

# Directors' Report

The directors submit their report together with the audited accounts of the Company for the year ended March 31, 2005.

## 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 note 17 to the accounts.

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 4 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 March 31, 2005 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 2.4 HK cents per ordinary share (2004: 2.0 HK cents), amounting to a total of about HK\$179 million (2004: HK\$149 million), was paid to shareholders during the year.

The directors recommended the payment of a final dividend of 2.8 HK cents per ordinary share (2004: 3.0 HK cents). Subject to shareholders' approval at the forthcoming Annual General Meeting, the final dividend will be payable on Tuesday, August 16, 2005 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Tuesday, August 9, 2005.

The Register of Members of ordinary shares of the Company will be closed from Wednesday, August 3, 2005 to Tuesday, August 9, 2005, both dates inclusive, during which period, no transfer of ordinary 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 Tuesday, August 2, 2005.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2005 and for the last four financial years are set out on page 88.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 31 to the accounts.

## DISTRIBUTABLE RESERVES

As at March 31, 2005, the distributable reserves of the Company available for dividend distribution amounted to HK\$2,082,202,000 (2004: HK\$1,685,102,000).

## BANK LOANS

There were no outstanding bank loans as at March 31, 2005.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$3,904,000 (2004: HK\$1,638,000).

## TANGIBLE FIXED ASSETS

Details of the movements in tangible fixed assets of the Group and the Company are set out in note 15 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the accounts.

Pursuant to an ordinary resolution duly passed at the Extraordinary General Meeting held on May 13, 2005, the authorized share capital of the Company has been increased from HK\$500,000,000 divided into 20,000,000,000 shares of HK\$0.025 each to HK\$527,525,000 divided into 20,000,000,000 ordinary shares of HK\$0.025 each and 3,000,000 Series A Cumulative Convertible Preferred Shares, of nominal value HK\$9.175 each and state value of HK\$1,000 each, with the respective rights and privileges and subject to the restrictions set out in the articles of association of the Company.

## SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

Particulars of the Company's principal subsidiaries, jointly controlled entities and associated companies as at March 31, 2005 are set out in notes 17, 18 and 19 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 percent 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	17 percent
Five largest suppliers combined	44 percent

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

## SHARE OPTION SCHEMES

At the Extraordinary General Meeting of the Company held on March 25, 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 January 18, 1994 and was terminated on April 26, 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 percent of the issued share capital of the Company. The maximum entitlement of any individual participant thereunder must not exceed 2.5 percent of the shares in issue. The exercise price for options was determined based on not less than 80 percent of the average closing price of the listed ordinary 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 March 31, 2005, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder is 194,834,000 ordinary shares, representing approximately 2.1 percent of the issued share capital of the Company (including voting and non-voting ordinary shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

### 2. New Option Scheme

#### (a) Purpose

The New Option Scheme was effective on April 26, 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
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.

## SHARE OPTION SCHEMES *(continued)*

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

(c) *Maximum number of shares*

As at March 31, 2005, the maximum number of ordinary shares available for issue under the New Option Scheme is 419,205,810, representing approximately 4.5 percent of the issued share capital of the Company (including voting and non-voting ordinary shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

(d) *Maximum entitlement of each qualified participant*

The maximum number of ordinary 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 percent of the ordinary 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 percent of the ordinary 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 listed ordinary shares on the date of grant; (ii) the average of the closing prices of the listed ordinary shares of the Company for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of the ordinary shares.

(h) *Life of the scheme*

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

# Directors' Report *(continued)*

## SHARE OPTION SCHEMES *(continued)*

### 3. Outstanding options

Particulars of the outstanding options are as follows:

	Options held at April 1, 2004	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at March 31, 2005	Exercise price per ordinary share HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
<b>Old Option Scheme</b>								
<i>Directors</i>								
Mr. Chuanzhi Liu	2,250,000	-	-	-	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Mr. Yuanqing Yang	6,000,000	-	-	-	6,000,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	2,250,000	-	-	-	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Ms. Xuezheng Ma	2,920,000	-	-	-	2,920,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,600,000	-	-	-	1,600,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
<i>Continuous contract employees</i>	7,712,000	-	-	-	7,712,000	4.038	01.28.2000	01.28.2000 to 01.27.2010
	127,162,000	-	-	16,040,000	74,480,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
				Cancelled 36,642,000				
				Lapsed				
	26,630,000	-	-	-	26,630,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	832,000	-	-	-	832,000	2.904	08.29.2001	08.29.2001 to 08.28.2011
	108,050,000	-	20,000	16,690,000	70,160,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
				Cancelled 21,180,000				
				Lapsed				
<b>New Option Scheme</b>								
<i>Directors</i>								
Mr. Chuanzhi Liu	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Maochao Zeng (resigned on April 30, 2005)	1,600,000	-	-	-	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Yuanqing Yang	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Xuezheng Ma	1,600,000	-	-	-	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
<i>Continuous contract employees</i>	31,788,000	-	918,000	6,040,000	24,830,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
				Lapsed				
	126,942,000	-	5,764,000	15,762,000	105,416,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
				Lapsed				
		- 156,278,000	-	-	156,278,000	2.545	04.27.2004	04.27.2004 to 04.26.2014
		- 9,400,000	-	-	9,400,000	2.170	07.08.2004	07.08.2004 to 07.07.2014
<i>Other participants</i>	16,142,000	-	-	-	16,142,000	2.435	10.10.2002	10.10.2002 to 10.09.2012

## SHARE OPTION SCHEMES *(continued)*

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

Notes:

1. In respect of the share option granted on April 27, 2004, the closing price of the listed ordinary shares of the Company immediately before the date on which the options were granted was HK\$2.50.
2. In respect of the share option granted on July 8, 2004, the closing price of the listed ordinary shares of the Company immediately before the date on which the options were granted was HK\$2.20.
3. Weighted average closing price of the listed ordinary 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\$2.85.
4. Weighted average closing price of the listed ordinary 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\$2.84.

### 4. Valuation of share options

The share options granted are not recognized 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 7,500,000 ordinary shares of HK\$0.025 each of the Company at prices ranging from HK\$2.025 to HK\$2.175 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The purchase involved a total cash outlay of approximately HK\$16,093,000 and was for the purpose of enhancing returns on equity.

Month/Year	Number of ordinary shares repurchased	Highest price per share (HK\$)	Lowest price per share (HK\$)	Aggregate consideration paid (including expenses) (HK\$'000)
June 2004	7,500,000	2.175	2.025	16,093

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 share premium of the Company.

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

# Directors' Report *(continued)*

## DIRECTORS

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

### Executive directors

Mr. Yuanqing Yang

Mr. Stephen M. Ward, Jr.

(appointed on April 30, 2005)

Ms. Xuezheng Ma

### Non-executive directors

Mr. Chuanzhi Liu

(re-designated on April 30, 2005)

Mr. Maochao Zeng

(resigned on April 30, 2005)

Mr. Linan Zhu

(appointed on April 30, 2005)

Mr. James G. Coulter

(appointed on May 17, 2005)

Mr. William O. Grabe

(appointed on May 17, 2005)

Mr. Weijian Shan

(appointed on May 17, 2005)

Mr. Justin T. Chang (Alternate director to Mr. James G. Coulter)

(appointed on May 17, 2005)

Mr. Vince Feng (Alternate director to Mr. William O. Grabe)

(appointed on May 17, 2005)

Mr. Daniel A. Carroll (Alternate director to Mr. Weijian Shan)

(appointed on May 26, 2005)

Mr. Ricky Wai Kei Lau (Alternate director to Mr. Weijian Shan)

(appointed on May 17, 2005 and resigned on May 26, 2005)

### Independent non-executive directors

Mr. Wai Ming Wong

Professor Chia-Wei Woo

Mr. Lee Sen Ting

In accordance with articles 92 and 101 of the Company's articles of association, Mr. Yuanqing Yang, Mr. Stephen M. Ward, Jr., Ms. Xuezheng Ma, Mr. Chuanzhi Liu, Mr. Linan Zhu, Mr. James G. Coulter, Mr. William O. Grabe, Mr. Weijian Shan and Professor Chia-Wei Woo retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received from each of independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers they are independent.

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

### Biography of directors

#### *Executive directors*

**Mr. Yuanqing Yang**, 40, is the Chairman of the Board. Mr. Yang is a former Chief Executive Officer of the Company and has been an executive director since December 16, 1997. He has more than 15 years of experience in the field of computer, graduating from the Department of Computer Science at the University of Science and Technology of China with a master's degree in 1989. Mr. Yang is also an independent non-executive director of UFIDA Software Co. Ltd. (listed on the Shanghai Stock Exchange).

**Mr. Stephen M. Ward, Jr.**, 50, is the President and Chief Executive Officer. Mr. Ward became an executive director of the Company on April 30, 2005. Prior to joining the Group, Mr. Ward spent over 26 years with IBM, where he held a number of senior management positions. Most recently, he was the Senior Vice President and General Manager of IBM's Personal Systems Group, responsible for IBM's Personal Computing Division, Retail Store Solutions Division and Printing Systems Division. He holds a bachelor of Science degree in Mechanical Engineering from California Polytechnic at San Luis Obispo. Mr. Ward is also a director of Carpenter Technology Corporation (NYSE listed), and is a prior board member of E2open.

**Ms. Xuezheng Ma**, 52, is the Senior Vice President and Chief Financial Officer. Ms. Ma has been an executive director of the Company since May 15, 1997. She has more than 27 years of experience in financial and executive management. She graduated from Capital Normal University in 1976 with a bachelor of Arts degree. Ms. Ma is also an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited (listed on the Stock Exchange) and Sohu.com Inc. (NASDAQ listed).

#### *Non-executive directors*

**Mr. Chuanzhi Liu**, 61, has been re-designated as a non-executive director of the Company on April 30, 2005 when he ceased to be the Chairman of the Board. Mr. Liu had been the Chairman of the Board and an executive director of the Company since February 8, 1994 and November 8, 1993 respectively. He has more than 35 years of experience in the computer industry. He graduated from the Department of Radar Communications at Xian Military Communications Engineering College of China in 1966. Mr. Liu is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

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

### Biography of directors *(continued)*

#### *Non-executive directors (continued)*

**Mr. Linan Zhu**, 43, has been a non-executive director of the Company since April 30, 2005. He has more than 18 years of management experience. He graduated with a master's degree in Electronic Engineering from Shanghai Jiao Tong University in 1987. He was a Senior Vice President of the Group. Mr. Zhu is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

**Mr. James G. Coulter**, 45, has been a non-executive director of the Company since May 17, 2005. Mr. Coulter is a founding partner of Texas Pacific Group. Prior to forming Texas Pacific Group, he was a Vice President of Keystone Inc. and a financial analyst with Lehman Brothers Kuhn Leob Inc. Mr. Coulter also serves on the board of directors of Seagate Technology Inc. (NYSE listed) and Zhong Technologies Inc. (NASDAQ listed).

**Mr. William O. Grabe**, 67, has been a non-executive director of the Company since May 17, 2005. Mr. Grabe is a Managing Director of General Atlantic LLC and has been with the General Atlantic Group since 1992. Prior to that, he served as the Vice President and Corporate Officer of IBM. Mr. Grabe is also a director of Bottomline Technologies Inc. (NASDAQ listed), Digital China Holdings Limited (Stock Exchange listed), Patni Computer Systems Limited (Mumbai Stock Exchange listed), Gartner Inc. (NYSE listed) and Compuware Corporation (NASDAQ listed).

**Mr. Weijian Shan**, 51, has been a non-executive director of the Company since May 17, 2005. Mr. Shan is Co-Managing Partner of Newbridge Capital, and serves on the board of directors at BOC Hong Kong (Holdings) Limited, China Unicom Limited, TCC International Holdings Limited (each of which is listed on the Stock Exchange) and Baoshan Iron & Steel Company Limited (listed on the Shanghai Stock Exchange). Mr. Shan holds a PhD from the University of California Berkeley.

#### *Alternate directors*

**Mr. Justin T. Chang**, 38, has been an alternate director to Mr. James G. Coulter since May 17, 2005. Mr. Chang is a partner of Texas Pacific Group and co-heads the firm's investment activities in technology and related industries. Mr. Chang received his MBA from Harvard Business School and his bachelor degree, cum laude, in Economics and Political Science from Yale University. Mr. Chang is also a director of ON Semiconductor Corporation (NASDAQ listed).

**Mr. Vince Feng**, 32, has been an alternate director to Mr. William O. Grabe since May 17, 2005. Mr. Feng is a Managing Director of General Atlantic LLC. Mr. Feng has overall responsibility for the East Asia investment activities of General Atlantic LLC. He has been with the General Atlantic Group since 1998. Prior to that, Mr. Feng worked at Goldman Sachs (Asia) LLC. He is also a director of Data Systems Consulting Co., Ltd. (Taiwan Stock Exchange listed).

**Mr. Daniel A. Carroll**, 44, has been an alternate director to Mr. Weijian Shan since May 26, 2005. Mr. Carroll is Co-Managing Partner of Newbridge Capital. He joined Newbridge in 1995 and has been responsible for raising and investing the firm's three investment funds and building the firm's Asia-based investment teams. Mr. Carroll runs Newbridge's investment committee and, together with Mr. Weijian Shan, oversees the firm's investment strategy and operations. Prior to that, Mr. Carroll spent nine years with Hambrecht & Quist Group. He holds a bachelor degree in Economics from Harvard University and an MBA from the Stanford University Graduate School of Business. Mr. Carroll is also currently a director of Advanced Interconnect Technologies and Shenzhen Development Bank (listed on the Shenzhen Stock Exchange).

#### *Independent non-executive directors*

**Mr. Wai Ming Wong**, 47, has been an independent non-executive director of the Company since March 30, 1999. Mr. Wong is a chartered accountant and has extensive knowledge and experience in investment banking. He is an executive director and the Chief Executive Officer of Roly International Holdings Ltd. (Singapore listed).

**Professor Chia-Wei Woo**, 67, has been an independent non-executive director of the Company since August 23, 1999. Professor Woo is Senior Advisor to The Shui On Group, and is also President Emeritus and University Professor Emeritus of Hong Kong University of Science and Technology. He serves on the Hong Kong Special Administrative Region's Commission on Strategic Development, Council of Advisors on Innovation and Technology, and also the Chinese People's Political Consultative Conferences. In addition, Professor Woo is an independent non-executive director of First Shanghai Investments Ltd., Shanghai Industrial Holdings Ltd., IDT International Limited, Synergis Holdings Ltd. and Tidetime Sun (Group) Ltd. (all listed on the Stock Exchange).

**Mr. Lee Sen Ting**, 62, has been an independent non-executive director of the Company since February 27, 2003. He has extensive knowledge and experience in IT industry and is the Managing Director of W.R. Hambrecht + Co. and Board Director of Microelectronics Technology Inc. He is also a former corporate vice president of Hewlett-Packard Company, where he worked for more than 30 years. Mr. Ting 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.

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

### **Biography of directors** *(continued)*

#### *Ex-Directors*

**Mr. Maochao Zeng**, 72, has ceased to be a non-executive director of the Company since April 30, 2005 after being a director of the Company since 1995. Mr. Zeng graduated from the Department of Electrical Engineering at 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 field of computer. Mr. Zeng is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

**Mr. Ricky Wai Kei Lau**, 35, ceased to be an alternate director to Mr. Weijian Shan on May 26, 2005 after serving as his alternate director since May 17, 2005. Mr. Lau is a director of Newbridge Capital Limited and holds a bachelor degree from the University of British Columbia in Canada.

### **Biography of senior management**

**Mr. Deepak Advani**, 41, joined the Group in May 2005 and is currently the Senior Vice President and Chief Marketing Officer of Lenovo Group. Before joining the Group, Mr. Advani was the Vice President, Marketing, of IBM's Personal Computing Division. He spent 12 years with IBM and has expertise in business strategy and brand management. He holds a bachelor of Science degree in Computer Science, a master's degree in Computer Engineering and an MBA from The Wharton School.

**Mr. Shaopeng Chen**, 36, joined the Group in 1993 and is currently the Vice President, responsible for sales and the key account business of Lenovo China. Mr. Chen has expertise in the sales and marketing of IT products and held various senior positions in regional sales, the commercial desktop PC business, and sales and marketing. Mr. Chen graduated in 1992 from the Department of Computer Science at the Beijing Technology and Business University with a bachelor degree in Engineering. Mr. Chen obtained his EMBA master's degree in Business and Administration from Tsinghua University in 2004.

**Mr. Milko Van Duijl**, 43, joined the Group in May 2005 and is currently the Vice President and General Manager for EMEA (Europe, Middle East and Africa) of Lenovo Group. Before joining the Group, Mr. Duijl was the Vice President, EMEA, of IBM's Personal Computing Division. He spent 16 years with IBM and has diverse expertise across the entire spectrum of the Technology business. He holds a doctorandus title/MBA from the University of Rotterdam and a BBA from University of Nijenrode.

**Mr. Zhiqiang He**, 42, joined the Group in 1986 and is currently the Senior Vice President for research and technology of Lenovo Group. He has expertise in R&D of computer products, development of R&D system and R&D project management. He graduated with a master's degree in Computer Sciences from the Institute of Computing Technology of the Chinese Academy of Sciences.

**Dr. Peter D. Hortensius**, 45, joined the Group in May 2005 and is currently the Senior Vice President for worldwide product development of Lenovo. Before joining the Group, Dr. Hortensius was the Vice President, Products and Offerings, for IBM's Personal Computing Division. He spent 17 years with IBM and has expertise in development and research, including hardware, software, systems design, and product development. He holds a doctorate degree in Electrical Engineering from the University of Manitoba in Canada, which he received in 1988.

**Mr. Jun Liu**, 36, joined the Group in 1993 and is currently the Senior Vice President and Chief Operating Officer of Lenovo China. Mr. Liu has extensive experience in the operation of IT business and corporate strategy management. He held various senior positions for PC design & development, desktop computer business unit, consumer IT business group, corporate operation, and corporate strategy. Mr. Liu graduated in 1993 from the Department of Automation, Tsinghua University, with a bachelor of Engineering degree and received the EMBA master's degree from Tsinghua University in 2005.

**Mr. Zhijun Liu**, 40, joined the Group in 1989 and is currently the Vice President, responsible for mobile handset business since 2002. Mr. Liu has extensive experience in the research, production, marketing, and corporate operation and management in mobile handset business. He graduated in 1989 with a master's degree in Computational Mechanics, Institute of Engineering Mechanics from Dalian University of Technology.

**Mr. Yan Lu**, 40, joined the Group in 1992 and is currently the Vice President, responsible for PC marketing & product development and seed business of Lenovo China. Mr. Lu has expertise in project R&D, operations and marketing, and held various senior positions for the R&D of desktops, motherboard business, handheld device business and information product business. He graduated in 1989 with a master's degree in the Department of Automatic Control from the Beijing Institute of Technology.

**Ms. Carol Makovich**, 51, joined the Group in May 2005 and is currently the Vice President for communications of Lenovo Group. Before joining the Group, Ms. Makovich was the Vice President, Communications, of IBM's Personal Systems Group. She spent 5 years with IBM and has expertise across a range of communications areas such as media relations, internal communications, field communications, IT analyst relations, web communications, and corporate financial communications. She holds three degrees -- in journalism, communications, and business -- from: University of Rhode Island, B.A. in 1975; Fairfield University, M.A. in 1979; and University of Connecticut, M.B.A. in 1981.



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

### Biography of senior management *(continued)*

**Mr. Ravi Marwaha**, 62, joined the Group in May 2005 and is currently the Senior Vice President for worldwide sales of Lenovo Group. Before joining the Group, Mr. Marwaha was the Vice President of worldwide sales for IBM's Personal Systems Group. He spent 36 years with IBM and has expertise in hardware product sales, channel sales, emerging market sales, small and medium business sales, distribution channel marketing, marketing management, and profit center management. He holds a bachelor of Engineering degree with honors from the University of Jabalpur, India.

**Mr. Bill Matson**, 45, joined the Group in May 2005 and is currently the Senior Vice President for human resources of Lenovo Group. Before joining the Group, he worked at IBM's Business Transformation Outsourcing organization. He spent 24 years with IBM and has experience in a wide range of human resources roles, including staffing, benefits, executive development, compensation and employee relations, supporting the manufacturing, development, marketing, sales and services segments. Mr. Matson graduated with honors from Cornell University's School of Industrial and Labor Relations.

**Ms. Fran O'Sullivan**, 46, joined the Group in May 2005 and is currently the Senior Vice President and Chief Operating Officer of Lenovo International. Before joining the Group, Ms. O'Sullivan was the General Manager of the Personal Computing Division of IBM. She spent 24 years with IBM, where she gained engineering and management expertise in development, manufacturing, procurement, and technical and business operations. She graduated from the University of Virginia with a bachelor of Science degree in Electrical Engineering in 1980.

**Mr. Song Qiao**, 37, joined the Group in 1991 and is currently the Senior Vice President and Chief Procurement Officer of Lenovo Group. He has expertise in product development, sales and marketing, and supply chain and procurement logistic management, and held various senior positions in the supply chain management, notebook computer business, commercial PC division and international business. Mr. Qiao graduated with a bachelor of Engineering degree from the Department of Computer Science and Technology at Tsinghua University in 1991.

**Mr. Scott D. Smith**, 47, joined the Group in May 2005 and is currently the Vice President and General Manager for The Americas of Lenovo Group. Before joining the Group, Mr. Smith was the Vice President, Americas of the Personal Computing Division of IBM, IBM Americas. He spent 22 years with IBM and has expertise in sales, marketing, service delivery and business line management. He holds a bachelor of Science degree in Marketing and Industrial Distribution from Clarkson University.

**Mr. Andrew Sotiropoulos**, 41, joined the Group in May 2005 and is currently the Vice President and General Manager for Asia Pacific of Lenovo Group. Before joining the Group, Mr. Sotiropoulos was the Vice President, Asia-Pacific, at Personal Systems Group of IBM. He spent 20 years with IBM and has expertise in sales and marketing, emerging markets, small and medium businesses, and business partners. He holds a bachelor of Science degree in Economics from University of Sydney, which he received in 1985.

**Ms. Xiaoyan Wang**, 43, joined the Group in 1994 and is currently the Senior Vice President and the Chief Administrative Officer of Lenovo China. She has extensive experience in establishment of IT information system, finance and administration, and was responsible for information technology development, financial control, administration and logistic functions. She graduated in 1988 with a master's degree in Engineering from the Beijing Institute of Technology.

### Qualified Accountant

**Mr. Wai Kwong Wong**, 39, is also the Assistant Treasurer 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

On April 30, 2005, the Company entered into a service contract with Mr. Stephen M. Ward, Jr. The service contract is for a term of three years and may be terminated by either party serving 30 days' written notice on the other. Certain provisions of the service contract provide that upon termination of the service contract, Mr. Ward may be entitled to compensation and any other payments equivalent to more than one year's emoluments depending on a number of factors. The service contract will require shareholders' approval pursuant to rule 13.68 of the Listing Rules.

Save as disclosed above, 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

As at March 31, 2005, 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 by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer in the Listing Rules were as follows:

### Interests in the shares and underlying shares of the Company

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/underlying shares held			Aggregate interests
		Personal interests	Family interests	Trust	
Mr. Chuanzhi Liu	Ordinary shares	16,010,000	976,000	–	16,986,000
	Share options	5,250,000	–	–	5,250,000
					22,236,000
Mr. Maochao Zeng (resigned on April 30, 2005)	Ordinary shares	8,080,000	600,000	–	8,680,000
	Share options	1,600,000	–	–	1,600,000
					10,280,000
Mr. Yuanqing Yang	Ordinary shares	10,200,000	–	–	10,200,000
	Share options	11,250,000	–	–	11,250,000
					21,450,000
Ms. Xuezheng Ma	Ordinary shares	15,834,000	–	7,240,000	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 March 31, 2005, none of the directors or 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) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at March 31, 2005, the following persons (not being a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

Name	Nature of interests in long position	Nature of interests in short position	Capacity and number of shares/underlying shares held				Percentage of ordinary shares (note 7)
			Beneficial owner	Corporate interests	Aggregate long/short position		
Legend Holdings Limited (note 1)	Voting ordinary shares	–	2,787,340,724	1,469,311,247 (note 2)	4,256,651,971	56.9%	
	–	Voting ordinary shares	119,704,000	–	119,704,000	1.6%	
Employees' Shareholding Society of Legend Holdings Limited (note 3)	Voting ordinary shares	–	–	4,256,651,971	4,256,651,971	56.6%	
	–	Voting ordinary shares	–	119,704,000	119,704,000	1.6%	
International Business Machines Corporation (note 4)	Voting ordinary shares	–	821,234,569	–	821,234,569	N/A	
	–	Non-voting ordinary shares	–	–	921,636,459	N/A	
TPG Advisors IV, Inc.	Underlying shares	–	–	708,144,192	708,144,192	N/A	
TPG GenPar IV, L.P.	Underlying shares	–	–	708,144,192	708,144,192	N/A	
TPG Partners IV, L.P.	Underlying shares	–	–	708,144,192	708,144,192	N/A	
TPG IV Acquisition Company LLC (note 5)	Underlying shares	–	708,144,192	–	708,144,192	N/A	
Mr. David Bonderman (note 6)	Underlying shares	–	–	885,180,240	885,180,240	N/A	

### Notes:

- The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name.
- The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.
- 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.
- The shares were subsequently allotted to International Business Machines Corporation ("IBM") at the initial closing of the Company's acquisition of IBM's global desktop computer and notebook computer business. The initial closing took place on April 30, 2005. The non-voting ordinary shares have the same rights as the voting ordinary shares save that the non-voting ordinary shares shall not carry any voting rights until they are converted into listed voting ordinary shares.
- TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc. The contract giving it rights in the underlying shares is set out under the section "Transactions in the Company's securities".
- Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc. and Tarrant Advisors, Inc.
- The calculation of percentage figure is based on number of issued shares as a percentage of the number of issued share capital of the Company as at March 31, 2005.

Save as disclosed above, as at March 31, 2005, no other interest or short position in the shares or underlying shares of the Company were recorded in the register maintained by the Company under section 336 of the SFO.

## TRANSACTIONS IN THE COMPANY'S SECURITIES

- On December 7, 2004, the Company and IBM entered into an Asset Purchase Agreement, pursuant to which the Company agreed to acquire IBM's global desktop computer and notebook computer business (the "Acquisition"). The initial closing of the Acquisition took place on April 30, 2005. The Company paid US\$650 million in cash to IBM and allotted and issued to IBM 821,234,569 listed voting ordinary shares and 921,636,459 unlisted non-voting ordinary shares, credited as fully paid up at the issue price of HK\$2.675 per share. On May 17, 2005, 110,635,946 unlisted non-voting ordinary shares held by IBM were converted into an equal number of listed voting ordinary shares. Rights and restrictions attached to the non-voting ordinary shares were disclosed in the circular of the Company in relation to the Acquisition dated December 31, 2004.

On May 1, 2005, the Company entered into a Repurchase Agreement with IBM pursuant to which IBM agreed to sell and the Company agreed to purchase 435,717,757 of the non-voting ordinary shares, issued to IBM to satisfy part of the consideration for the Acquisition. Total cash consideration payable by the Company for repurchase of such shares is approximately US\$152,221,909 which is equivalent to HK\$2.725 per share. As at the date of this report, the conditions precedent to the closing of the Repurchase Agreement have not yet been satisfied.

- On March 30, 2005, the Company entered into an Investment Agreement with TPG IV Acquisition Company LLC, General Atlantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvetments III, LLC, GAP Coinvestments IV, LLC, GAPCO GmbH & Co. KG and Newbridge Asia Acquisition Company LLC (the "Investors") pursuant to which the Investors agreed to subscribe for, and the Company agreed to issue, 2,730,000 unlisted Series A Cumulative Convertible Preferred Shares at an issue price of HK\$1,000 per share and 237,417,474 unlisted warrants to subscribe for same number of ordinary shares at an initial exercise price of HK\$2.725 per share, subject to certain anti-dilution adjustments, for an aggregate cash consideration of US\$350 million. The Company intends to apply the net proceeds from the issuance of the Series A Cumulative Convertible Preferred Shares and the warrants to the repurchase of 435,717,757 non-voting shares allotted and issued to IBM and the balance for general corporate purposes. The closing of the Investment Agreement took place on May 17, 2005. The Company, against full payment of the consideration, allotted and issued to the Investors and their respective affiliates:

	<b>Number of Series A Cumulative Convertible Preferred Shares</b>	<b>Number of Warrants</b>
TPG IV Acquisition Company LLC and affiliates that are under common control with such entity	1,560,000	135,667,128
General Altantic Partners (Bermuda), L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG and affiliates that are under common control with such entities	780,000	67,833,564
Newbridge Asia Acquisition Company LLC	390,000	33,916,782
	<b>2,730,000</b>	<b>237,417,474</b>

As at the date of this report, these securities have not yet been converted or exercised into ordinary shares.

The material terms of Series A Cumulative Convertible Preferred Shares and warrants as documented under the Investment Agreement and the deed poll constituting the warrants were disclosed in the circular of the Company in relation to the Investment Agreement dated April 20, 2005.

## RETIREMENT SCHEME ARRANGEMENTS

For the period from April 1, 1998 to November 30, 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 percent of their basic monthly salary, whereas the employer's contribution is at 5 percent, 7.5 percent and 10 percent 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 by the Government of the Hong Kong Special Administrative Region effective on December 1, 2000, the Group and employees discontinued contributions to the scheme. Although the scheme was frozen, the employees are entitled to 100 percent of the employer's contribution with investment return after ten complete years of service, or at an increasing scale of between 30 percent to 90 percent 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.

## RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Under the Mandatory Provident Fund scheme established by the Group, all qualified employees are required to contribute 5 percent of their basic salary plus commission, bonus, gratuity expensed in monetary terms (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation) whereas the employer's contribution is at 7.5 percent and 10 percent 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 percent 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

During the year, the following transactions constitute connected transactions of the Company and require disclosure in the annual report pursuant to rule 14A.45 of the Listing Rules.

1. On May 18, 2004, Lenovo Pioneer Limited, the Company's subsidiary, entered into a Master Agreement with Peak Champion Investments Limited pursuant to which Lenovo Pioneer Limited agreed to sell and Peak Champion Investments Limited agreed to acquire, directly or indirectly, 25 percent of the entire equity interest in Lenovo Networks (Shenzhen) Limited at a cash consideration of RMB17,550,000. Peak Champion Investments Limited is an associate of the controlling shareholder of the Company and thus a connected person within the meaning of the Listing Rules. By disposing of part of the equity interest, the Group could focus on its core business and efficiently allocate resources according to its strategic priorities.
2. On October 27, 2003, Lenovo (Beijing) Limited, the Company's subsidiary, entered into a Services Agreement with Shenzhen Zhiqin International Freight Forwarding Co., Ltd. pursuant to which Shenzhen Zhiqin International Freight Forwarding Co., Ltd. together with its group companies agreed to provide logistics services to the Group for a term of 2 years. Shenzhen Zhiqin International Freight Forwarding Co., Ltd. is an associate of the controlling shareholder of the Company and thus a connected person within the meaning of the Listing Rules.

For the purpose of compliance with the Listing Rules, maximum aggregate annual values for such transaction were set. The cap amount of logistic services in a financial year are HK\$10 million or 3 percent of the consolidated net tangible assets of the Company as disclosed in the latest published audited accounts of the Company, whichever is the higher.

3. On May 17, 2004, the Company and Digital China Holdings Limited entered into Master Agreements to govern the purchase of computers and IT products from the Group by Digital China Holdings Limited and its subsidiaries (the "DCHL Purchases Arrangement") and their sale of IT products and provision of technical services to the Group (the "DCHL Sales Arrangement") for a term of three years commencing from April 1, 2004. Digital China Holdings Limited is an associate of the controlling shareholder of the Company and thus a connected person within the meaning of the Listing Rules.

Digital China Holdings Limited was a subsidiary of the Company before its spin-off from the Group for separate listing on the Stock Exchange in June 2001. The DCHL Purchases Arrangement and the DCHL Sales Arrangement had been entered into as intra-group transactions prior to the spin-off. The products offered by each of the two groups complement the business or product requirements of the other.

For the purpose of rule 14A.35(2) of the Listing Rules, maximum aggregate annual values for such transactions were set. The cap amount of purchases effected under DCHL Sales Arrangement for each of the three financial years ending March 31, 2007 are HK\$47 million, HK\$77 million and HK\$118 million respectively. The cap amount of sales effected under DCHL Purchases Arrangement for each of the three financial years ending March 31, 2007 are HK\$73 million, HK\$81 million and HK\$88 million respectively.

4. Prior to June 1, 2004, QDI Holdings Limited was a subsidiary of the Group. Ramaxel Technology Limited, being an associate of the substantial shareholder of QDI Holdings Limited, together with QDI Holdings Limited were connected persons within the meaning of the Listing Rules. Thus, the business transactions between the Group and Ramaxel Technology Limited and between the Group and QDI Holdings Limited were connected transactions.

For the purpose of rule 14A.35(2) of the Listing Rules, maximum aggregate annual values for such transactions were set. The respective cap amount of purchase of IT products from, and the sales to, Ramaxel Technology Limited for each of the three financial years ending March 31, 2006 are HK\$1,300 million or 5 percent of the audited consolidated turnover of the Group in that financial year, whichever is the higher. The cap amount of purchase of IT products from QDI Holdings Limited and its subsidiaries for each of the three financial years ending March 31, 2006 are HK\$860 million or 4 percent of the audited consolidated turnover of the Group in that financial year, whichever is the higher. The cap amount of sales of IT products to QDI Holdings Limited and its subsidiaries for each of the three financial years ending March 31, 2006 are HK\$260 million or 1.5 percent of the audited consolidated turnover of the Group in that financial year, whichever is the higher.

## Directors' Report *(continued)*

### **CONNECTED TRANSACTIONS** *(continued)*

In accordance with rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions. The transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

Related party transactions for the year are set out in note 32 to the accounts.

### **AUDITORS**

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

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of more than 25 percent of the Company's issued shares as required under the Listing Rules.

On behalf of the Board



**Yuanqing Yang**

*Chairman*

Hong Kong, June 8, 2005