

# 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 Institute of Certified Public Accountants ("HKICPA"). 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.

## 2 Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended March 31, 2005. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and has so far concluded that the most significant differences between new HKFRSs and current accounting policies that are expected to affect the Group are as follows:

### (a) Goodwill

Under HKFRS 3 "Business Combinations", goodwill will no longer be amortized but instead will be subject to rigorous annual impairment testing. This will result in a change to the Group's current accounting policy under which goodwill is amortized over its useful life ranging from 3 to 10 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortization will no longer be charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment. This new policy will be applied prospectively from April 1, 2005.

### (b) Financial instruments

Under HKAS 39 "Financial Instruments: Recognition and Measurement", financial instruments will be carried at either amortized cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to the profit and loss account or taken to equity in accordance with the standard. In addition, all derivatives, including those embedded in non-derivatives host contracts will be recognized in the balance sheet at fair value.

This will result in a change to the Group's current accounting policies in respect of classification, measurement and recognition of derivative financial instruments. This new accounting policy will be applied prospectively from April 1, 2005. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not been completed. However, the requirements to recognize derivatives and certain other financial instruments with changes in fair value being reflected in the profit and loss account may result in increased volatility in the Group's profit and net assets.

### (c) Hedge accounting

Under HKAS 39 "Financial Instruments: Recognition and Measurement", foreign exchange contracts held for hedging purposes will be classified as cash flow hedges or fair value hedges, on the basis that the qualifying criteria outlined in the HKAS 39 are satisfied. This will result in the recognition of hedging instruments at their fair value as assets or liabilities, with resulting gains or losses being charged to the profit and loss account or taken to equity in accordance with the hedge accounting rules.

Currently, the derivatives designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging and any profit or loss is recognized in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

In addition, HKAS 39 sets out strict criteria for achieving hedge accounting. Failure to achieve hedge accounting for a significant proportion of the Group's foreign exchange, interest rate management and commodity hedging activities could lead to increased volatility of both profit and net assets. This new accounting policy will be applied prospectively from April 1, 2005. The Group is in the process of determining the impact of these requirements on its hedging activities.

### (d) Functional currency

Under HKAS 21 "The Effects of Changes in Foreign Exchange Rates", the Group has re-evaluated the functional currency of each of the consolidated companies based on HKAS 21. All the Group companies have the same functional currency as their measurement currency. There is no material effect on the Group's policy.

The Group will be continuing with the assessment of the impact of the other new and revised HKFRSs and other significant changes may be identified as a result.

### 3 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 March 31. 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 unamortized goodwill or negative goodwill taken to reserve and which was not previously charged or recognized 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 amortization) 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.

#### (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 amortization) 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) Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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 translated 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.

## 3 Principal accounting policies *(continued)*

### (e) Tangible fixed assets

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

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

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

Depreciation on buildings is calculated to write off their cost to their estimated residual value on the straight-line basis 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 percent to 5 percent.

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 rates used for this purpose are 10 percent to 20 percent.

#### (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 5 percent to 33 percent.

#### (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 recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized 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 recognized 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 capitalized 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.

### 3 Principal accounting policies *(continued)*

#### **(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 January 1, 2001 is included in intangible assets and is amortized 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 amortized over a maximum period of 20 years. For all other acquisitions goodwill is generally amortized over 3 to 10 years.

Goodwill on acquisitions that occurred prior to January 1, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

##### *(ii) Patents and marketing rights*

Expenditure on acquired patents and marketing rights is capitalized and amortized 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.

#### **(h) Investment securities**

Investments which are held for non-trading purposes 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 impairment 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 realizable 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 realizable 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 investments which are subject to an insignificant risk of changes in value.

#### **(l) Provisions**

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. The Group recognizes 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.

## 3 Principal accounting policies *(continued)*

### (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 recognized 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 recognized 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 recognized 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 recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### (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 recognized on the transfer of ownership, which generally coincides with the time of shipment. Revenue from provision of systems integration service is recognized when services are rendered. Revenue from provision of information technology technical service is recognized 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 recognized 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 recognized 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 recognized 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 business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of inventories and accounts receivable, and exclude assets not dedicated to a particular segment. Segment liabilities comprise mainly accounts payable and exclude liabilities not dedicated to a particular segment. Capital expenditure mainly comprises additions to fixed assets and construction in progress.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

#### 4 Turnover, revenue and segment information

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

	2005 HK\$'000	2004 HK\$'000
Corporate IT business	12,225,923	11,925,240
Consumer IT business	7,768,024	7,760,668
Handheld device business	2,202,929	2,050,164
Other business	357,802	1,439,872
	22,554,678	23,175,944

##### Primary reporting format – business segments

The Group is categorized into four main business segments:

- Corporate IT business
- Consumer IT business
- Handheld device business
- Other business

There are no material sales or other transactions among the business segments for the two years ended March 31, 2004 and 2005.

# Notes to the Accounts *(continued)*

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

### (a) Primary reporting format – business segments

	Corporate IT business 2005 HK\$'000	Consumer IT business 2005 HK\$'000	Handheld device business 2005 HK\$'000	Other business 2005 HK\$'000	Total 2005 HK\$'000
<b>Consolidated profit and loss account</b>					
Turnover	12,225,923	7,768,024	2,202,929	357,802	22,554,678
Segment operating results	658,034	463,459	(54,462)	(87,378)	979,653
Amortization of goodwill and marketing rights					(48,605)
Impairment of assets					(51,364)
Gains on disposal of investments					156,958
Finance income					105,677
Finance costs					(6,667)
Contribution to operating profit					1,135,652
Share of losses of jointly controlled entities					(12,327)
Share of profits of associated companies					4,182
Profit before taxation					1,127,507
Taxation					(35,184)
Profit after taxation					1,092,323
Minority interests					27,823
Profit attributable to shareholders					1,120,146
<b>Consolidated balance sheet</b>					
Segment assets	1,703,153	530,205	451,658	182,395	2,867,411
Investments in jointly controlled entities					191,523
Investments in associated companies					52,067
Investment securities					62,970
Unallocated assets					5,857,983
Consolidated total assets					9,031,954
Segment liabilities	1,090,459	967,556	328,447	84,640	2,471,102
Unallocated liabilities					1,332,845
Consolidated total liabilities					3,803,947
Capital expenditure	95,819	60,882	17,265	2,804	176,770
Depreciation	100,004	63,540	18,019	2,927	184,490

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

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

	Corporate IT business 2004 HK\$'000	Consumer IT business 2004 HK\$'000	Handheld device business 2004 HK\$'000	Other business 2004 HK\$'000	Total 2004 HK\$'000
<b>Consolidated profit and loss account</b>					
Turnover	11,925,240	7,760,668	2,050,164	1,439,872	23,175,944
Segment operating results	724,886	432,225	(76,910)	(153,958)	926,243
Amortization of goodwill					(25,274)
Gains on disposal of investments					47,558
Others					(22,000)
Finance income					93,368
Finance costs					(2,881)
Contribution to operating profit					1,017,014
Share of losses of jointly controlled entities					(39,053)
Share of profits of associated companies					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>Consolidated balance sheet</b>					
Segment assets	1,560,895	753,854	431,377	398,157	3,144,283
Investment in a jointly controlled entity					124,124
Investments in associated companies					112,682
Investment securities					75,982
Unallocated assets					4,884,970
Consolidated total assets					8,342,041
Segment liabilities	1,364,037	623,386	333,082	191,083	2,511,588
Unallocated liabilities					1,312,399
Consolidated total liabilities					3,823,987
Capital expenditure	187,479	122,007	32,231	22,636	364,353
Depreciation	108,653	70,709	18,679	13,120	211,161



## Notes to the Accounts *(continued)*

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

#### (b) Secondary reporting format – geographical segments

As over 90 percent of the Group's business operations are located in the People's Republic of China, no geographical segments analysis is presented.

### 5 Profit from operations

(a)	2005 HK\$'000	2004 HK\$'000
Turnover	22,554,678	23,175,944
Cost of sales	<b>(19,227,770)</b>	(19,787,944)
Gross profit	<b>3,326,908</b>	3,388,000
Finance income	<b>105,677</b>	93,368
Gains on disposal of investments	<b>156,958</b>	47,558
Impairment of assets	<b>(51,364)</b>	–
	<b>3,538,179</b>	3,528,926
Distribution expenses	<b>(1,614,398)</b>	(1,686,932)
Administrative expenses	<b>(354,188)</b>	(343,306)
Other operating expenses	<b>(369,196)</b>	(443,794)
Amortization of intangible assets	<b>(58,078)</b>	(34,999)
Total operating expenses <i>(Note (b))</i>	<b>(2,395,860)</b>	(2,509,031)
Profit from operations	<b>1,142,319</b>	1,019,895
(b) Analysis of total operating expenses by nature:		
Selling expenses	<b>(573,017)</b>	(558,124)
Promotional and advertising expenses	<b>(354,540)</b>	(395,905)
Staff costs (including directors' emoluments) <i>(Note 9)</i>	<b>(875,433)</b>	(851,476)
Other expenses	<b>(534,792)</b>	(668,527)
Amortization of intangible assets	<b>(58,078)</b>	(34,999)
Total operating expenses	<b>(2,395,860)</b>	(2,509,031)

## 6 Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	2,591	2,689
Cost of inventories sold	18,996,820	19,604,591
Rental expenses under operating leases	68,099	67,023
Research and development expenses	379,035	499,572
Amortization of intangible assets		
– Patent	9,473	9,725
– Goodwill in respect of subsidiaries	11,354	25,274
– Goodwill in respect of an associated company	5,564	–
– Marketing rights	31,687	–
Impairment of assets		
– Goodwill in respect of subsidiaries	31,763	–
– Investment securities	19,601	–
Gains on disposal of investments		
– Disposal of businesses	(92,971)	(11,792)
– Disposal of associated companies	(42,375)	(5,660)
– Disposal of investment securities	(21,612)	(30,106)
Net exchange gain	(5,745)	(7,379)

## 7 Finance costs

	2005 HK\$'000	2004 HK\$'000
Interest payable on bank loans and overdrafts	6,203	2,365
Others	464	516
Total finance costs	6,667	2,881

## 8 Taxation

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

	2005 HK\$'000	2004 HK\$'000
Current taxation outside Hong Kong	53,183	14,482
Deferred taxation relating to the origination and reversal of temporary differences ( <i>Note 21</i> )	(18,780)	(35,048)
	34,403	(20,566)
Share of taxation attributable to:		
– Jointly controlled entities	190	84
– Associated companies	591	332
Taxation charge/(credit)	35,184	(20,150)

## Notes to the Accounts *(continued)*

### 8 Taxation *(continued)*

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:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	1,127,507	994,852
Calculated at a taxation rate of 17.5% (2004: 17.5%)	197,314	174,099
Effect of different taxation rates outside Hong Kong	(13,430)	(117,494)
Income not subject to taxation	(177,249)	(103,801)
Expenses not deductible for taxation purposes	24,746	14,240
Utilization of previously unrecognized tax losses	(11,203)	–
Recognition of deferred taxes previously not recognized	–	(29,067)
Tax credit for capital expenditure	–	(1,271)
Net deferred tax assets not recognized	15,006	43,144
Taxation charge/(credit)	35,184	(20,150)

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 (2004: Nil).

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 treatment.

Lenovo (Beijing) Limited is entitled to preferential Chinese mainland income tax rate of 10 percent for the three years ending December 31, 2006.

Lenovo Mobile Communication Co., Ltd. is exempted from Chinese mainland income tax for two years commencing the first year with taxable profit after January 1, 2005 and a 50 percent Chinese mainland income tax reduction for the following three years. Shanghai Lenovo Electronic Co., Ltd. is entitled to a 50 percent Chinese mainland tax reduction for the three years ending December 31, 2006.

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 January 1, 2001 and a 50 percent Chinese mainland income tax reduction for the following three years.

## 9 Staff costs

	2005 HK\$'000	2004 HK\$'000
Wages, salaries and bonuses	723,642	672,562
Social security costs	71,638	72,892
Pension costs ( <i>Note (b)</i> )	52,491	58,797
Others	114,832	125,776
	<b>962,603</b>	930,027

- (a) Included in the above balance are staff costs of HK\$875,433,000 (2004: HK\$851,476,000) which are included in operating expenses (*Note 5(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 December 1, 2000, the Group provided all qualified Hong Kong employees with a defined contribution retirement scheme. Commencing December 1, 2000, the Group's Hong Kong employees are required to contribute 5 percent of their basic salaries 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 percent and 10 percent 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\$493,043 (2004: HK\$812,638) were utilized 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.

## 10 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Fees	-	-	540	540
Other emoluments:				
Basic salaries, allowances and benefits-in-kind	11,504	26,037	-	-
Retirement benefit costs	658	352	-	-
	<b>12,162</b>	26,389	<b>540</b>	540

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.

## Notes to the Accounts *(continued)*

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

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

HK\$	Directors		Independent non-executive directors	
	2005	2004	2005	2004
From 0 to 1,000,000	1	–	3	3
From 2,500,001 to 3,000,000	–	1	–	–
From 3,000,001 to 3,500,000	1	–	–	–
From 4,000,001 to 4,500,000	2	–	–	–
From 4,500,001 to 5,000,000	–	1	–	–
From 6,000,001 to 6,500,000	–	1	–	–
From 12,000,001 to 12,500,000	–	1	–	–
	4	4	3	3

(c) Among the five highest paid employees, three (2004: three) are directors whose remunerations are included in the directors' emoluments above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits-in-kind	5,590	6,458
Retirement benefit costs	232	25
	5,822	6,483

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

HK\$	2005	2004
From 2,500,001 to 3,000,000	1	–
From 3,000,001 to 3,500,000	1	2
	2	2

### 11 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$800,670,000 (2004: HK\$1,001,070,000).

### 12 Dividends

	2005 HK\$'000	2004 HK\$'000
Interim dividend of 2.4 HK cents per ordinary share (2004: 2.0 HK cents)	179,378	149,436
Proposed final dividend of 2.8 HK cents per ordinary share (2004: 3.0 HK cents)	209,428	224,268
	388,806	373,704

At a board meeting held on June 8, 2005, the directors recommended a final dividend of 2.8 HK cents per ordinary share. This 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 March 31, 2006.

### 13 Earnings per share

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

	2005	2004
Earnings for the purpose of basic and diluted earnings per share (HK\$'000)	1,120,146	1,052,885
Weighted average number of shares for the purpose of basic earnings per share	7,475,070,185	7,471,766,157
Effect of potential dilutive shares	9,417,271	53,541,036
Weighted average number of shares for the purpose of diluted earnings per share	7,484,487,456	7,525,307,193

### 14 Intangible assets

	Group			Total HK\$'000
	Goodwill HK\$'000	Patent HK\$'000	Marketing right HK\$'000	
Year ended March 31, 2005				
Opening net book amount	110,129	29,857	507,000	646,986
Disposal of subsidiaries	(25,522)	–	–	(25,522)
Transfer to an associated company	(24,109)	–	–	(24,109)
Impairment losses	(31,763)	–	–	(31,763)
Amortization charge	(11,354)	(9,473)	(31,687)	(52,514)
Closing net book amount	17,381	20,384	475,313	513,078
As at March 31, 2005				
Cost	68,031	47,365	507,000	622,396
Accumulated amortization and impairment losses	(50,650)	(26,981)	(31,687)	(109,318)
Net book amount	17,381	20,384	475,313	513,078
As at March 31, 2004				
Cost	142,866	47,365	507,000	697,231
Accumulated amortization and impairment losses	(32,737)	(17,508)	–	(50,245)
Net book amount	110,129	29,857	507,000	646,986

## Notes to the Accounts *(continued)*

### 15 Tangible fixed assets

	Group						
	Land use rights, leasehold land and buildings (Note)	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Costs</b>							
At April 1, 2004	550,226	192,604	175,396	21,075	581,788	25,632	1,546,721
Exchange adjustment	–	–	–	–	24	5	29
Additions	2,287	3,162	5,691	7,057	48,937	7,477	74,611
Transfer from construction-in-progress	20,501	12,824	28,686	–	38,265	–	100,276
Disposal of businesses	–	(11,923)	(114,845)	(3,875)	(35,871)	(2,334)	(168,848)
Disposals	(7,379)	(7,826)	(1,000)	(446)	(64,043)	(2,556)	(83,250)
At March 31, 2005	565,635	188,841	93,928	23,811	569,100	28,224	1,469,539
<b>Accumulated depreciation</b>							
At April 1, 2004	88,649	82,990	48,727	12,585	310,247	16,251	559,449
Exchange adjustment	–	–	–	–	7	2	9
Charge for the year	15,806	30,467	21,697	4,891	108,589	3,040	184,490
Disposal of businesses	–	(9,328)	(57,081)	(3,322)	(19,097)	(1,394)	(90,222)
Disposals	(3,410)	(5,720)	(890)	(311)	(49,627)	(2,373)	(62,331)
At March 31, 2005	101,045	98,409	12,453	13,843	350,119	15,526	591,395
<b>Net book value</b>							
At March 31, 2005	464,590	90,432	81,475	9,968	218,981	12,698	878,144
At March 31, 2004	461,577	109,614	126,669	8,490	271,541	9,381	987,272

## 15 Tangible fixed assets (continued)

	Company				
	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Costs</b>					
At April 1, 2004	2,352	681	44,757	2,842	50,632
Additions	–	5	8,933	690	9,628
Disposals	–	(50)	(642)	(330)	(1,022)
At March 31, 2005	2,352	636	53,048	3,202	59,238
<b>Accumulated depreciation</b>					
At April 1, 2004	1,151	465	16,211	690	18,517
Charge for the year	836	136	15,015	542	16,529
Disposals	–	(44)	(608)	(286)	(938)
At March 31, 2005	1,987	557	30,618	946	34,108
<b>Net book value</b>					
At March 31, 2005	365	79	22,430	2,256	25,130
At March 31, 2004	1,201	216	28,546	2,152	32,115

Note:

As at March 31, 2004 and 2005, all land use rights are in Chinese mainland under medium leases (less than 50 years but not less than 10 years).

## 16 Construction-in-progress

	Group					
	Buildings under development		Others		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	200,998	130,107	59,379	44,031	260,377	174,138
Additions	69,857	180,611	32,302	87,524	102,159	268,135
Transfer to tangible fixed assets	(33,134)	(109,720)	(67,142)	(72,176)	(100,276)	(181,896)
Disposal of businesses	(1,125)	–	–	–	(1,125)	–
Disposals	–	–	(3,976)	–	(3,976)	–
At the end of the year	236,596	200,998	20,563	59,379	257,159	260,377

No interest expenses were capitalized in construction-in-progress as at March 31, 2004 and 2005.



# Notes to the Accounts *(continued)*

## 17 Subsidiaries

### (a) Investments in subsidiaries

	Company	
	2005 HK\$'000	2004 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
			2005	2004	
<i>Held directly:</i>					
Lenovo (Beijing) Limited* (wholly owned foreign enterprise)	Chinese mainland	HK\$78,000,000	100%	100%	Manufacturing and distribution of IT products and provision of IT services
Lenovo (Shanghai) Co., Ltd.* (wholly owned foreign enterprise)	Chinese mainland	HK\$10,000,000	100%	100%	Distribution of IT products and provision of IT services
<i>Held indirectly:</i>					
Beijing Lenovo Software Limited* (wholly owned foreign enterprise)	Chinese mainland	HK\$5,000,000	100%	100%	Provision of IT services and distribution of IT products
Huiyang Lenovo Industry Property Limited* (Chinese-foreign equity joint venture)	Chinese mainland	US\$2,045,500	100%	100%	Property holding and property management
Lenovo AI Computer Technology Co., Ltd.* (Chinese equity enterprise)	Chinese mainland	RMB10,000,000	70%	70%	Provision of IT services
Lenovo (Chengdu) Limited* (Chinese-foreign equity joint venture)	Chinese mainland	RMB12,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo Chinaweal System & Service Co., Ltd.* (wholly owned foreign enterprise)	Chinese mainland	US\$6,024,000	95.1%	95.1%	Provision of IT services and distribution of IT products
Lenovo Computer Limited	Hong Kong	HK\$2	100%	100%	Procurement agency and distribution of IT products

## 17 Subsidiaries *(continued)*

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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage — holding —		Principal activities
			2005	2004	
Lenovo (Huiyang) Electronic Industrial Co., Ltd.* (wholly owned foreign enterprise)	Chinese mainland	HK\$16,000,000	100%	100%	Manufacturing of IT products
Lenovo Industrial Development Co., (Daya Bay) Ltd.* (wholly owned foreign enterprise)	Chinese mainland	US\$10,000,000	100%	100%	Property holding and property management
Lenovo Mobile Communication Co., Ltd.* (Chinese-foreign equity joint venture)	Chinese mainland	RMB187,500,000	80.8%	80.8%	Manufacturing and distribution of mobile handsets
Lenovo (Shenyang) Limited* (Chinese-foreign equity joint venture)	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Shenzhen) Electronic Co., Ltd.* (Chinese-foreign equity joint venture)	Chinese mainland	RMB10,000,000	100%	100%	Distribution of IT products
Lenovo (Wuhan) Limited* (Chinese-foreign equity joint venture)	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Xian) Limited* (Chinese-foreign equity joint venture)	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and 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
Shanghai Lenovo Electronic Co., Ltd.* (Chinese-foreign equity joint venture)	Chinese mainland	RMB20,000,000	100%	100%	Manufacturing of IT products
Sunny Information Technology Service (Beijing) Co., Ltd.* (Chinese-foreign equity joint venture)	Chinese mainland	RMB20,000,000	100%	100%	Provision of repair services for computer hardware and software systems

# Notes to the Accounts *(continued)*

## 17 Subsidiaries *(continued)*

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

Notes:

- (i) All 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 December 31 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 March 31, 2004 and 2005 have been used.
- (iii) The company whose English name ends 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.

## 18 Jointly controlled entities

### (a) Investments in jointly controlled entities

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	101,010	124,124
Loan to a jointly controlled entity <i>(Note)</i>	90,513	–
	<b>191,523</b>	124,124

Note:

The loan to a jointly controlled entity is unsecured, bearing interest at one month London Interbank Offered Rate plus 1.5 percent per annum and has no fixed terms of repayment.

The details of the jointly controlled entities at March 31, 2005 are as follows:

Company name	Place of incorporation/ establishment	Interest held indirectly		Principal activities
		2005	2004	
Leby Technology Company Limited	British Virgin Islands	50%	50%	Dormant
QDI Holdings Limited	British Virgin Islands	50%	50%	Investment holding
QDI Technology (HK) Limited	Hong Kong	50%	50%	Procurement agent and distribution of IT products
QDI Technology (Huizhou) Limited* (wholly owned foreign enterprise)	Chinese mainland	50%	50%	Manufacturing of IT products
QDI Technology (Shenzhen) Limited* (wholly owned foreign enterprise)	Chinese mainland	50%	50%	Distribution of IT products

The company whose English name ends with a "\*" is a direct transliteration of its Chinese registered name.

### (b) Amounts due to jointly controlled entities

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

## 19 Investments in associated companies

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	31,722	110,882
Unsecured loan repayable on demand (Note)	1,800	1,800
Goodwill	18,545	–
	<b>52,067</b>	112,682

Note:

The loan to an associated company is interest-free.

The following is a list of the principal associated companies at March 31, 2005:

Company name	Place of incorporation/ establishment	Interest held — indirectly —		Principal activities
		2005	2004	
Beijing Lenovo Li Tai Software Limited* (wholly owned foreign enterprise)	Chinese mainland	35%	–	Distribution and development of software
Beijing Lenovo Parasaga Information Technology Co. Limited* (Chinese equity enterprise)	Chinese mainland	45%	–	Distribution and development of software
Legend Kingsoft Holdings Limited	British Virgin Islands	30%	30%	Distribution and development of software
Lenovo Networks (Shenzhen) Limited* (wholly owned foreign enterprise)	Chinese mainland	45%	80%	Provision of IT services

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 Chinese mainland.
- (ii) The company whose English name ends with a "\*" is a direct transliteration of its Chinese registered name.

## 20 Investment securities

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity securities, at fair value				
Listed in Hong Kong	6,947	12,239	–	–
Listed outside Hong Kong	42,562	48,716	4,413	–
Unlisted	49,509	60,955	4,413	–
	13,461	15,027	–	–
	<b>62,970</b>	75,982	<b>4,413</b>	–

## Notes to the Accounts *(continued)*

### 21 Deferred tax assets

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

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

	Group	
	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	34,718	(330)
Deferred taxation credited to consolidated profit and loss account ( <i>Note 8</i> )	18,780	35,048
At the end of the year	53,498	34,718

Deferred tax assets are recognized for tax losses carry forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at March 31, 2005, the Group has unrecognized tax losses of approximately HK\$261,264,000 (2004: HK\$140,356,000) to carry forward against future taxable income. These tax losses will expire up to fiscal year 2009/10.

The movement in deferred tax assets and liabilities during the year is as follows:

#### Deferred tax assets

	Provisions		Tax depreciation allowance		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	34,171	–	547	–	34,718	–
Credited to consolidated profit and loss account	17,870	34,171	910	547	18,780	34,718
At the end of the year	52,041	34,171	1,457	547	53,498	34,718

#### Deferred tax liabilities

	Tax depreciation allowance	
	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	–	330
Credited to consolidated profit and loss account	–	(330)
At the end of the year	–	–

### 22 Other non-current assets

The balance represents the professional costs incurred and deposit paid for the acquisition of the personal computer business of International Business Machines Corporation (*see Note 40(a)*).

## 23 Inventories

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	497,460	896,177
Work-in-progress	30,653	13,369
Finished goods	350,787	483,472
	878,900	1,393,018

At March 31, 2005, the amount of inventories that are carried at net realizable value amounted to HK\$97,458,000 (2004: HK\$136,066,000).

## 24 Accounts receivable

### (a) Trade receivables

Analysis of the trade receivables at March 31, 2005 is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	588,389	944,212
31 – 60 days	56,966	84,481
61 – 90 days	40,702	20,862
Over 90 days	165,280	181,389
	851,337	1,230,944

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

(b) Notes receivable are bank accepted notes mainly with maturity dates of within six months.

## 25 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\$1,678,215,000 (2004: HK\$1,335,636,000).

## 26 Accounts payable

### (a) Trade payables

Ageing analysis of the trade payables at March 31, 2005 is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	1,954,188	1,791,869
31 – 60 days	149,691	210,993
61 – 90 days	59,383	27,554
Over 90 days	112,808	124,641
	2,276,070	2,155,057

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

## Notes to the Accounts *(continued)*

### 27 Accruals and other payables

Included in the accruals and other payables is warranty provision as follow:

	Group	
	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	168,977	54,673
Provisions made during the year	214,634	255,275
Less: Amounts utilized	(194,614)	(140,971)
At the end of the year	<b>188,997</b>	168,977

Note:

The Group gives warranties on IT products and undertakes to repair or replace items that fail to perform satisfactorily based on certain pre-determined conditions.

A provision of approximately HK\$188,997,000 has been recognized as at March 31, 2005 (2004: HK\$168,977,000) in connection with the expected warranty claims based on past experience of the level of repairs and returns.

### 28 Long-term liabilities

	Group	
	2005 HK\$'000	2004 HK\$'000
Loan from a minority shareholder of a subsidiary	-	75,000
Amount payable for marketing right <i>(Note)</i>	507,000	507,000
Current portion payable within one year	(175,866)	(55,453)
	<b>331,134</b>	451,547
	<b>331,134</b>	526,547

Note:

On February 5, 2004, the Group 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 has agreed to pay a total amount of US\$65,000,000 (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 January 1, 2005 to December 31, 2008. The amount is payable in installments up to November 10, 2008.

## 29 Share capital

	2005		2004	
	Number of ordinary shares	HK\$'000	Number of ordinary shares	HK\$'000
Authorized:				
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	7,475,594,108	186,890	7,477,364,108	186,934
Exercise of share options (Note 30)	6,702,000	168	10,580,000	265
Repurchase of shares (Note)	(7,500,000)	(188)	(12,350,000)	(309)
At the end of the year	7,474,796,108	186,870	7,475,594,108	186,890

Note:

During the year, the Company repurchased 7,500,000 shares of HK\$0.025 each through The Stock Exchange of Hong Kong at an aggregate consideration of HK\$16,093,000.

## 30 Share options

Under the Company's employee share option scheme adopted on January 18, 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent 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 ordinary shares and an amount which is 80 percent of the average of the closing prices of the listed ordinary shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on April 26, 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 March 25, 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 described in the Directors' Report to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent 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 listed ordinary shares on the date of grant; the average of the closing prices of the listed ordinary shares for the five trading days immediately preceding the date of grant; and the nominal value of the ordinary shares.

	2005 Number of ordinary shares	2004 Number of ordinary shares
At the beginning of the year	469,478,000	345,142,000
Granted during the year (Note (a))	165,678,000	136,572,000
Exercised during the year (Note (b))	(6,702,000)	(10,580,000)
Lapsed during the year (Note (c))	(79,624,000)	(1,656,000)
Cancelled during the year (Note (d))	(32,730,000)	–
At the end of the year (Note (e))	516,100,000	469,478,000



## Notes to the Accounts *(continued)*

### 30 Share options *(continued)*

(a) Share options granted during the year:

Exercise period (MM.DD.YYYY)	Exercise price HK\$	2005 Number of ordinary shares	2004 Number of ordinary shares
New Option Scheme			
04.26.2003 to 04.25.2013	2.245	–	136,572,000
04.27.2004 to 04.26.2014	2.545	156,278,000	–
07.08.2004 to 07.07.2014	2.170	9,400,000	–
		<b>165,678,000</b>	136,572,000

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

(i) Year 2005

Exercise date (MM.DD.YYYY)	Exercise price HK\$	Market value per ordinary share at exercise date HK\$	Number of ordinary shares	Proceeds received HK\$
03.08.2004 to 04.07.2004	2.245	2.73 – 3.23	4,038,000	9,065,310
05.07.2004	2.245	2.35	26,000	58,370
05.18.2004	2.245	2.10	30,000	67,350
09.04.2004 to 09.09.2004	2.245	2.40	154,000	345,730
09.15.2004 to 10.10.2004	2.245	2.43 – 2.83	586,000	1,315,570
10.08.2004 to 11.08.2004	2.245	2.58 – 2.78	204,000	457,980
11.07.2004 to 11.23.2004	2.245	2.55 – 2.65	82,000	184,090
11.29.2004 to 12.09.2004	2.245	2.58 – 2.68	80,000	179,600
03.15.2005 to 03.22.2005	2.245	2.45	564,000	1,266,180
03.08.2004 to 04.07.2004	2.435	2.73 – 3.23	858,000	2,089,230
11.23.2004	2.435	2.55	6,000	14,610
10.19.2004	2.435	2.63	42,000	102,270
11.02.2004 to 11.08.2004	2.435	2.78 – 2.90	12,000	29,220
03.29.2004	2.876	2.90	20,000	57,520
			<b>6,702,000</b>	<b>15,233,030</b>

### 30 Share options (continued)

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

(ii) Year 2004

Exercise date (MM.DD.YYYY)	Exercise price HK\$	Market value	Number of ordinary shares	Proceeds received HK\$
		per ordinary share at exercise date HK\$		
08.28.2003	2.876	3.08	20,000	57,520
09.10.2003 to 09.24.2003	2.876	3.15 – 3.43	1,676,000	4,820,176
10.02.2003 to 10.21.2003	2.876	3.05 – 3.80	342,000	983,592
11.03.2003 to 11.25.2003	2.876	3.13 – 3.18	520,000	1,495,520
12.01.2003 to 12.25.2003	2.876	3.15 – 3.40	2,666,000	7,667,416
01.02.2004 to 01.16.2004	2.876	3.40 – 3.70	1,640,000	4,716,640
02.19.2004 to 02.21.2004	2.876	3.35 – 3.43	66,000	189,816
07.23.2003 to 07.31.2003	2.245	2.88 – 3.05	46,000	103,270
08.11.2003 to 08.18.2003	2.245	3.00 – 3.23	46,000	103,270
09.23.2003	2.245	3.23	66,000	148,170
10.17.2003	2.245	3.45	110,000	246,950
12.08.2003 to 12.17.2003	2.245	3.18 – 3.40	122,000	273,890
01.08.2004	2.245	3.63	6,000	13,470
03.01.2004 to 03.09.2004	2.245	3.20 – 3.28	34,000	76,330
06.17.2003 to 06.25.2003	2.435	2.60 – 2.86	16,000	38,960
07.08.2003 to 07.31.2003	2.435	2.88 – 3.05	122,000	297,070
08.06.2003 to 08.23.2003	2.435	2.88 – 3.03	68,000	165,580
09.10.2003 to 09.24.2003	2.435	3.14 – 3.43	588,000	1,431,780
10.02.2003 to 10.24.2003	2.435	3.05 – 3.73	664,000	1,616,840
11.03.2003 to 11.24.2003	2.435	3.10 – 3.75	282,000	686,670
12.01.2003 to 12.26.2003	2.435	3.18 – 3.40	348,000	847,380
01.02.2004 to 01.15.2004	2.435	3.48 – 3.70	384,000	935,040
02.02.2004 to 02.24.2004	2.435	3.25 – 3.75	698,000	1,699,630
03.01.2004 to 03.09.2004	2.435	3.20 – 3.30	50,000	121,750
			10,580,000	28,736,730

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

Exercise period (MM.DD.YYYY)	Exercise price HK\$	2005	2004
		Number of ordinary shares	Number of ordinary shares
Old Option Scheme			
01.15.2001 to 01.14.2011	4.312	36,642,000	–
08.31.2001 to 08.30.2011	2.876	21,180,000	–
		57,822,000	–
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	6,040,000	1,656,000
04.26.2003 to 04.25.2013	2.245	15,762,000	–
		21,802,000	1,656,000
		79,624,000	1,656,000

## Notes to the Accounts *(continued)*

### 30 Share options *(continued)*

(d) Details of share options cancelled during the year are as follows:

Exercise period (MM.DD.YYYY)	Exercise price HK\$	2005 Number of ordinary shares	2004 Number of ordinary shares
Old Option Scheme			
01.15.2001 to 01.14.2011	4.312	16,040,000	–
08.31.2001 to 08.30.2011	2.876	16,690,000	–
		<b>32,730,000</b>	–

(e) Details of share options at the balance sheet date are as follows:

Exercise period (MM.DD.YYYY)	Exercise price HK\$	2005 Number of ordinary shares	2004 Number of ordinary shares
Old Option Scheme			
01.28.2000 to 01.27.2010	4.038	7,712,000	7,712,000
01.15.2001 to 01.14.2011	4.312	74,480,000	127,162,000
04.16.2001 to 04.15.2011	4.072	35,550,000	35,550,000
08.29.2001 to 08.28.2011	2.904	832,000	832,000
08.31.2001 to 08.30.2011	2.876	76,260,000	114,150,000
		<b>194,834,000</b>	285,406,000
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	40,972,000	47,930,000
04.26.2003 to 04.25.2013	2.245	114,616,000	136,142,000
04.27.2004 to 04.26.2014	2.545	156,278,000	–
07.08.2004 to 07.07.2014	2.170	9,400,000	–
		<b>321,266,000</b>	184,072,000
		<b>516,100,000</b>	469,478,000

### 31 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)/ retained earnings HK\$'000	
As at April 1, 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Deficit in fair market value								
of investment securities	-	-	-	-	(4,247)	-	-	(4,247)
Exchange differences	-	-	-	(111)	-	-	-	(111)
Profit for the year	-	-	-	-	-	-	1,120,146	1,120,146
Reserves written off on								
disposal of subsidiaries	-	-	-	(2,377)	-	-	-	(2,377)
Reserves realized on disposal								
of investment securities	-	-	-	-	(12,908)	-	-	(12,908)
Impairment of investments	-	-	-	-	19,601	-	-	19,601
Exercise of share options	168	15,065	-	-	-	-	-	15,233
Repurchase of shares	(188)	(16,093)	-	-	-	188	-	(16,093)
Dividends paid	-	-	-	-	-	-	(403,570)	(403,570)
<b>As at March 31, 2005</b>	<b>186,870</b>	<b>4,761,498</b>	<b>27,871</b>	<b>2,093</b>	<b>(3,530)</b>	<b>3,086</b>	<b>226,510</b>	<b>5,204,398</b>
Representing:								
2005 final dividend proposed							209,428	
Others							17,082	
Retained earnings as at								
March 31, 2005							226,510	
Company and subsidiaries	186,870	4,761,498	27,871	2,093	(3,530)	3,086	212,794	5,190,682
Jointly controlled entities	-	-	-	-	-	-	(5,279)	(5,279)
Associated companies	-	-	-	-	-	-	18,995	18,995
<b>As at March 31, 2005</b>	<b>186,870</b>	<b>4,761,498</b>	<b>27,871</b>	<b>2,093</b>	<b>(3,530)</b>	<b>3,086</b>	<b>226,510</b>	<b>5,204,398</b>

# Notes to the Accounts *(continued)*

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

	Group							
	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	Total HK\$'000
As at April 1, 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
Profit for the year	-	-	-	-	-	-	1,052,885	1,052,885
Reserves realized on disposal of investment securities	-	-	-	-	(11,624)	-	-	(11,624)
Exercise of share options	265	28,471	-	-	-	-	-	28,736
Repurchase of shares	(309)	-	-	-	-	309	(28,394)	(28,394)
Dividends paid	-	-	-	-	-	-	(761,814)	(761,814)
As at March 31, 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Representing:								
2004 final dividend proposed							224,268	
Others							(714,334)	
Accumulated losses as at March 31, 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
As at March 31, 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724

### 31 Share capital and reserves (continued)

	Company					
	Share capital	Share premium	Investment revaluation reserve	Share redemption reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at April 1, 2004	186,890	4,762,526	–	2,898	1,685,102	6,637,416
Deficit in fair market value of investment securities	–	–	(2,877)	–	–	(2,877)
Profit for the year	–	–	–	–	800,670	800,670
Exercise of share options	168	15,065	–	–	–	15,233
Repurchase of shares	(188)	(16,093)	–	188	–	(16,093)
Dividends paid	–	–	–	–	(403,570)	(403,570)
<b>As at March 31, 2005</b>	<b>186,870</b>	<b>4,761,498</b>	<b>(2,877)</b>	<b>3,086</b>	<b>2,082,202</b>	<b>7,030,779</b>
Representing:						
2005 final dividend proposed					209,428	
Others					1,872,774	
Retained earnings as at March 31, 2005					2,082,202	
As at April 1, 2003	186,934	4,734,055	(2,183)	2,589	1,474,240	6,395,635
Profit for the year	–	–	–	–	1,001,070	1,001,070
Reserves realized on disposal of investment securities	–	–	2,183	–	–	2,183
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 March 31, 2004</b>	<b>186,890</b>	<b>4,762,526</b>	<b>–</b>	<b>2,898</b>	<b>1,685,102</b>	<b>6,637,416</b>
Representing:						
2004 final dividend proposed					224,268	
Others					1,460,834	
Retained earnings as at March 31, 2004					1,685,102	

## Notes to the Accounts *(continued)*

### 32 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	
	2005 HK\$'000	2004 HK\$'000
Beijing Lenovo Li Tai Software Limited (an associated company):		
Purchase of goods	7,559	–
Digital China Holdings Limited and its subsidiaries (associates of the ultimate holding company):		
Rental and management fee	370	740
Purchase of goods	15,812	27,992
Sales of goods	4,156	–
Leby Technology Company Limited (a jointly controlled entity):		
Purchase of computers products	–	178,907
Sale of computer products	–	5,149
Lenovo Networks (Shenzhen) Limited (an associated company):		
Purchase of goods	2,580	–
Sales	17,874	–
QDI Technology (Huizhou) Limited (a jointly controlled entity) :		
Rental and management fee	6,720	3,126
Ramaxel Technology Limited (a shareholder of a jointly controlled entity):		
Purchase of goods	1,461,191	180,541
Sale of goods	991,535	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	4,974	10,373
Shenzhen Zhiqin International Freight Forwarding Co., Ltd. (an associate of the ultimate holding company):		
Logistic services fee	3,097	1,064
Techwise Circuits Company Limited and its subsidiaries (a former associated companies):		
Purchase of goods	–	34,800
Rental and management fee	2,587	10,836
Xiamen Overseas Chinese Electronics Co., Ltd. (a minority shareholder of a subsidiary):		
Rental expenses	4,819	1,144
Purchase of goods	–	701

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

### 33 Banking facilities

As at March 31, 2005, total banking facilities granted to the Group amounted to approximately HK\$3,275,000,000 (2004: 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.

As at March 31, 2005, the amount of facilities utilized by the Group amounted to approximately HK\$436,000,000 (2004: HK\$1,139,000,000).

### 34 Commitments

#### (a) Capital commitments

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Property, plant and equipment:				
Contracted but not provided for	27,391	58,911	–	–
Authorized but not contracted for	177,358	–	–	–
	204,749	58,911	–	–
Business acquisition:				
Contracted but not provided for ( <i>Note 40(a)</i> )	9,555,000	–	9,555,000	–
	9,759,749	58,911	9,555,000	–

#### (b) Commitments under operating leases

As at March 31, 2005, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Not later than one year	39,137	36,377
Later than one year but not later than five years	64,374	75,262
Later than five years	37,410	43,146
	140,921	154,785

As at March 31, 2005, the Company did not have any operating leases commitments (2004: Nil).

#### (c) Other commitments

- (i) On December 17, 2002, two subsidiaries of the Company, China Weal Technology Holding Limited (“CWT”) and the shareholders of CWT entered into an agreement whereby the Company’s subsidiaries acquired 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 paid an initial consideration of approximately HK\$61,000,000 and an additional consideration is payable which is dependent on, inter alia, proper completion of certain reorganization procedures, and the level of operating results of the above-mentioned new subsidiary of the Company up to March 31, 2008. The maximum amount of additional consideration is approximately HK\$159,000,000 and will be settled in phases before October 31, 2008.

- (ii) As at March 31, 2005, the Group had outstanding currency options amounting to approximately HK\$94,000,000 (2004: HK\$468,000,000).



## Notes to the Accounts *(continued)*

### 35 Contingent liabilities

- (a) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. As at March 31, 2005, such facilities granted and utilized amounted to approximately HK\$2,589,000,000 and HK\$208,000,000 respectively (2004: HK\$2,381,000,000 and HK\$552,000,000).
- (b) The Company has issued letters of guarantee to the suppliers and vendors of its subsidiaries. As at March 31, 2005, the guarantees granted and utilized amounted to approximately HK\$1,074,060,000 and HK\$519,000,000 respectively (2004: HK\$1,031,160,000 and HK\$626,000,000).

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	1,127,507	994,852
Share of profits of associated companies	(4,182)	(16,891)
Share of losses of jointly controlled entities	12,327	39,053
Finance income	(105,677)	(93,368)
Finance costs	6,667	2,881
Depreciation of tangible fixed assets	184,490	211,161
Amortization of intangible assets	58,078	34,999
Loss on disposal of tangible fixed assets	567	2,308
Impairment of assets	51,364	–
Exchange difference	(2,377)	–
Dividend income	(1,254)	–
Gains on disposal of investments	(156,958)	(47,558)
Operating profit before working capital changes	1,170,552	1,127,437
Decrease/(increase) in inventories	438,106	(117,942)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(438,434)	(858,109)
Increase in trade payables, notes payable, accruals and other payables	43,999	597,607
Net cash inflow from operations	1,214,223	748,993

### 37 Analysis of changes in financing

	2005			2004		
	Share capital (including share premium) HK\$'000	Minority interests HK\$'000	Loan from a minority shareholder of a subsidiary HK\$'000	Share capital (including share premium) HK\$'000	Minority interests HK\$'000	Loan from a minority shareholder of a subsidiary HK\$'000
Balance at the beginning of the year	4,949,416	29,330	75,000	4,920,989	59,741	-
Minority interests' share of losses	-	(27,823)	-	-	(37,883)	-
Increase in loan from a minority shareholder	-	-	-	-	-	75,000
Acquisition of subsidiaries	-	-	-	-	462	-
Disposal of businesses	-	22,102	(75,000)	-	-	-
Issue of new shares	15,233	-	-	28,736	11,604	-
Consideration for the repurchase of shares	(16,093)	-	-	(28,394)	-	-
Repurchase of shares	(188)	-	-	28,085	-	-
Dividend paid to minority shareholders	-	-	-	-	(4,594)	-
Balance at the end of the year	4,948,368	23,609	-	4,949,416	29,330	75,000

## Notes to the Accounts *(continued)*

### 38 Disposal of businesses

	2005 HK\$'000	2004 HK\$'000
Net assets disposed		
Intangible assets	25,522	–
Tangible fixed assets	78,626	–
Construction-in-progress	1,125	–
Inventories	76,012	–
Investments	3,474	–
Accounts and notes receivable	180,751	–
Deposits, prepayments and other receivables	43,234	–
Cash and cash equivalents	69,137	–
Accounts payable	(138,349)	–
Accruals and other payables	(39,212)	–
Bank loans	(150,000)	–
Minority interests	22,102	–
	172,422	–
Adjustment for partial disposal	7,514	–
Considerations	(272,907)	–
Gains on disposal of businesses	(92,971)	–
Satisfied by:		
Cash and cash equivalents	23,179	–
Listed securities ( <i>Note</i> )	249,728	–
	272,907	–

*Note:*

As at March 31, 2005, listed securities of approximately HK\$38 million were received and the remaining balance will be received before October 2005.

### 39 Analysis of the net outflow of cash and cash equivalents in respect of disposal of businesses

	2005 HK\$'000	2004 HK\$'000
Cash consideration	23,179	–
Cash and cash equivalents disposed	(69,137)	–
Net outflow of cash and cash equivalents in respect of disposal of businesses	(45,958)	–

## 40 Subsequent events

### (a) Acquisition of the personal computer business of IBM

In connection with the very substantial acquisition (the "Acquisition") by the Company of the personal computer business of International Business Machines Corporation ("IBM"), the initial closing of the Acquisition took place on April 30, 2005.

Pursuant to an asset purchase agreement entered into between the Company and IBM on December 7, 2004, at initial closing, the Company (i) paid US\$625 million (approximately HK\$4,875 million) in cash to IBM as settlement of cash consideration (after deducting US\$25 million (approximately HK\$195 million) representing goodwill deposit paid to IBM on December 8, 2004 and the interest accrued thereon) and (ii) allotted and issued to IBM 821,234,569 voting ordinary shares and 921,636,459 non-voting ordinary shares credited as fully paid up at an issue price of HK\$2.675 per share. Immediately following the initial closing, IBM held approximately 18.9 percent of the total issued share capital of the Company (including voting and non-voting ordinary shares) and approximately 9.9 percent of the total voting rights of the Company. The voting ordinary shares and non-voting ordinary shares rank *pari passu* in all respects with the ordinary shares in issue on April 30, 2005 except that the non-voting shares do not have voting rights.

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 shares of the non-voting ordinary shares, issued to IBM to satisfy part of the consideration for the Acquisition. As at the date of this report, the conditions precedent to the repurchase agreement have not yet been satisfied.

On May 17, 2005, 110,635,946 non-voting ordinary shares held by IBM were converted into an equal number of voting ordinary shares.

### (b) Raising of term loan

In connection with the Acquisition described in the preceding paragraphs, the Company entered into a facility agreement on April 26, 2005 with certain banks to arrange a term loan of US\$500 million (approximately HK\$3,900 million) for settlement of cash consideration at the initial closing of the Acquisition.

The term loan is guaranteed unconditionally jointly and severally by the Company and certain subsidiaries of the Group, bearing interest at the London Interbank Offered Rate plus 0.825 percent per annum and repayable by installments in 5 years.

### (c) Issue of unlisted convertible preferred shares and unlisted warrants

Pursuant to an investment agreement entered into between the Company and certain investors on March 30, 2005, upon the satisfaction of conditions including the resolutions passed at the Extraordinary General Meeting held on May 13, 2005, the Company issued 2,730,000 unlisted Series A Cumulative Convertible Preferred Shares at an issue price of HK\$1,000 ("Stated Value") per share, together with unlisted warrants to subscribe for an aggregate of 237,417,474 ordinary shares at an initial exercise price of HK\$2.725 per share, for an aggregate cash consideration of US\$350 million (approximately HK\$2,730 million) on May 17, 2005.

The Series A Cumulative Convertible Preferred Shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the Stated Value. The Company may defer the payment of cash dividends if it is unable to make such payments by law or under the Company's bank credit facility in effect on the date on which the Series A Cumulative Convertible Preferred Shares are first issued. If at any time the Company has deferred payment of a dividend, it shall be prohibited from paying cash dividends on its junior securities, including the ordinary shares, until all such deferred dividends shall have been paid in full. If the Company fails to pay cash dividends when accumulated or deemed to accumulate, the convertible preferred shareholders will have the right to receive additional interest at the rate of 4.5 percent per annum on the amount of such cash dividend payment that was not paid when accumulated or deemed to accumulate. No additional convertible preferred shares will be issued in respect of unpaid dividends.

Each Series A Cumulative Convertible Preferred Share is convertible, at the option of the convertible preferred shareholders at any time, into a number of ordinary shares equal to the Stated Value divided by HK\$2.725, subject to certain anti-dilution adjustments. Ordinary shares that are to be issued upon conversion of the Series A Cumulative Convertible Preferred Shares will rank *pari passu* in all respects with the ordinary shares in issue on the conversion date except that they will not be entitled to any rights or entitlement to dividends or distributions before the record date for which precedes the conversion date.

Each unlisted warrant carries the right to subscribe for one share at the exercise price of HK\$2.725, subject to certain anti-dilution adjustments, at any time during the next five years commencing May 17, 2005.

## 41 Ultimate holding company

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

## 42 Approval of accounts

The accounts were approved by the board of directors on June 8, 2005.