

Directors' Report

The directors submit their report together with the audited financial statements for the year ended March 31, 2006.

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 42 to the financial statements.

Details of the analyses of the Group's turnover, revenue and segment information for the year by geographical location and by principal business are set out in note 5 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 63.

The state of affairs of the Group and of the Company as at March 31, 2006 is set out in the balance sheets on page 64.

The consolidated cash flows of the Group for the year are set out in the statement on page 65.

An interim dividend of 2.4 HK cents per ordinary share (2005: 2.4 HK cents), amounting to a total of about HK\$213 million (2005: HK\$179 million), was paid to shareholders during the year.

The directors recommend the payment of a final dividend of 2.8 HK cents per ordinary share (2005: 2.8 HK cents). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Friday, September 8, 2006 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Tuesday, August 29, 2006.

The Register of Members of ordinary shares of the Company will be closed from Wednesday, August 23, 2006 to Tuesday, August 29, 2006, 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 22, 2006.

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, 2006 and for the last four financial years are set out on page 128.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity, and note 33 to the financial statements.

Distributable reserves

As at March 31, 2006, the distributable reserves of the Company amounted to HK\$2,536,514,000 (2005: HK\$2,082,202,000).

Bank loans

Particulars of bank loans as at March 31, 2006 are set out in note 35 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$5,714,000 (2005: HK\$3,904,000).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 16 to the financial statements.

Share capital

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, by the creation of 3,000,000 Series A Cumulative Convertible Preferred Shares, of nominal value of HK\$9.175 each and stated 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.

On May 17, 2005, 2,730,000 Series A Cumulative Convertible Preferred Shares were issued to certain strategic investors at the stated value of HK\$1,000 each for cash.

Details of the movements in the share capital of the Company are set out in note 32 to the financial statements.

Subsidiaries and associated companies

Particulars of the Company's principal subsidiaries and associated companies as at March 31, 2006 are set out in notes 42 and 22 to the financial statements 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 15 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	20 percent
Five largest suppliers combined	39 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.

Directors' rights to acquire shares or debentures

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"). Although no further options may be granted under the Old Option Scheme, all remaining 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, 2006, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder is 181,744,000 ordinary shares, representing approximately 2.04 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 became 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 participate in increases in the value of the Company.

(b) Qualified participants

- any employee or officer, executive or non-executive director (or persons proposed to be appointed as such) of the Group;
 - any consultant, professional or other adviser to the Group;
 - any director, executive and senior officer of any associated company of the Company; and
 - 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
- any customer, supplier, agent, partner, distributor, professional or other advisers of, or consultants or contractors to, the Group; and
 - 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.

Directors' rights to acquire shares or debentures *(continued)*

Share option schemes *(continued)*

2. New Option Scheme *(continued)*

(c) *Maximum number of shares*

As at March 31, 2006, the maximum number of ordinary shares available for issue under the New Option Scheme is 223,102,000, representing approximately 2.51 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' rights to acquire shares or debentures (continued)**Share option schemes** (continued)**3. Outstanding options**

Particulars of the outstanding options are as follows:

	Options held at April 1, 2005	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at March 31, 2006	Exercise price HK\$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme								
<i>Directors</i>								
Mr. Yang Yuanqing	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. Ma Xuezheng	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
Mr. Liu Chuanzhi	2,250,000	-	-	-	2,250,000	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
	74,480,000	-	-	-	74,480,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
	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
	70,160,000	-	13,090,000	-	57,070,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme								
<i>Directors</i>								
Mr. Yang Yuanqing	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Ma Xuezheng	1,600,000	-	-	-	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Liu Chuanzhi	3,000,000	-	-	-	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
<i>Continuous contract employees</i>	24,830,000	-	8,304,000	-	16,526,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	105,416,000	-	49,048,000	-	56,368,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	156,278,000	-	39,700,000	-	116,578,000	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	-	1,112,000	-	15,030,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	-	-	-	-	1,600,000*	2.245	04.26.2003	04.26.2003 to 04.26.2013

* Upon resignation of Mr. Zeng Maochao as director of the Company during the year, the 1,600,000 options originally held by Mr. Zeng were reclassified as options held by other participants at the end of the year.

Notes:

1. 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\$3.567.
2. 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\$3.344.
3. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by other participants under the New Option Scheme was HK\$3.472.

Directors' rights to acquire shares or debentures *(continued)*

Share option schemes *(continued)*

4. Valuation of share options

The share options granted are not recognized in the financial statements 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.

2005 long-term incentive program

The Company adopted the LTI Program on May 26, 2005, under which the Board or the trustee of the program shall select the employees (including but not limited to the directors) of the Group for participation in the program, and determine the number of shares to be awarded.

Details of the program and the movement in the number of awards for the year ended March 31, 2006 are set out in the Corporate Governance section on pages 30 to 33.

Apart from the share option schemes and the LTI Program, at no time during the year ended March 31, 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any body corporate.

Purchase, sale or redemption of the Company's securities

Save as disclosed below, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's securities during the year.

On August 2, 2005, the Company repurchased 435,717,757 unlisted non-voting ordinary shares, which were issued to International Business Machines Corporation as partial consideration for the acquisition of its global personal computer business, at a total cash consideration of HK\$1,187,330,887.82, representing HK\$2.725 per share. The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was debited to the share premium of the Company.

During the year, the trustee of the LTI Program purchased 124,410,000 shares from the market for award to employees upon vesting. Details of the program are set out in the Corporate Governance section on pages 30 and 31.

Directors

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

Executive Directors

Mr. Yang Yuanqing	
Mr. William J. Amelio	(appointed on December 20, 2005)
Ms. Ma Xuezheng	
Mr. Stephen M. Ward, Jr.	(appointed on April 30, 2005 and resigned on December 20, 2005)

Non-executive Directors

Mr. Liu Chuanzhi	(re-designated on April 30, 2005)
Mr. Zhu Linan	(appointed on April 30, 2005)
Mr. James G. Coulter	(appointed on May 17, 2005)
Mr. William O. Grabe	(appointed on May 17, 2005)
Mr. Shan Weijian	(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. Shan Weijian)	(appointed on May 26, 2005)
Mr. Zeng Maochao	(resigned on April 30, 2005)
Mr. Ricky Lau Wai Kei (Alternate director to Mr. Shan Weijian)	(appointed on May 17, 2005 and resigned on May 26, 2005)

Independent Non-executive Directors

Mr. Wong Wai Ming	
Professor Woo Chia-Wei	
Mr. Ting Lee Sen	
Mr. John W. Barter III	(appointed on August 10, 2005)

In accordance with articles 92 and 101 of the Company's articles of association, Mr. William J. Amelio, Mr. John W. Barter III, Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Wong Wai Ming and Mr. Ting Lee Sen will retire and, being eligible, will 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. Yang Yuanqing, 41, 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. William J. Amelio, 48, has been an executive director, the President and Chief Executive Officer of the Company since December 20, 2005. Prior to joining the Company, he was the Senior Vice President for the Asia-Pacific and Japan regions of Dell Inc. Prior to joining Dell in March 2001, he was Executive Vice President and Chief Operating Officer of the retail and financial group of NCR Corporation from July 2000 to March 2001. From 1997 until 2000, Mr. Amelio was President of AlliedSignal Inc.'s turbo charging systems business and President and Chief Executive Officer of Honeywell International Inc.'s transportation and power-systems divisions after the merger of AlliedSignal and Honeywell. He also spent 18 years from 1979 to 1997 with IBM and held a variety of senior-management positions, including as General Manager of Worldwide Operations for IBM's personal computing business. He holds a bachelor's degree in Chemical Engineering from Lehigh University and a master's degree in Management from Stanford University.

Ms. Ma Xuezheng, 53, 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 and Sohu.com Inc. (NASDAQ listed).

Non-executive directors

Mr. Liu Chuanzhi, 62, was 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 is the leading founder of Lenovo Group. He had been the Chairman of the Board and an executive director of the Company from 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.

Mr. Zhu Linan, 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, 46, 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 Zhong Technologies Inc. (NASDAQ listed).

Mr. William O. Grabe, 68, 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 the following listed companies: Bottomline Technologies Inc. (NASDAQ listed), Digital China Holdings Limited (Hong Kong Stock Exchange listed), Patni Computer Systems Limited (Mumbai Stock Exchange listed), Gartner Inc. (NYSE listed) and Compuware Corporation (NASDAQ listed).

Mr. Shan Weijian, 52, 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 Hong Kong Stock Exchange) and Baoshan Iron & Steel Company Limited (listed on the Shanghai Stock Exchange), Shenzhen Development Bank (Listed on the Shenzhen Stock Exchange) and Taishin Financial Holdings Limited (listed on the Taiwan Stock Exchange) and Mr. Shan holds a PhD from the University of California Berkeley.

Alternate directors

Mr. Justin T. Chang, 39, 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, 33, 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 Vimicro International Corporation (NASDAQ listed), A-Max Technology Limited, Oak Pacific Interactive and Data Systems Consulting Co., Ltd. (Taiwan Stock Exchange Listed).

Biography of directors and senior management *(continued)*

Biography of directors *(continued)*

Alternate directors (continued)

Mr. Daniel A. Carroll, 45, has been an alternate director to Mr. Shan Weijian 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. Shan Weijian, 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. Wong Wai Ming, 48, has been an independent non-executive director of the Company since March 30, 1999. Mr. Wong is an executive director and chief executive officer of Roly International Holdings Limited, a company listed on the Singapore Stock Exchange and an executive director of Linmark Group Limited, a company listed on the Hong Kong Stock Exchange. The principal business of Roly Group is the provision of supply chain management services and distribution of consumer products in the PRC. Mr. Wong is also an independent non-executive director of I.T. Limited, China Unicom Limited, both of which are listed on the Hong Kong Stock Exchange. Mr. Wong is a chartered accountant and holds a Bachelor of Science degree (with Honours) in Management Sciences from the Victoria University of Manchester, the UK.

Professor Woo Chia-Wei, 68, 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 and 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 and Synergis Holdings Ltd. (all listed on the Hong Kong Stock Exchange).

Mr. Ting Lee Sen, 63, 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. (listed on Taiwan Stock Exchange). 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.

Mr. John W. Barter III, 59, has been an independent non-executive director of the Company since August 10, 2005. Mr. Barter holds a bachelor of Science degree in Physics from Spring Hill College (1968) and an MBA in Finance from Tulane University (1973). He has acquired extensive knowledge and experience in finance and accounting from senior management positions held in both the industrial and technology sectors. Between 1977 and 1997 he held a number of senior management positions with AlliedSignal, Inc. a US company engaged in the development, and manufacturing of aerospace, automotive and advanced materials products. Between 1998 and 2001 he was a director and from 2000 to 2001, the chief financial officer of Kestrel Solutions, Inc. a US company engaged in the development of communications equipment. Mr. Barter is currently also a non-executive director of each of BMC Software, Inc., (NYSE listed); Bottomline Technologies, Inc., (NASDAQ listed); SRA International, Inc., (NYSE listed) and SSA Global Technologies, Inc. (NASDAQ listed).

Biography of senior management

(in alphabetical order of surname)

Mr. Deepak Advani, 42, 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. Steven J. Bandrowczak, 45, is Senior Vice President and Chief Information Officer of Lenovo. He is responsible for the Company's information technology strategy and operations, including network infrastructure, business applications and data security. Most recently, he was Executive Vice President and worldwide Chief Information Officer for DHL Worldwide, a subsidiary of the Deutsche Post Worldwide Network (DPWN). Previously, he served as Executive Vice President and Chief Information Officer of the Americas for DHL. In early 2000, Mr. Bandrowczak served in a COO/CTO role in an SAP-related consulting firm, Seal Consulting Group. Prior to that, he served as Chief Information Officer for Avnet, an electronics distributor, spending 14 years there in various IT roles. He was named one of the Top 100 CIO's by Computerworld magazine in 2004. Mr. Bandrowczak graduated from Long Island University, C.W. Post, with a bachelor's degree in Computer Science.

Biography of directors and senior management *(continued)*

Biography of senior management *(continued)*

(in alphabetical order of surname)

Mr. Chen Shaopeng, 37, joined the Group in 1993 and is currently the Senior Vice President and President for Greater China of Lenovo Group. 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. Robert Cones, 45, joined the Group in May 2005 and is currently the Controller and Vice President of Finance of Lenovo Group. Before joining the Group, Mr. Cones was the Vice President and CFO for IBM's Personal Systems Group. He spent 22 years with IBM and has expertise in financial planning, operations, business metrics, strategy and financial controls. He holds a bachelor of Science degree in Industrial Engineering from The Ohio State University and a master of Science degree in Industrial Management from Union College.

Mr. He Zhiqiang, 43, joined the Group in 1986 and is currently the Senior Vice President and Chief Technology Officer 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 as Senior Vice President for worldwide product development and was appointed General Manager for the Notebook Business Unit of Lenovo in October 2005. 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 extensive expertise in product and technology research and development. Before moving to Raleigh, North Carolina, he spent 10 years working at IBM's renowned T.J. Watson Research Center in Yorktown Heights, New York, and is the holder of 10 patents. He holds a doctorate degree in Electrical Engineering from the University of Manitoba in Canada, which he received in 1988.

Mr. Liu Jun, 37, joined the Group in 1993 and is currently the Senior Vice President for Global Supply Chain. 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. Liu Zhijun, 41, joined the Group in 1989 and has been the Senior Vice President responsible for mobile handset business since 2002. Mr. Liu has extensive experience in the R&D, manufacture, marketing and sales, and corporate operation and management in mobile handset industry. In his years with Lenovo, he has held various senior positions in PC field for PC sales and marketing, laptop agent sales as well as branch company management and regional sales. He graduated in 1989 with a master's degree in Engineering Mechanics from Dalian University of Technology.

Mr. Lu Yan, 41, joined the Group in 1992 and is currently the Vice President and General Manager for the Desktop Business Unit. 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 and obtained the EMBA master's degree from China Europe International Business School in 2005.

Mr. Ravi Marwaha, 63, joined the Group in May 2005 and is currently the Senior Vice President and President for Asia Pacific 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 marketing sales, small and medium business sales, distribution channel marketing and marketing management. He holds a bachelor of Engineering degree with honors from the University of Jabalpur, India.

Mr. Bill Matson, 46, 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, 47, joined the Group in May 2005 and is currently the Senior Vice President for the Product Group. 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.

Biography of directors and senior management *(continued)*

Biography of senior management *(continued)*

(in alphabetical order of surname)

Mr. Steve V. Petracca, 51, joined the Group as Vice President and General Manager for Services, Software & Peripherals Business Unit in May 2005. Prior to joining the Group, he was Chairman and Chief Executive Officer of BuilderDepot, Inc., one of the largest home improvement Internet superstores. In addition to holding various engineering, manufacturing and marketing positions with IBM, Mr. Petracca's prior experience includes roles as Executive Vice President of Business Development of Pemstar, Inc., Executive Vice President and General Manager of Quadrus Manufacturing (a division of Bell Microproducts), and founder, Chairman and Chief Executive Officer of a venture capital-backed PC company. Mr. Petracca holds a Bachelor of Arts from the University of Colorado and an MBA from Nova University.

Mr. Qiao Song, 38, 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. James P. Shaughnessy, 51, joined the Group in 2005 and is currently the Senior Vice President and General Counsel. He is responsible for the Company's legal, corporate governance, security and government relations activities globally. Mr. Shaughnessy has extensive experience with technology companies. Before joining the Group, he served as Senior Vice President, General Counsel, and Secretary of PeopleSoft, Inc., and in senior legal positions with Hewlett-Packard, Compaq, and Digital Equipment Corporation. He holds both Juris Doctor and Masters of Public Policy degrees from the University of Michigan and a bachelor of Science degree from Northern Michigan University.

Mr. Scott D. Smith, 47, joined the Group in May 2005 and is currently the Senior Vice President and President 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. Miiko van Duijl, 44, joined the Group in May 2005 and is currently the Senior Vice President and President for EMEA (Europe, Middle East and Africa) of Lenovo Group. Before joining the Group, Mr. van 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. Prior to IBM, he was employed by Andersen Consulting and held positions in London and Amsterdam. He holds a doctorandus title/MBA from the University of Rotterdam and a BBA from University of Nijenrode.

Ms. Wang Xiaoyan, 44, joined the Group in 1994 and is currently the Senior Vice President responsible for Information Services. She has extensive experience in establishment of IT information systems, 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 Beijing Institute of Technology.

Qualified Accountant

Mr. Damian Glendinning, 51, is also Vice President and Treasurer of the Group. Mr. Glendinning is a fellow of the Association of Chartered Certified Accountants, and holds a bachelor's degree in modern languages from the University of Oxford. He joined Lenovo as Treasurer with the acquisition of IBM's PC division in May 2005. Prior to that, he spent 21 years in IBM in Europe, Asia and the US, holding various positions in treasury, accounting, internal audit and finance. Before joining IBM, he worked as an accountant for an oil exploration company in France and in accounting and internal audit for a major consumer goods company in the UK and France. He is a past president of the Association of Corporate Treasurers (Singapore).

Directors' service contracts

Mr. Stephen M. Ward, Jr., the Ex Executive Director, President and Chief Executive Officer of the Company entered into a service contract with the Company for a term of 3 years on April 30, 2005. Mr. Ward resigned on December 20, 2005 and was replaced by Mr. William J. Amelio.

Mr. William J. Amelio, an Executive Director, President and Chief Executive Officer of the Company entered into a service contract with the Company for an initial term of 3 years on December 20, 2005 which will automatically continue for successive one-year periods unless otherwise terminated by either party. Upon termination of the service contract, Mr. Amelio may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on a number of factors including the amount of his unvested equity awards and the entitlement and amount of his target bonus. The service contract was approved by the shareholders at an extraordinary general meeting of the Company held on May 24, 2006 (at which Mr. Amelio and his associates abstained from voting) 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, existed at the end of the year or at any time during the year.

Directors' interests

As at March 31, 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer in the Listing Rules ("Model Code") 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 long position
		Personal interests	Family interests	Trust	
Mr. Yang Yuanqing	Ordinary voting shares	10,200,000	—	—	10,200,000
	Share options	11,250,000	—	—	11,250,000
	Share awards	9,149,141	—	—	9,149,141
					30,599,141
Mr. William J. Amelio	Ordinary voting shares	3,000,000	—	—	3,000,000
Ms. Ma Xuezheng	Ordinary voting shares	15,834,000	—	7,240,000	23,074,000
	Share options	6,120,000	—	—	6,120,000
	Share awards	2,993,200	—	—	2,993,200
					32,187,200
Mr. Liu Chuanzhi	Ordinary voting shares	16,010,000	976,000	—	16,986,000
	Share options	5,250,000	—	—	5,250,000
	Share awards	564,000	—	—	564,000
					22,800,000
Mr. Zhu Linan	Ordinary voting shares	3,720,000	—	—	3,720,000
	Share awards	564,000	—	—	564,000
					4,284,000
Mr. William O. Grabe	Share awards	564,000	—	—	564,000
Mr. Shan Weijian	Share awards	564,000	—	—	564,000
Mr. Wong Wai Ming	Share awards	564,000	—	—	564,000
Professor Woo Chia-Wei	Share awards	564,000	—	—	564,000
Mr. Ting Lee Sen	Share awards	564,000	—	—	564,000
Mr. John W. Barter III	Share awards	564,000	—	—	564,000

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

Details of share awards are set out under the section "Remuneration Policy" in Corporate Governance section.

Save as disclosed above, as at March 31, 2006, 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.

Substantial shareholders' interests in securities of the Company

As at March 31, 2006, the following persons (not being a director or chief executive of the Company) had an interests in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of the SFO:

Name	Nature of interests in long position	Capacity and number of shares/ — underlying shares held —		Aggregate long position	Percentage (Note 14)
		Beneficial owner	Corporate interests		
Legend Holdings Limited (Note 1)	Ordinary voting shares	2,682,774,724	1,469,311,247 (Note 2)	4,152,085,971	48.99%
Employees' Shareholding Society of Legend Holdings Limited (Note 3)	Ordinary voting shares	—	4,152,085,971	4,152,085,971	48.99%
International Business Machines Corporation (Note 4)	Ordinary voting and non-voting shares	1,307,153,271	—	1,307,153,271	15.53%
TPG Advisors IV, Inc.	Underlying shares	—	439,217,834	439,217,834	5.22%
	Preferred Shares	—	967,571	967,571	35.44%
TPG GenPar IV, L.P.	Underlying shares	—	439,217,834	439,217,834	5.22%
	Preferred Shares	—	967,571	967,571	35.44%
TPG Partners IV, L.P.	Underlying shares	—	439,217,834	439,217,834	5.22%
	Preferred Shares	—	967,571	967,571	35.44%
TPG IV Acquisition Company LLC (Note 5)	Underlying shares	439,217,834	—	439,217,834	5.22%
	Preferred Shares	967,571	—	967,571	35.44%
Mr. David Bonderman (Note 6)	Underlying shares	—	885,180,238	885,180,238	10.52%
	Preferred Shares	—	1,950,000	1,950,000	71.43%
T ³ II Acquisition Company, LLC (Note 7)	Preferred Shares	280,429	—	280,429	10.27%
T ³ Partners II, L.P.	Preferred Shares	—	280,429	280,429	10.27%
T ³ GenPar II, L.P.	Preferred Shares	—	280,429	280,429	10.27%
T ³ Advisors II, Inc.	Preferred Shares	—	280,429	280,429	10.27%
TPG III Acquisition Company, LLC (Note 8)	Preferred Shares	312,000	—	312,000	11.43%
TPG Partners III, L.P.	Preferred Shares	—	312,000	312,000	11.43%
TPG GenPar III, L.P.	Preferred Shares	—	312,000	312,000	11.43%
TPG Advisors III, Inc.	Preferred Shares	—	312,000	312,000	11.43%
Newbridge Asia Acquisition Company LLC (Note 9)	Preferred Shares	390,000	—	390,000	14.29%

Substantial shareholders' interests in securities of the Company (continued)

Name	Nature of interests in long position	Capacity and number of shares/ — underlying shares held —		Aggregate long position	Percentage (Note 14)
		Beneficial owner	Corporate interests		
Newbridge Asia III, L.P.	Preferred Shares	—	390,000	390,000	14.29%
Newbridge Asia GenPar III, L.P.	Preferred Shares	—	390,000	390,000	14.29%
Newbridge Asia Advisors III, Inc.	Preferred Shares	—	390,000	390,000	14.29%
Tarrant Advisors, Inc.	Preferred Shares	—	390,000	390,000	14.29%
GAP (Bermuda) Ltd.	Preferred Shares	—	655,114	655,114	24%
General Atlantic Partners (Bermuda) L.P. (Note 10)	Preferred Shares	655,114	—	655,114	24%
GAPCO GmbH & Co. KG (Note 11)	Preferred Shares	1,219	—	1,219	0.04%
GAPCO Management GmbH	Preferred Shares	—	1,219	1,219	0.04%
General Atlantic Partners 81, L.P. (Note 12)	Preferred Shares	60,251	—	60,251	2.21%
Gapstar, LLC (Note 13)	Preferred Shares	9,750	—	9,750	0.36%
General Atlantic LLC	Preferred Shares	—	70,001	70,001	2.56%
GAP Coinvestments IV, LLC	Preferred Shares	11,100	—	11,100	0.41%
GAP Coinvestments III, LLC	Preferred Shares	42,566	—	42,566	1.56%

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 in any shares in which they are interested.
- International Business Machines Corporation ("IBM") had an interest in an aggregate of 1,307,153,271 ordinary shares, comprising 931,870,515 ordinary voting shares and 375,282,756 ordinary non-voting shares. 821,234,569 voting ordinary shares and 921,636,459 ordinary non-voting shares were allotted to IBM upon initial closing of the Company's acquisition of IBM's global desktop computer and notebook computer business on April 30, 2005. On May 17, 2005, IBM converted 110,635,946 ordinary non-voting shares to an equal number of ordinary voting shares. The Company repurchased 435,717,757 ordinary non-voting shares from IBM on August 2, 2005. The ordinary non-voting shares have the same rights as the ordinary voting shares save that the ordinary non-voting shares shall not carry any voting rights until they are converted into listed ordinary voting shares.
- TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.
- Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisers III, Inc., T³ Advisors II, Inc. and Tarrant Advisors, Inc. (Tarrant Advisers, Inc. owns 50% of the Shares of Newbridge Asia Advisors III, Inc.).
- T³ II Acquisition Company, LLC is indirectly wholly owned by T³ Advisors II, Inc.

Substantial shareholders' interests in securities of the Company *(continued)*

8. TPG III Acquisition Company, LLC is indirectly wholly owned by TPG Advisors III, Inc.
9. Newbridge Asia Acquisition Company LLC is indirectly wholly owned by Newbridge Asia Advisors III, Inc.
10. GAP (Bermuda) Ltd. is the general partner of General Atlantic Partners (Bermuda), L.P.
11. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.
12. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.
13. GapStar, LLC is directly wholly owned by General Atlantic LLC.
14. The percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.

Save as disclosed above, as at March 31, 2006, no other interest or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

Transactions in the Company's securities

1. 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 paid by the Company for repurchase of such shares is approximately US\$152,221,909 which is equivalent to HK\$2.725 per share. Details of the repurchase were disclosed in the circular of the Company dated July 6, 2005. The repurchase was completed on August 2, 2005.

2. 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 Coinvestments 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 has applied 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:

	Number of Series A Cumulative Convertible Preferred Shares	Number of Warrants
TPG IV Acquisition Company LLC and affiliates that are under common control with such entity	1,560,000	135,667,128
General Atlantic 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
	2,730,000	237,417,474

Transactions in the Company's securities (continued)

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

The Company provides defined benefit pension plans and defined contribution plans for its employees. These benefits form an important part of the company's total compensation and benefits program that is designed to attract and retain highly skilled and talented employees.

Defined benefit pensions plans

Hong Kong – Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme for all qualified employees employed in Hong Kong. They are required to contribute 5 percent of their remunerations (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation). The employer's contribution will increase from 5 percent to 7.5 percent and 10 percent respectively after completion of five and ten years of service by the relevant employees.

Chinese Mainland – retirement schemes

The Group participates in respective local municipal government retirement schemes in the mainland of China ("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.

In addition to the above, the Group has defined benefit and/or defined contribution plans that cover substantially all regular employees, and supplemental retirement plans that cover certain executives. Information on the principal pension plans sponsored by the Lenovo Group is summarized in this section.

United States of America ("US") – Lenovo Pension Plan

The Company provides U.S. regular, full-time and part-time employees who were employed by IBM prior to being hired by the Company and who were members of the IBM Personal Pension Plan ("PPP") with non-contributory defined benefit pension benefits via the Lenovo Pension Plan. The plan is frozen to new entrants.

The Lenovo Pension Plan consists of a tax-qualified plan and a non-tax-qualified (non-qualified) plan. The qualified plan is funded by company contributions to an irrevocable trust fund, which is held for the sole benefit of participants and beneficiaries. The non-qualified plan, which provides benefits in excess of US Internal Revenue Service limitations for tax-qualified plans, is unfunded.

Pension benefits are calculated using a five year average final pay formula that determines benefits based on a participant's salary and years of service, including prior service with IBM. The benefit is reduced by the amount of the IBM PPP benefit accrued to May 1, 2005, which will be paid by IBM's trust.

For the year ended March 31, 2006, an amount of HK\$20,839,000 (US\$2,671,727) was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2006 were the following:

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:
 - Discount rate: 5.00%
 - Future salary increases: 3.00%
 - Future pension increases: 0.00%
- The plan was unfunded at the actuarial valuation date as it is a new plan. The Group will start funding in 2006 as for the relevant tax rules.
- There was a deficit of HK\$257,408,000 (US\$33,001,052) under this plan for this reason at the actuarial valuation date.

Retirement scheme arrangements *(continued)*

Defined benefit pensions plans *(continued)*

Japan – Pension Plan

The Company operates a hybrid plan that consists of a defined contribution up to the annual tax-deductible limit (¥216,000) plus a cash balance plan with contributions of 7% of pay. The plan is funded by company contributions to an irrevocable trust fund which is held for the sole benefit of participants and beneficiaries.

For the year ended March 31, 2006, an amount of HK\$36,208,000 (US\$4,642,039) was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 1, 2006 were the following:

- The actuarial valuation was prepared by Mitsubishi Trust Bank. The actuaries involved are fully qualified under the requirements of Japanese law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:
 - Discount rate: 2.00%
 - Expected return on plan assets: 3.80%
 - Future salary increases: 3.10%
 - Future pension increases: 0.00%
- The plan was 32% funded at the actuarial valuation date. A further amount of HK\$229,820,000 (US\$29,464,128) is to be received from IBM under the terms of the Employee Matters Agreement.
- There was a deficit of HK\$427,103,000 (US\$54,756,798) due to the receivables from IBM and the adoption of more conservative assumptions than those used by IBM to calculate the assets transferred.

Germany – Pension Plan

The Company operates a hybrid plan that provides a defined contribution for some participants and a final pay defined benefit for other participants, depending on which former IBM plan they were in.

Employees hired before January 1, 1992 have a defined benefit based on a final pay formula. Employees hired from 1992 to 1999 have a combination of a defined benefit based on a final pay formula and a defined contribution plan with employee required contributions of 7% of pay above the social security ceiling and a 100% company match. Employees hired in or after 2000 have a combination of a cash balance plan with an employer contribution of 2.95% of pay below the social security ceiling and 8.85% above the social security ceiling, and a voluntary defined contribution plan where employees can contribute specific amounts through salary sacrifice.

The plan will be partially funded by company and employee contributions to an insured support fund with DBV-Winterthur up to the maximum tax-deductible limits, with the remainder being unfunded (book reserve), which is allowed under German law.

For the year ended March 31, 2006, an amount of HK\$9,044,000 (US\$1,159,429) was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2006 were the following:

- The actuarial valuation was prepared by Kern, Mauch & Kollegen. The actuaries involved are fully qualified under the requirements of German law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:
 - Discount rate: 4.25%
 - Future salary increases: 2.50%
 - Future pension increases: 0.00%
- The plan was entirely unfunded at the actuarial valuation date, as it is a new plan and an asset transfer of HK\$120,673,000 (US\$15,470,885) had not yet been received from IBM.
- There was a deficit of HK\$146,993,000 (US\$18,845,297) under this plan at the actuarial valuation date for the above reason, and the adoption of more conservative actuarial assumptions than those used by IBM to calculate the assets transferred.

Retirement scheme arrangements *(continued)*

Defined Contribution Plans

United States of America ("US") – Lenovo Savings Plan

U.S. regular, full-time and part-time employees are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. The company matches 50 percent of the employee's contribution up to the first 6 percent of the employee's eligible compensation, plus, for employees who have also completed one year of service, the company provides a profit sharing contribution of 5 percent of eligible compensation. Employee contributions are voluntary. All contributions, including the company match, are made in cash, in accordance with the participants' investment elections.

The company match is immediately vested. However the 5% company profit sharing contribution is subject to 5 year vesting. Forfeitures of company contributions arising from employees who leave before they are fully vested in company contributions are used to reduce future Lenovo contributions. For the period May 1, 2005 to March 31, 2006 the amount of forfeitures was HK\$281,000 (US\$35,989), none of which had been used to reduce Lenovo contributions, leaving HK\$281,000 (US\$35,989) at 03/31/2006 to be used to reduce Lenovo contributions in the future.

US Lenovo Executive Deferred Compensation Plan

The company also maintains an unfunded, non-qualified, defined contribution plan, the Lenovo Executive Deferred Compensation Plan ("EDCP"), which allows eligible executives to defer compensation, and to receive company matching contributions, with respect to amounts in excess of Internal Revenue Service limits for tax-qualified plans. Compensation deferred under the plan, as well as company matching contributions are recorded as liabilities.

Deferred compensation amounts may be directed by participants into an account that replicates the return that would be received had the amounts been invested in similar Lenovo Savings Plan investment options. Company matching contributions, are directed to participant accounts and fluctuate based on changes in the stock prices of the underlying investment portfolio.

United Kingdom ("UK") – Lenovo Savings Plan

UK regular, full-time and part-time employees are eligible to participate in the Lenovo Stakeholder Plan, which is a tax-qualified defined contribution "stakeholder" plan. For employees hired after April 30, 2005, the Company contributes 6% of an employee's eligible compensation to the employee's account each year until he is 35, and then contributes 8% of his eligible compensation after that age. Prior employees of IBM receive Company contributions varying from 6.7% to 30% of eligible compensation depending on their service and the prior IBM plan they participated in.

Company contributions to the plan are immediately vested and there are no forfeitures.

Canada – Lenovo Savings Plan

Canadian regular, full-time and part-time employees are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan. The company contributes 3% to 6% of the employee's eligible compensation, depending on his years of service. All contributions, including the company match, are made in cash, in accordance with the participants' investment elections.

Forfeitures of company contributions arising from employees who leave before they are fully vested in company contributions are used to reduce future Lenovo contributions. For the period May 1, 2005 to March 31, 2006 the amount of forfeitures was HK\$41,000 (US\$5,300), none of which had been used to reduce Lenovo contributions, leaving HK\$41,000 (US\$5,300) at March 31, 2006 to be used to reduce Lenovo contributions in the future.

Connected transactions

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

Connected transactions with connected persons other than IBM

1. 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 financial statements of the Company, whichever is the higher.

2. On May 17, 2004, the Company and Digital China Holdings Limited ("DCHL") entered into, (1) a Master Sales Agreement ("Master Sales Agreement") to govern the sale of IT products and provision of technical services to the Group by DCHL and its subsidiaries ("DC Group") (the "DCHL Sales Arrangement"), and (2) a Master Purchases Agreement ("Master Purchases Agreement") to govern the purchase of computers and IT products from the Group by the DC Group (the "DCHL Purchases Arrangement") both for a term of three years commencing from April 1, 2004. DCHL 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 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.

Following the completion of the acquisition by the Company of the global desktop computer and notebook computer business of IBM ("Initial Closing"), International Information Products (Shenzhen) Co., Ltd. ("IIPC") (a subsidiary of IBM prior to Initial Closing) became a subsidiary of the Company and its sales and purchases of IBM products transactions with the DC Group ("IBM Sales Transactions" and "IBM Purchases Transactions" respectively) had since then become continuing connected transactions of the Group under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.41 of the Listing Rules, such continuing connected transactions are subject to all applicable disclosure and reporting requirements immediately upon the Group becoming aware of the fact. The Company has therefore applied to the Stock Exchange (i) to revise the Master Sales Agreement and the Master Purchases Agreement to include the IBM Sales Transactions and the IBM Purchases Transactions respectively; (ii) to extend the term of the Master Sales Agreement and the Master Purchases Agreement and (iii) to revise the annual cap amount effected under the DCHL Sales Arrangement to HK\$118 million for each of the three financial years ending March 31, 2009 and the annual cap amount of the DCHL Purchases Arrangement to HK\$1,837.56 million, HK\$2,136.23 million and HK\$2,404.85 million for each of the three financial years ending March 31, 2009 ("Revised Annual Purchase Caps"). On March 27, 2006, the Company and DCHL entered into a Supplemental Master Sales Agreement and a Supplemental Master Purchases Agreement to govern the enlarged DCHL Sales Arrangement and the enlarged DCHL Purchases Arrangement respectively. Details of the Supplemental Master Sales Agreement and the Supplemental Master Purchases Agreement are set out in the Company's announcement dated March 27, 2006 and circular dated May 4, 2006. Pursuant to the Listing Rules, the enlarged DCHL Purchases Arrangement under the Supplemental Master Purchases Agreement and the fixing of the Revised Annual Purchase Caps are subject to, inter alia, independent shareholders' approval requirement. Accordingly, an extraordinary general meeting of the Company was held on May 24, 2006 at which an ordinary resolution was passed by the independent shareholders to approve the enlarged DCHL Purchases Arrangement under the Supplemental Master Purchases Agreement and the fixing of the Revised Annual Purchase Caps.

3. On December 19, 2005, Lenovo (Beijing) Limited, a wholly-owned subsidiary of the Company, entered into a Share Transfer Agreement with Xiamen Overseas Chinese Electronic Company Limited ("Xoceco") pursuant to which Lenovo (Beijing) Limited agreed to acquire and Xoceco agreed to sell 19.2% of the entire equity interest in Lenovo Mobile Communication Technology Limited ("LMCT") for a cash consideration of RMB72 million (HK\$68 million). Xoceco was a substantial shareholder of LMCT and thus a connected person of the Company within the meaning of the Listing Rules.

Connected transactions (continued)

Continuing connected transactions with IBM or its associates

Pursuant to the Asset Purchase Agreement entered into by the Company and IBM on December 7, 2004, the Company entered into a range of ancillary agreements and arrangements with IBM. According to such agreements and arrangements, the parties thereto will upon the Initial Closing provide to each other certain transitional services. Details of the ancillary agreements and arrangements ("Ancillary Agreements") are set out in the circular issued by the Company to the shareholders on December 31, 2004.

Since upon the Initial Closing IBM was deemed by the Stock Exchange to be a connected person of the Company under the Listing Rules, the Ancillary Agreements constitute continuing connected transactions of the Company under the Listing Rules. The Ancillary Agreements were approved by the independent shareholders at an extraordinary general meeting of the Company on January 27, 2005 and are subject to reporting requirements under the Listing Rules and the circular dated December 31, 2004.

The Company (or its associates) and IBM further entered into the following agreements during the financial year ended March 31, 2006:

- (1) A Share Repurchase Agreement dated May 1, 2005 ("Repurchase Agreement") pursuant to which the Company agreed to repurchase from IBM 435,717,757 Non-voting Shares at a total consideration of approximately HK\$1,187,330,888 (HK\$2.725 per share). Details of the Repurchase Agreement are set out in the circular issued by the Company to the shareholders on July 6, 2005. The Repurchase Agreement was approved by the independent shareholders at an extraordinary general meeting of the Company on August 1, 2005.
- (2) A China Services Agreement dated April 27, 2005 and as amended by an amendment agreement dated July 22, 2005 ("CSA") and a Reverse Transition Services Agreement ("Reverse TSA") dated April 30, 2005 (i) pursuant to the CSA Changchun Blue Express Computer Engineering Technology Co., Ltd. ("Blue Express"), a subsidiary of IBM, has agreed to provide maintenance and warranty services to IIPC, a subsidiary of the Company and (ii) pursuant to the Reverse TSA the Company has agreed to provide certain transitional services to IBM. Details of the CSA and the Reverse TSA are set out in the circular issued by the Company to the shareholders on July 23, 2005. CSA and the Reverse TSA were approved by the independent shareholders at an extraordinary general meeting of the Company on August 9, 2005 and are subject to reporting requirements under the Listing Rules.
- (3) A Master Services Agreement dated December 30, 2005 ("MSA") pursuant to which IBM has agreed to provide certain human resources related information technology services to the Group. Details of the MSA are set out in an announcement published by the Company on January 17, 2006.
- (4) A letter of agreement dated March 30, 2006 pursuant to which IBM and the Company have agreed to extend or renew, for 35 IBM locations, the corresponding license agreements for a fixed term of 60 days or 90 days (as the case may be) at an aggregate license fee not exceeding US\$3,630,633 (HK\$28,318,937.40). Details of the letter of agreement are set out in an announcement published by the Company on April 21, 2006.

The details set out in the following table cover the periods from (i) April 30, 2005 to March 31, 2006 for the Ancillary Agreements; (ii) August 9, 2005 to March 31, 2006 for CSA and Reverse TSA and (iii) December 30, 2005 to March 31, 2006 for MSA.

Transition Services Agreement

Services provided:	Transition services in certain finance and accounting function support and certain marketing and sales support, general procurement, human resources and real estate facilities etc. provided by IBM to the Company
Term:	From the date of the Initial Closing (i.e. April 30, 2005) and range in duration from 12 to 36 months
Annual caps:	US\$285 million (April 30, 2005 to April 29, 2006) US\$223 million (April 30, 2006 to April 29, 2007) US\$197 million (April 30, 2007 to April 29, 2008)
Transaction value:	HK\$1,546.90 million (US\$198.32 million)

Connected transactions *(continued)*

Strategic Financing and Asset Disposition Services Agreement

Services provided:	Strategic financing and asset disposition services including customer financing services, distribution channel financing services and excess surplus disposition services
Term:	For a period of five years from respective applicable closing date for the relevant country
Annual caps:	<p>(a) Customer Financing Services</p> <p>If the Company refers customers to IBM to provide financing and leasing services, the aggregate amount of fees payable by IBM to the Company will not exceed:</p> <p>US\$8 million (April 30, 2005 to April 29, 2006) US\$9 million (April 30, 2006 to April 29, 2007) US\$9 million (April 30, 2007 to April 29, 2008) US\$9 million (April 30, 2008 to April 29, 2009) US\$9 million (April 30, 2009 to April 29, 2010)</p> <p>(b) Distribution Channel Financing Services</p> <p>If IBM finances resellers purchase of inventory from the Company, the aggregate amount of fees payable by the Company to IBM will not exceed:</p> <p>US\$84 million (April 30, 2005 to April 29, 2006) US\$86 million (April 30, 2006 to April 29, 2007) US\$87 million (April 30, 2007 to April 29, 2008) US\$89 million (April 30, 2008 to April 29, 2009) US\$90 million (April 30, 2009 to April 29, 2010)</p> <p>(c) Excess Surplus Disposition Services</p> <p>If IBM purchases any used personal computing products returned to resellers, the maximum amount of fees payable by IBM to the Company will not exceed:</p> <p>US\$58 million (April 30, 2005 to April 29, 2006) US\$60 million (April 30, 2006 to April 29, 2007) US\$61 million (April 30, 2007 to April 29, 2008) US\$62 million (April 30, 2008 to April 29, 2009) US\$63 million (April 30, 2009 to April 29, 2010)</p>
Transaction value:	<p>(a) Customer Financing Services – HK\$17.78 million (US\$2.28 million)</p> <p>(b) Distribution Channel Financing Services – HK\$208.42 million (US\$26.72 million)</p> <p>(c) Excess Surplus Disposition Services – HK\$110.99 million (US\$14.23 million)</p>

Connected transactions *(continued)*

IGS Services Agreement

Services provided:	Maintenance and warranty services provided by IBM to the Company or its customers
Term:	For a period of five years from April 30, 2005 and automatically extend for additional one-year periods each unless written notice of termination was given
Annual caps:	(a) If the Company engages IBM to perform services, the aggregate amount payable by the Company to IBM will not exceed: US\$273 million (April 30, 2005 to April 29, 2006) US\$318 million (April 30, 2006 to April 29, 2007) US\$188 million (April 30, 2007 to April 29, 2008) US\$191 million (April 30, 2008 to April 29, 2009) US\$195 million (April 30, 2009 to April 29, 2010) (b) If the Company refers customers to purchase IBM's services, the aggregate amount of fees payable by IBM to the Company will not exceed: US\$15 million (April 30, 2005 to April 29, 2006) US\$15 million (April 30, 2006 to April 29, 2007) US\$15 million (April 30, 2007 to April 29, 2008) US\$16 million (April 30, 2008 to April 29, 2009) US\$16 million (April 30, 2009 to April 29, 2010)
Transaction value:	(a) HK\$165.98 million (US\$21.28 million) (b) Nil

Marketing Support Agreement

Services provided:	IBM provides client team support to the Company to assist it in its post-initial closing sales coverage of the Company's customers by providing various services
Term:	For a period of five years from April 30, 2005
Annual caps:	US\$291 million (April 30, 2005 to April 29, 2006) US\$278 million (April 30, 2006 to April 29, 2007) US\$194 million (April 30, 2007 to April 29, 2008) US\$77 million (April 30, 2008 to April 29, 2009) US\$26 million (April 30, 2009 to April 29, 2010)
Transaction value:	HK\$1,515.85 million (US\$194.34 million)

Connected transactions *(continued)*

Internal Use Purchase Agreement

Services provided:	IBM agreed to purchase from the Company of not less than 95% of the personal computers IBM requires worldwide for internal use. IBM also has the right to buy personal computers from the Company for resale in certain cases
Term:	For a period of five years from April 30, 2005
Annual caps:	US\$500 million (April 30, 2005 to April 29, 2006) US\$512 million (April 30, 2006 to April 29, 2007) US\$520 million (April 30, 2007 to April 29, 2008) US\$530 million (April 30, 2008 to April 29, 2009) US\$541 million (April 30, 2009 to April 29, 2010)
Transaction value:	HK\$807.22 million (US\$103.49 million)

Master Distribution Agreement

Services provided:	The Company will provide IBM with personal computers and certain services when the relevant customers have previously entered into non-assignable purchase agreements with IBM or insist on purchasing products and services directly from IBM
Term:	For a period of two years from April 30, 2005
Annual caps:	Nil
Transaction value:	HK\$921.73 million (US\$118.17 million)

Real Estate Arrangements

Services provided:	Real estate arrangements between the Company and IBM including the acquisition of leasehold interests held by IBM, sublease of portions of properties currently leased and to be retained by IBM and occupancy of certain additional properties for a transitional period, option to elect either short term licence or longer term lease with respect to certain sites, option to elect either short term licence or assumption of lease for balance of lease term etc.
Term:	Up to a maximum period of five years from the applicable closing date for the relevant country
Annual caps:	US\$78 million (April 30, 2005 to April 29, 2006) US\$54 million (April 30, 2006 to April 29, 2007) US\$30 million (April 30, 2007 to April 29, 2008) US\$30 million (April 30, 2008 to April 29, 2009) US\$31 million (April 30, 2009 to April 29, 2010)
Transaction value:	HK\$107.48 million (US\$13.78 million)

Connected transactions (continued)

China Services Agreement

Services provided:	Maintenance and warranty services provided by Blue Express (a subsidiary of IBM) to IIPC on products sold in PRC
Term:	For a period of five years from August 9, 2005 and will extend for a term of one or more additional periods of one year each
Annual caps:	US\$8.8 million (April 1, 2005 to March 31, 2006) US\$22 million (April 1, 2006 to March 31, 2007) US\$13.6 million (April 1, 2007 to March 31, 2008)
Transaction value:	HK\$45.55 million (US\$5.84 million)

Reverse Transition Services Agreement

Services provided:	Reverse transition services include after sales services, procurement, programming, sales, marketing and sharing of Global Market View client data provided by the Group to IBM and its affiliates
Term:	Range in duration from approximately 7 months to 5 years from August 9, 2005
Annual caps:	US\$45.4 million (April 1, 2005 to March 31, 2006) US\$29.8 million (April 1, 2006 to March 31, 2007) US\$7.6 million (April 1, 2007 to March 31, 2008)
Transaction value:	HK\$236.42 million (US\$30.31 million)

Master Services Agreement

Services provided:	Human resources related information technology services worldwide (excluding China) provided by IBM to the Group
Term:	For a period of three years commencing from December 30, 2005 and the Group may at its option to extend the services for two additional periods of one year each. IBM shall provide exit assistance to the Group for a period of not exceeding 18 months after the termination or expiry of the Master Services Agreement to facilitate orderly transfer of services to the Group or another third party provider
Annual fee caps:	US\$21.55 million (December 30, 2005 to December 29, 2006) US\$9.15 million (December 30, 2006 to December 29, 2007) US\$8.55 million (December 30, 2007 to December 29, 2008)
Termination fee caps:	US\$27,589,135 (December 30, 2005 to December 29, 2006) US\$12,362,416 (December 30, 2006 to December 29, 2007) US\$9,181,333 (December 30, 2007 to December 29, 2008)
Transaction value:	Nil

Connected transactions *(continued)*

In accordance with rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that 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 Company as a whole.

Auditors

The financial statements 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



Yang Yuanqing
Chairman

Hong Kong, May 25, 2006