As at 31st March 2004</b>	<b>186,890</b>	<b>4,762,526</b>	<b>27,871</b>	<b>4,581</b>	<b>(5,976)</b>	<b>2,898</b>	<b>(490,066)</b>	<b>4,488,724</b>
Representing:								
2004 final dividend proposed							224,268	
Others							(714,334)	
Accumulated losses as at 31st March 2004							(490,066)	
Company and subsidiaries	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(549,378)	4,429,412
Jointly controlled entities	-	-	-	-	-	-	7,236	7,236
Associated companies	-	-	-	-	-	-	52,076	52,076
<b>As at 31st March 2004</b>	<b>186,890</b>	<b>4,762,526</b>	<b>27,871</b>	<b>4,581</b>	<b>(5,976)</b>	<b>2,898</b>	<b>(490,066)</b>	<b>4,488,724</b>

## 28 Share capital and reserves (continued)

	Group							
	Share capital	Share premium	Surplus arising on consolidation	Exchange reserve	Investment revaluation reserve	Share redemption reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st 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	-	-	-	-	(20,891)	-	-	(20,891)
Exchange differences	-	-	-	156	-	-	-	156
Reserves realised upon disposal of investment securities	-	-	-	-	(7,120)	-	-	(7,120)
Goodwill written off arising from disposal of subsidiaries	-	-	(22)	-	-	-	-	(22)
Profit for the year	-	-	-	-	-	-	1,017,152	1,017,152
Exercise of share options	16	1,871	-	-	-	-	-	1,887
Repurchase of shares	(783)	-	-	-	-	783	(79,399)	(79,399)
Dividends paid	-	-	-	-	-	-	(405,276)	(405,276)
As at 31st March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Representing:								
2003 final dividend proposed							224,040	
2003 special dividend proposed							388,337	
Others							(1,365,120)	
Accumulated losses as at 31st March 2003							(752,743)	
Company and subsidiaries	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(719,921)	4,221,343
Jointly controlled entities	-	-	-	-	-	-	(27,704)	(27,704)
Associated companies	-	-	-	-	-	-	(5,118)	(5,118)
As at 31st March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521

# NOTES TO THE ACCOUNTS *(continued)*

## 28 Share capital and reserves *(continued)*

	Company					
	Share capital	Share premium	Investment revaluation reserve	Share redemption reserve	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1st April 2003	<b>186,934</b>	<b>4,734,055</b>	<b>(2,183)</b>	<b>2,589</b>	<b>1,474,240</b>	<b>6,395,635</b>
Reserves realised upon disposal of investment securities	–	–	<b>2,183</b>	–	–	<b>2,183</b>
Profit for the year	–	–	–	–	<b>1,001,070</b>	<b>1,001,070</b>
Exercise of share options	<b>265</b>	<b>28,471</b>	–	–	–	<b>28,736</b>
Repurchase of shares	<b>(309)</b>	–	–	<b>309</b>	<b>(28,394)</b>	<b>(28,394)</b>
Dividends paid	–	–	–	–	<b>(761,814)</b>	<b>(761,814)</b>
<b>As at 31st March 2004</b>	<b>186,890</b>	<b>4,762,526</b>	–	<b>2,898</b>	<b>1,685,102</b>	<b>6,637,416</b>
Representing:						
2004 final dividend proposed					<b>224,268</b>	
Others					<b>1,460,834</b>	
Retained earnings as at 31st March 2004					<b>1,685,102</b>	
As at 1st April 2002	187,701	4,732,184	–	1,806	863,305	5,784,996
Deficit in fair market value of investment securities	–	–	(2,183)	–	–	(2,183)
Profit for the year	–	–	–	–	1,095,610	1,095,610
Exercise of share options	16	1,871	–	–	–	1,887
Repurchase of shares	(783)	–	–	783	(79,399)	(79,399)
Dividends paid	–	–	–	–	(405,276)	(405,276)
<b>As at 31st March 2003</b>	<b>186,934</b>	<b>4,734,055</b>	<b>(2,183)</b>	<b>2,589</b>	<b>1,474,240</b>	<b>6,395,635</b>
Representing:						
2003 final dividend proposed					224,040	
2003 special dividend proposed					388,337	
Others					861,863	
Retained earnings as at 31st March 2003					1,474,240	

## 29 Related party transactions

Saved as disclosed elsewhere in this set of accounts, the Group had the following material related party transactions in the normal course of business during the year:

	Group	
	2004 HK\$'000	2003 HK\$'000
Beijing Legend FM Science and Technology Company Limited (a subsidiary of the ultimate holding company):		
Account access fees	–	43,879
DCHL Group (associated companies of the ultimate holding company):		
Rental and management fee	740	2,163
Purchase of goods	27,992	5,414
Sales of goods	–	1,132
Leby Technology Company Limited (a jointly controlled entity):		
Purchase of computers products	178,907	134,262
Manufacturing fee	–	58,284
Sale of computer products	5,149	31,094
Lenovo (Beijing) Technology Co., Ltd. (formerly, AOL-Legend (Beijing) Technology Co., Ltd.) (a former jointly controlled entity):		
Technical consultancy fees	–	2,260
QDI Technology (Huizhou) Limited (formerly, Hui Yang Legend Computer Co., Ltd.) (a subsidiary of a former jointly controlled entity):		
Rental and management fee	3,126	8,239
Ramaxel Technology Limited (holding company of a minority shareholder of a subsidiary):		
Purchase of goods	180,541	–
Sale of goods	215,333	–
Right Lane Limited (a substantial shareholder):		
Rental and management fee	960	960
Shenzhen Legend Science Park Company Limited (a subsidiary of the ultimate holding company):		
Rental expenses	10,373	14,822
Shenzhen Zhiqin International Freight Forwarding Co., Ltd. (an associated company of the ultimate holding company)		
Logistic services fee	1,064	–
Techwise Circuits Company Limited and its subsidiaries (associated companies):		
Purchase of goods	34,800	51,232
Rental and management fee	10,836	21,903
Xiamen Overseas Chinese Electronics Co., Ltd. (a minority shareholder of a subsidiary):		
Rental expenses	1,144	1,144
Purchase of goods	701	32,368

The directors are of the opinion that the above transactions were conducted on normal commercial terms in the ordinary course of business.



### 30 Banking facilities

At 31st March 2004, total banking facilities granted to the Group amounted to approximately HK\$3,783,000,000 which were secured by one or more of the following:

- (a) Cross guarantees provided by certain subsidiaries; and
- (b) Guarantees provided by the Company.

At 31st March 2004, the amount of facilities utilised by the Group amounted to approximately HK\$1,139,000,000 (2003: HK\$460,000,000).

### 31 Commitments

#### (a) Capital commitments

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for property, plant and equipment	58,911	120,156

#### (b) Commitments under operating leases

At 31st March 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	36,377	58,255
Later than one year but not later than five years	75,262	78,281
Later than five years	43,146	52,058
	<b>154,785</b>	188,594

#### (c) Other commitments

- (i) On 17th December 2002, two subsidiaries of the Company, China Weal Technology Holding Limited ("CWT") and the shareholders of CWT entered into an agreement in which the Company's subsidiaries have committed to acquire certain business and assets from CWT and its subsidiaries (the "CWT Group"). The business and assets acquired were injected into a newly incorporated Chinese mainland subsidiary of the Company.

Pursuant to the agreement, the Group is required to pay an initial consideration of approximately HK\$61,000,000 and an additional consideration which is dependent on, among other things, proper completion of certain recognition procedures, and the operating results of the above-mentioned new subsidiary of the Company up to 31st March 2008. The maximum amount of additional consideration, if required, of approximately HK\$156,000,000 will be settled in phases before 31st October 2008.

- (ii) As at 31st March 2004, the Group had outstanding foreign currency forward contracts and options amounted to approximately HK\$468,000,000 (2003: HK\$46,000,000).

### 32 Contingent liabilities

- (a) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. As at 31st March 2004, such facilities granted and utilised amounted to approximately HK\$2,381,000,000 and HK\$552,000,000 respectively (2003: HK\$2,620,000,000 and HK\$460,000,000).
- (b) The Company has issued letters of guarantee to the suppliers and vendors of its subsidiaries. As at 31st March 2004, the guarantee granted and utilised amounted to approximately HK\$1,031,160,000 and HK\$626,000,000 respectively (2003: HK\$941,460,000 and HK\$570,000,000).

### 33 Reconciliation of profit before taxation to net cash inflow from operations

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	994,852	1,028,651
Share of profits of associated companies	(16,891)	(13,826)
Share of losses of jointly controlled entities	39,053	34,756
Finance income	(93,368)	(77,233)
Finance costs	2,881	20
Depreciation of tangible fixed assets	211,161	160,304
Amortisation of intangible assets	34,999	15,246
Loss on disposal of tangible fixed assets	2,308	3,110
(Gains)/losses on disposal of investments	(47,558)	26,802
Operating profit before working capital changes	1,127,437	1,177,830
Increase in inventories	(117,942)	(411,997)
Decrease in amounts due from jointly controlled entities	–	194,132
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(858,109)	(287,263)
Increase in trade payables, notes payable, accruals and other payables	597,607	477,373
Net cash inflow from operations	748,993	1,150,075

**34 Analysis of changes in financing**

	2004			2003		
	Share capital (including premium) <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Loan from a minority shareholder of a subsidiary <i>HK\$'000</i>	Share Capital (including premium) <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Loan from a minority shareholder of a subsidiary <i>HK\$'000</i>
Balance at the beginning of the year	4,920,989	59,741	–	4,919,885	7,050	–
Minority interests' share of losses	–	(37,883)	–	–	(14,519)	–
Increase in loan from a minority shareholder	–	–	75,000	–	–	–
Acquisition of subsidiaries	–	462	–	–	67,210	–
Issue of new shares	28,736	11,604	–	1,887	–	–
Consideration for the repurchase of shares	(28,394)	–	–	(79,399)	–	–
Repurchase of shares	28,085	–	–	78,616	–	–
Dividend paid to minority shareholders	–	(4,594)	–	–	–	–
Balance at the end of the year	4,949,416	29,330	75,000	4,920,989	59,741	–

**35 Acquisition of subsidiaries**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired		
Tangible fixed assets	84,388	27,027
Inventories	6,025	1,535
Investments	–	3,649
Accounts and notes receivable	29,476	7,788
Deposits, prepayments and other receivables	1,517	25,730
Cash and cash equivalents	56,749	204,788
Accounts payable	(12,202)	(789)
Accruals and other payables	(19,884)	(20,538)
Minority interest	(462)	(67,210)
	145,607	181,980
Goodwill arising from acquisition	49,452	38,801
	195,059	220,781
Satisfied by:		
Cash and cash equivalents	51,300	199,941
Amount payable to a jointly controlled entity	108,471	20,840
Investment in a jointly controlled entity	35,288	–
	195,059	220,781

### 36 Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(51,300)	(199,941)
Cash and cash equivalents acquired	56,749	204,788
Net inflow of cash and cash equivalents in respect of acquisition of subsidiaries	5,449	4,847

### 37 Ultimate holding company

The directors regard Legend Holdings Limited, a company established in the Chinese mainland, as being the ultimate holding company.

### 38 Approval of accounts

The accounts were approved by the board of directors on 2nd June 2004.