Notes to the Financial Statements

1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and the disclosure requirements set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention except that available-for-sale financial assets are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Adoption of new or revised standards and interpretations

In 2005/06, the Group adopted the new or revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2004/05 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 31	Investments in joint ventures
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKFRS 2	Share-based payment
HKFRS 3	Business combinations
HKFRS 5	Non-current assets held for sale and discontinued operations

The adoption of new/revised HKFRSs and HKASs did not result in substantial changes to the Group's accounting policies, the methods of computation of the Group's and of the Company's financial statements except as set out below:

HKAS 17 "Leases"

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepaid lease payments from property, plant and equipment to operating leases. The up-front prepayments made for the leases are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the prepaid lease payments were accounted for at cost less accumulated depreciation and accumulated impairment losses.

1 Basis of preparation *(continued)*

(a) Adoption of new or revised standards and interpretations *(continued)*

The adoption of revised HKAS 17 resulted in:

	Group	
	At March 31, 2006 HK$'000	At March 31, 2005 HK$'000
Decrease in property, plant and equipment	**50,018**	50,268
Increase in prepaid lease payments	**50,018**	50,268
	Year ended March 31, 2006 HK$'000	Year ended March 31, 2005 HK$'000
Decrease in depreciation expenses	**1,209**	1,193
Increase in amortization of prepaid lease payments	**1,209**	1,193

HKAS 32 "Financial instruments: Disclosure and presentation"
HKAS 39 "Financial instruments: Recognition and measurement"

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. Until March 31, 2005, the investment securities of the Group and of the Company were classified into non-trading securities and were stated in the balance sheet at fair value. In accordance with the provision of HKAS 39, the investment securities have been classified as available-for-sale financial assets and stated in the balance sheet at fair value through investment revaluation reserve, until the investment securities are disposed of or are determined to be impaired, at which time the accumulated gain or loss previously recognized in the investment revaluation reserve is included in the income statement in the period.

The adoption of HKAS 39 had no effect on opening reserves and the details of the adjustments to the balance sheets as at March 31, 2006 are as follows:

	Group At March 31, 2006 HK$'000	**Company At March 31, 2006 HK$'000**
Increase in available-for-sale financial assets	**59,301**	**2,440**
Decrease in investment securities	**59,301**	**2,440**

HKFRS 2 "Share-based payment"

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. Until March 31, 2005, the provision of share options to employees did not result in an expense in the income statement. Effective from April 1, 2005, the Group recognizes equity-settled share-based payment at fair value at the date of grant and recognizes the liabilities for cash-settled share-based payment at current fair value at each balance sheet date.

In accordance with the transitional provision of HKFRS 2, share options granted after November 7, 2002 and were unvested on April 1, 2005 were expensed retrospectively in the income statement of the respective periods. As at April 1, 2005, the Group had no options granted after November 7, 2002 that had not yet vested on that day.

1 Basis of preparation *(continued)*

(a) Adoption of new or revised standards and interpretations *(continued)*

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes three types of awards, namely share appreciation rights, restricted share units and performance share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted. Non-market vesting conditions (for example, profitability and sales growth targets) are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested. At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable and the number of shares that are vested. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

HKFRS 3 "Business combinations"
HKAS 36 "Impairment of assets"
HKAS 38 "Intangible assets"

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until March 31, 2005, goodwill was:

- amortized on a straight line basis over a period ranging from 3 to 10 years; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortization of goodwill from April 1, 2005;
- accumulated amortization of HK$50,630,000 as at March 31, 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from the year ended March 31, 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of HKFRS 3 and HKAS 38 resulted in:

	Group At March 31, 2006 HK$'000
Increase in intangible assets	**11,354**
Increase in retained earnings	**11,354**

1 Basis of preparation *(continued)*

(a) Adoption of new or revised standards and interpretations *(continued)*

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital disclosures
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: Disclosures
HKFRS Interpretation 4	Determining whether an arrangement contains a lease
HKFRS Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HKFRS Interpretation 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKFRS 3 (Amendment)	Business combinations

The Group has not early adopted these standards and interpretations in the financial statements for the year ended March 31, 2006. The Group is in the process of assessing the impact to the Group's accounting policies on the adoption of the above standards and interpretations in future periods, but is not in a position to state whether these new standards and interpretations would have a significant impact on its results of operations and financial position.

(b) EBITDAR

EBITDAR is defined as earnings before interest expense and finance costs, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs. Information concerning EBITDAR has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of profit from operations. The Group considers EBITDAR to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDAR is not a measure of financial performance under generally accepted accounting principles in Hong Kong and the EBITDAR measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDAR should not necessarily be construed as an alternative to profit from operations as determined in accordance with generally accepted accounting principles in Hong Kong.

(c) Comparative figures

In addition to the change in presentation and restatement of comparatives as a result of adoption of HKAS 17 as explained in Note 1(a) above, effective from April 1, 2005, the Group has included non-base manufacturing costs in cost of sales. Non-base manufacturing costs composed of warranty, inventory loss, technical support, warehousing fees as well as outbound freight for in-country finished goods shipments *(Note 2(t))*. The Board considers that it is appropriate for the Group to present its gross profit after such charges.

As a result, certain comparative figures have been reclassified to conform to the current year's presentation.

2 Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of consolidation

(i) The consolidated financial statements include the financial statements 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill *(Note 2(g)(i))*. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

(ii) All significant intercompany transactions and balances between group companies 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 results and assets and liabilities of jointly controlled entities are incorporated into the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

(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 an entity, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence, but not control, is exercised in its management.

(ii) The results and assets and liabilities of associated companies are incorporated into the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associated companies are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associated companies, less any identified impairment loss. When the Group's share of losses in an associated company equals or exceeds it's interest in the associated company including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

(iii) Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(iv) 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.

2 Significant accounting policies *(continued)*

(d) Translation of foreign currencies

(i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items are recognized in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

(iii) For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising are recognized as a separate component of equity (the exchange reserve). Such exchange differences are recognized in the income statement in the period in which the foreign operation is disposed of.

(e) Property, plant and equipment

(i) Buildings and leasehold improvements

Buildings comprise mainly factory and office premises. Buildings and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses.

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

(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 income statement.

(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 income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group.

2 Significant accounting policies *(continued)*

(f) Construction-in-progress

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

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in investments in associated companies and jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Internal use software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 5 years.

(iii) Patents and marketing rights

Expenditure on acquired patents and marketing rights is capitalized and amortized on a systematic basis over their useful lives.

(iv) Trademarks and trade names

Trademarks and licences are shown at historical cost. Trademarks and licences that have a definite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

(v) Impairment of intangible assets

Assets that have an indefinite useful life are not subject to amortization. They are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indication of impairment exists, the carrying amount of any intangible asset, excluding goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

2 Significant accounting policies *(continued)*

(h) Investments

From April 1, 2004 to March 31, 2005, the Group classified its investments in securities, other than its interests in subsidiaries, associated companies and jointly controlled entities, as non-trading securities and trading securities.

(i) Non-trading 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 income statement.

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 income statement.

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

(ii) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of trading securities were recognized in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognized in the income statement as they arose.

From April 1, 2005 onwards, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet *(Note 2(j))*.

(iii) Held-to-maturity investments

Held-to-maturity investments are non–derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

2 Significant accounting policies *(continued)*

(h) Investments *(continued)*

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(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) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is made to the extent that they are considered to be doubtful. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

(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.

2 Significant accounting policies *(continued)*

(l) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Convertible preferred shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these convertible preferred shares are recognized in the income statement as interest expense.

The fair value of the liability portion of convertible preferred shares is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the convertible preferred shares. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2 Significant accounting policies *(continued)*

(n) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Provisions

(i) Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

(ii) *Warranty provision*

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labour associated with warranty repair and service actions. The period ranges from one to three years. Factors that affect the Group's warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy the Group's warranty obligation. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(p) 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 financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(q) 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 financial statements. 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 utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) 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 income statement on a straight-line basis over the lease term.

2 Significant accounting policies *(continued)*

(s) Revenue recognition

(i) Sales of goods

Revenue includes sales of hardware, software and peripherals, and services and mobile devices. Revenue from the sale of goods is recognized, net of an allowance for estimated returns, when both ownership and risk of loss are effectively transferred to customer, generally when there is a persuasive evidence of a sales arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and delivery has occurred. Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, generally of 3 years. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Revenue from provision of systems integration service and information technology technical service is recognized over the term of contract or when services are rendered.

The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers of HK$839 million as at March 31, 2006 are included in deposits, prepayments and other receivables in the consolidated balance sheet.

(ii) Other income

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.

(t) Non-base manufacturing costs

Non-base manufacturing costs are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering changes, storage and warehousing cost, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but are not inventoriable costs.

(u) Employee benefits

(i) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The benefit payable to the employee is the amount of the contributions plus the accumulated investment returns.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the income statement in the year they occur.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in mainland of China ("Chinese Mainland") are expensed as incurred. The local municipal governments in the Chinese Mainland assume the retirement benefit obligations of the qualified employees.

2 Significant accounting policies *(continued)*

(u) Employee benefits *(continued)*

(ii) Post-employment medical benefits

The Group operates a number of post–employment medical benefit schemes, the largest being in the United States. The method of accounting, assumptions and the frequency of valuations for material schemes are similar to those used for defined benefit pension schemes. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognized in the income statement in the year they occur. These obligations are valued annually by independent qualified actuaries.

(iii) Long-term incentive program

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes three types of awards, namely share appreciation rights, restricted share units and performance share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company. The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted. Non–market vesting conditions (for example, profitability and sales growth targets) are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested.

At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the long-term incentive program. The employee share trusts are administered by independent trustee and are funded by the Group's cash contributions and recorded as contributions to employee share trusts, an equity component. The administrator of the employee share trusts buys the Company's shares in the open market for award to employees upon vesting.

Upon vesting by the employees, the corresponding amounts in the share-based compensation reserve will be transferred to share capital (nominal value) and share premium for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Share options

In accordance with the transitional provision of HKFRS 2, share options granted after November 7, 2002 and were unvested on April 1, 2005 was expensed retrospectively in the income statement of the respective periods. As at April 1, 2005, the Group had no option granted after November 7, 2002 that had not yet vested on that day. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(v) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3 Financial risk management

The Group's activities expose it to a variety of financial risks, such as foreign currency risk, price risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group may use derivative financial instruments to hedge certain risk exposures.

3 Financial risk management *(continued)*

Risk management is carried out by the group treasury department under approved policies. The group treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group has the overall risk management such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(a) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK dollar and US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. To manage the foreign exchange risk, the Group uses external forward currency contracts to hedge a percentage of future transactions which are highly probable. The Group's risk management policy is to hedge between 50 and 75 percent of anticipated transactions in each major currency for a period of less than 3 months.

(b) Credit risk

The Group has no significant concentration of credit risk. The Group's credit risk is primarily attributable to trade and other receivables. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping cash and committed credit lines available.

4 Critical accounting estimates and judgments

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following is the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

For the purposes of impairment reviews of goodwill, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on ten-year financial budgets approved by management and estimated terminal values at the end of the ten-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, effective tax rate, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

4 Critical accounting estimates and judgments *(continued)*

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome.

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 values in the financial statements.

Deferred tax assets are mainly recognized for warranty provision and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions and deferred tax assets in the period in which such determination is made.

(c) Provision for impairment of trade receivables and other receivables

The Group has no significant concentration of credit risk. The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimates has been changed.

(d) Warranty

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect our warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on a on-going basis and revised where appropriate.

(e) Future billing adjustments

Estimates that further impact revenue recognition relate primarily to customer sales returns and allowance for future volume discounts and price rebates. Both estimates are relatively predictable based on historical experience. The primary factors affecting the Group's accrual for estimated customer returns include estimated return rates as well as the number of units shipped that still have a right of return as of the balance sheet date.

(f) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect our long-term actual experience and future and near-term outlook. Actual results that differ from our assumptions are generally recognized in the year they occur.

5 Turnover, revenue and segment information

In accordance with the Group's internal financial reporting, the Group has adopted geographical segments as the primary reporting format and business 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 accruals and other payables, and exclude liabilities not dedicated to a particular segment. Corporate or unallocated items comprise the assets and liabilities connected with the Group's corporate and treasury activities, including cash and cash equivalents, buildings and leasehold improvements, intangible assets such as internal use software, trademarks and trade names, deferred tax assets, tax payable and trade payables. Unallocated assets also include goodwill arising from business combination that has yet to be finalized and allocated to respective geographical segments; and assets that are not dedicated to a particular segment such as investments in associated companies and available-for-sale financial assets. Unallocated liabilities also include liabilities that are not dedicated to a particular segment such as corporate financing activities, including bank borrowings, convertible preferred shares and warrants.

Capital expenditure comprises additions to property, plant and equipment, intangible assets and transfer from construction-in-progress.

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

There are no material sales or other transactions among the business segments for the two years ended March 31, 2005 and 2006.

5 Turnover, revenue and segment information *(continued)*

(a) Primary reporting format – geographical segments

The following tables present revenue, profit/(loss) and assets, liabilities and capital expenditure information of the Group's geographical segments.

For the year ended March 31, 2006:

	Americas HK$'000	Europe, Middle East and Africa HK$'000	Asia Pacific (excluding Greater China) HK$'000	Greater China HK$'000	Total HK$'000
Turnover	30,899,631	21,615,023	13,037,997	37,998,206	103,550,857
Segment operating results	197,451	(353,794)	(86,435)	2,176,473	1,933,695
Amortization of marketing rights and intangible assets					(770,065)
Amortization of share-based compensation					(232,013)
Impairment of assets					(22,785)
Loss on disposal of investments and available-for-sale financial assets					(4,913)
Finance income					188,986
Finance costs					(438,126)
Contribution to operating profit					654,779
Share of profits of jointly controlled entities					1,073
Share of profits of associated companies					3,627
Profit before taxation					659,479
Taxation					(443,667)
Profit after taxation					215,812

Note:

Segment operating profit/(loss) of Americas, Europe, Middle East and Africa and Asia Pacific (excluding Greater China) presented above include the impact of restructuring costs of HK$542,756,000. The segment operating profit/(loss) before restructuring costs are: Americas HK$408,380,000; Europe, Middle East and Africa (HK$100,881,000); and Asia Pacific (excluding Greater China) (HK$7,521,000) respectively.

5 Turnover, revenue and segment information *(continued)*

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

At March 31, 2006:

	Americas HK$'000	Europe, Middle East and Africa HK$'000	Asia Pacific (excluding Greater China) HK$'000	Greater China HK$'000	Total HK$'000
Segment assets	4,856,446	3,375,317	4,391,132	7,722,183	20,345,078
Corporate or unallocated assets					
Investments in associated companies					70,672
Available-for-sale financial assets					235,949
Cash and cash equivalents					1,874,770
Deferred tax assets					486,290
Goodwill pending allocation					10,236,665
Other unallocated assets					6,066,932
Consolidated total assets					39,316,356
Segment liabilities	8,218,941	5,926,306	3,986,646	7,347,296	25,479,189
Corporate or unallocated liabilities					
Bank borrowings					1,716,000
Convertible preferred shares					2,705,446
Tax payable					308,914
Other unallocated liabilities					958,565
Consolidated total liabilities					31,168,114
Capital expenditure	293,281	25,973	127,880	367,562	814,696
Unallocated capital expenditure					177,189
Total capital expenditure					991,885
Depreciation	170,164	19,459	81,336	221,510	492,469

5 Turnover, revenue and segment information *(continued)*

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

For the year ended March 31, 2005:

	Americas HK$'000	Europe, Middle East and Africa HK$'000	Asia Pacific (excluding Greater China) HK$'000	Greater China HK$'000	Total HK$'000
Turnover	–	–	–	22,554,678	22,554,678
Segment operating results	–	–	–	979,653	979,653
Amortization of marketing rights and intangible assets					(48,605)
Impairment of assets					(51,364)
Gains on disposal of investments and available-for-sale financial assets					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

5 Turnover, revenue and segment information *(continued)*

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

At March 31, 2005:

	Americas HK$'000	Europe, Middle East and Africa HK$'000	Asia Pacific (excluding Greater China) HK$'000	Greater China HK$'000	Total HK$'000
Segment assets	–	–	–	6,964,133	6,964,133
Corporate or unallocated assets					
Investments in jointly controlled entities					191,523
Investments in associated companies					52,067
Investment securities					62,970
Deferred tax assets					53,498
Other unallocated assets					1,707,763
Consolidated total assets					9,031,954
Segment liabilities	–	–	–	3,116,544	3,116,544
Corporate or unallocated liabilities					
Tax payable					493
Other unallocated liabilities					686,910
Consolidated total liabilities					3,803,947
Capital expenditure	–	–	–	176,770	176,770
Depreciation	–	–	–	184,490	184,490

5 Turnover, revenue and segment information *(continued)*

(b) Secondary reporting format – business segments

The following tables present revenue and assets and capital expenditure information for the Group's business segments.

For the year ended March 31, 2006:

	Personal Computer			Mobile		
	Desktop	**Notebook**	**Total**	**Handset**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Turnover	**46,344,734**	**50,668,710**	**97,013,444**	**4,602,197**	**1,935,216**	**103,550,857**
Capital expenditure			**726,231**	**35,238**	**230,416**	**991,885**
Total segment assets as at March 31, 2006			**6,426,235**	**582,911**	**326,206**	**7,335,352**

For the year ended March 31, 2005:

	Personal Computer			Mobile		
	Desktop	Notebook	Total	Handset	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	15,266,201	3,164,674	18,430,875	2,202,929	1,920,874	22,554,678
Capital expenditure			144,450	17,265	15,055	176,770
Total segment assets as at March 31, 2005			1,905,933	451,658	509,820	2,867,411

6 Restructuring costs

Provision for restructuring costs of HK$543 million was made pursuant to an announcement dated March 16, 2006 whereby the Group announced the restructuring plan to enhance responsiveness to customers, strengthen global competitiveness and increase operational efficiency. The estimated total restructuring cost is US$100 million (HK$780 million), of which HK$543 million was quantified as eligible for recognition at the year end in accordance with the requirements of HKAS 37 "Provisions, contingent liabilities and contingent assets". The remaining cost of HK$237 million not eligible for provision be made at the year end will be charged to the income statement as incurred.

7 Profit from operations

	2006 **HK$'000**	2005 As restated *(Note 1(c))* HK$'000
Turnover	**103,550,857**	22,554,678
Cost of sales	**(89,054,996)**	(19,644,580)
Gross profit	**14,495,861**	2,910,098
Finance income	**188,986**	105,677
(Loss)/gain on disposal of investments and available-for-sale financial assets	**(4,913)**	156,958
Impairment of assets	**(22,785)**	(51,364)
	14,657,149	3,121,369
Distribution expenses	**(7,640,834)**	(1,233,476)
Administrative expenses	**(2,750,337)**	(328,580)
Other operating expenses	**(1,618,640)**	(358,916)
Amortization of intangible assets and share-based compensation	**(1,011,677)**	(58,078)
Restructuring costs	**(542,756)**	–
	(13,564,244)	(1,979,050)
Profit from operations	**1,092,905**	1,142,319

8 Profit before taxation

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

	2006 HK$'000	2005 HK$'000
Auditors' remuneration	**31,182**	2,591
Cost of inventories sold	**82,640,073**	18,996,820
Restructuring costs	**542,756**	–
Rental expenses under operating leases	**157,269**	68,099
Research and development expenses	**1,489,988**	379,035
Amortization of intangible assets		
– Patent	**200,268**	9,473
– Goodwill in respect of subsidiaries	**–**	11,354
– Goodwill in respect of an associated company	**–**	5,564
– Trademarks and trade names	**332,616**	–
– Internal use software	**32,430**	–
– Customer relationships	**87,600**	–
– Marketing rights	**126,750**	31,687
Impairment of assets		
– Goodwill in respect of subsidiaries	**–**	31,763
– Available-for-sale financial assets/investment securities	**–**	19,601
– Amounts receivable from a jointly controlled entity	**22,785**	–
Loss/(gain) on disposal of investments		
– Disposal of businesses	**3,811**	(92,971)
– Disposal of associated companies	**2,692**	(42,375)
– Disposal of available-for-sale financial assets/investment securities	**(1,590)**	(21,612)
Net exchange gain	**(140,311)**	(5,745)

9 Finance costs

	2006 HK$'000	2005 HK$'000
Interest payable on bank loans and overdrafts	**176,410**	6,203
Dividend and relevant finance costs on convertible preferred shares not wholly repayable within five years and fair value change on warrants *(Note 31(c))*	**170,378**	–
Others	**91,338**	464
	438,126	6,667

10 Taxation

The amount of taxation in the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Current taxation		
– Hong Kong profits tax	920	–
– Taxation outside Hong Kong	874,457	53,964
Deferred taxation *(Note 23)*	(431,710)	(18,780)
	443,667	35,184

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:

	2006 HK$'000	2005 HK$'000
Profit before taxation	659,479	1,127,507
Calculated at a taxation rate of 17.5% (2005: 17.5%)	115,410	197,314
Effect of different taxation rates outside Hong Kong	391,676	(13,430)
Income not subject to taxation	(94,287)	(177,249)
Expenses not deductible for taxation purposes	26,234	24,746
Utilization of previously unrecognized tax losses	(11,855)	(11,203)
Net deferred tax assets not recognized	16,489	15,006
	443,667	35,184

Hong Kong profits tax has been provided at the rate of 17.5% (2005: Nil) on the estimated assessable profit for the year.

Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to preferential tax treatment.

11 Staff costs

	2006 HK$'000	2005 HK$'000
Wages and salaries including restructuring costs of HK$461,490,000 (2005: Nil)	**5,250,397**	723,642
Social security costs	**395,028**	71,638
Long-term incentive awards *(Note 2(u)(iii))*	**232,013**	–
Pension costs *(Note 11(b))*	**401,303**	52,491
Others	**320,355**	114,832
	6,599,096	962,603

(a) Included in the above balances are staff costs of HK$5,845,213,000 (2005: HK$875,433,000) which are included in operating expenses *(Note 7)*.

(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 monthly average salaries as set out by the local municipal government.

The Group participates a Mandatory Provident Fund ("MPF") for all qualified Hong Kong employees. Employees are required to contribute, to the MPF, 5 percent of their basic salaries plus cash allowances, subject to the ceiling under the requirements set out in the MPF legislation, whereas the Group's contribution increases from 5 percent to 7.5 percent and 10 percent after completion of five and ten years of service respectively by the relevant employees. When employees leave the Group prior to vesting fully, a portion of the Group's contributions may be forfeited. These forteitures are used by the Group to reduce contributions for the current year. Forfeited contributions totaling HK$56,795 (2005: HK$493,043) were utilized during the year leaving no amount available at the year end to reduce further contributions. The assets of the MPF are held separately from those of the Group in an independently administered fund.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 40.

The retirement benefit scheme cost charged to the consolidated income statement represents contributions payable by the Group to the schemes.

12 Emoluments of directors and highest paid individuals

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments to directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The remuneration paid to each director for the two years ended March 31, 2005 and 2006 is set out below:

	2006								
Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees *(note i)* HK$'000	Long-term incentives and retention awards *(note ii)* HK$'000	Employer's contribution to pension schemes HK$'000	Compensation for loss of office as director HK$'000	Other benefits *(note iii)* HK$'000	Total HK$'000
Executive directors									
Mr. Yang Yuanqing	–	3,799	8,539	–	4,680	4,319	–	410	21,747
Mr. William J. Amelio	–	1,662	–	13,700	2,600	40	–	825	18,827
Ms. Ma Xuezheng	–	2,325	3,319	–	1,531	2,426	–	12	9,613
Mr. Stephen M. Ward, Jr.	–	3,368	5,663	–	76,609	21,840	12,480	1,436	121,396
Non-executive directors									
Mr. Liu Chuanzhi *(note iv)*	286	–	–	–	130	–	–	–	416
Mr. Zeng Maochao *(note v)*	–	–	–	–	–	–	–	–	–
Mr. Zhu Linan	286	–	–	–	130	–	–	–	416
Mr. James G. Coulter	286	–	–	–	–	–	–	–	286
Mr. William O. Grabe	322	–	–	–	130	–	–	–	452
Mr. Shan Weijian	286	–	–	–	130	–	–	–	416
Independent non-executive directors									
Mr. Wong Wai Ming	358	–	–	–	130	–	–	–	488
Professor Woo Chia-Wei	286	–	–	–	130	–	–	–	416
Mr. Ting Lee Sen	286	–	–	–	130	–	–	–	416
Mr. John W. Barter III	198	–	–	–	130	–	–	–	328
	2,594	11,154	17,521	13,700	86,460	28,625	12,480	2,683	175,217

12 Emoluments of directors and highest paid individuals *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2005								
Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Long-term incentives and retention awards HK$'000	Employer's contribution to pension schemes HK$'000	Compensation for loss of office as director HK$'000	Other benefits HK$'000	Total HK$'000
Executive directors									
Mr. Yang Yuanqing	–	2,483	1,534	–	–	221	–	–	4,238
Ms. Ma Xuezheng	–	2,054	755	–	–	205	–	–	3,014
Mr. Liu Chuanzhi	–	2,657	1,246	–	–	232	–	–	4,135
Non-executive directors									
Mr. Zeng Maochao	–	775	–	–	–	–	–	–	775
Independent non-executive directors									
Mr. Wong Wai Ming	180	–	–	–	–	–	–	–	180
Professor Woo Chia-Wei	180	–	–	–	–	–	–	–	180
Mr. Ting Lee Sen	180	–	–	–	–	–	–	–	180
	540	7,969	3,535	–	–	658	–	–	12,702

Notes:

(i) Inducement fees paid to Mr. Amelio for the year ended March 31, 2006 comprise transition support payment of US$1.5 million (HK$11.7 million) made to him upon commencement of his employment, and payment made to his former employer pursuant to an agreement entered into between the Company, Mr. Amelio and his former employer. Under the terms of the agreement, the Company made a payment in the amount of US$7.5 million (HK$58.5 million) to his former employer. This amount reflects benefits realized by Mr. Amelio under the long-term incentive plans of his former employer that were subject to certain repayment conditions. The amount is amortized over a five-year period at US$1.5 million (HK$11.7 million) per annum. The amount disclosed above represents the amortized amount for the period from the commencement of Mr. Amelio's employment to March 31, 2006.

(ii) Details on the long-term incentive program of the Company are set out in Note 32(c). The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. Except for HK$19,819,000 in respect of awards granted to Mr. Stephen M. Ward Jr. to replace outstanding IBM stock options forfeited by him upon joining the Group which reduced the deferred share-based compensation liability *(Note 31(b))*, the amounts disclosed above represent the amortized amount charged to the income statement for the year.

(iii) Other benefits primarily include insurance premiums, and government housing fund contribution made in Chinese Mainland.

(iv) Mr. Liu Chuanzhi was re-designated as non-executive director on April 30, 2005.

(v) Mr. Zeng Maochao resigned as director of the Company on April 30, 2005.

(vi) Mr. Justin T. Chang (alternate director to Mr. James G. Coulter), Mr. Vince Feng (Alternate director to Mr. William O. Grabe), Mr. Daniel A. Carroll (alternate director to Mr. Shan Weijian) and Mr. Ricky Wai Kei Lau (alternate director to Mr. Shan Weijian) did not receive any fees or remuneration during the two years ended March 31, 2005 and 2006.

12 Emoluments of directors and highest paid individuals *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, allowances, and benefits in kind	5,746	2,083
Discretionary bonuses	–	3,507
Employer's contribution to pension schemes	157	232
Long-term incentives and retention awards	22,625	–
	28,528	5,822

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$2,500,001 – HK$3,000,000	–	1
HK$3,000,001 – HK$3,500,000	–	1
HK$14,000,001 – HK$14,500,000	2	–

13 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$913,260,000 (2005: HK$800,670,000).

14 Dividends

	2006 HK$'000	2005 HK$'000
Interim dividend of 2.4 HK cents per ordinary share (2005: 2.4 HK cents)	212,690	179,378
Proposed final dividend of 2.8 HK cents per ordinary share (2005: 2.8 HK cents)	249,051	209,428
	461,741	388,806

At a board meeting held on May 25, 2006, 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 financial statements, but will be reflected as an appropriation of retained earnings for the year ending March 31, 2007.

15 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to shareholders of the Company (HK$'000)	**173,236**	1,120,146
Weighted average number of shares for the purpose of basic earnings per share	**8,814,015,717**	7,475,070,185

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: convertible preferred shares, share options, long-term incentive awards and warrants.

The convertible preferred shares are antidilutive as the amount of the dividend and related finance costs in the current year per ordinary share attainable on conversion exceeds basic earnings per share and they are excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

For the share options and warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options and warrants.

For the long-term incentive awards, a calculation is done to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

	2006	2005
Profit attributable to shareholders of the Company (HK$'000)	**173,236**	1,120,146
Weighted average number of ordinary shares in issue	**8,814,015,717**	7,475,070,185
Adjustments for share options and long-term incentive awards	**134,222,758**	9,417,271
Adjustments for warrants	**26,809,094**	–
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**8,975,047,569**	7,484,487,456

16 Property, plant and equipment

	Group						
	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At April 1, 2004							
Cost	550,226	192,604	175,396	21,075	581,788	25,632	1,546,721
Reclassify to prepaid lease payments *(Note 1(a))*	(58,672)	–	–	–	–	–	(58,672)
At April 1, 2004, as restated	491,554	192,604	175,396	21,075	581,788	25,632	1,488,049
Accumulated depreciation	88,649	82,990	48,727	12,585	310,247	16,251	559,449
Reclassify to prepaid lease payments *(Note 1(a))*	(8,404)	–	–	–	–	–	(8,404)
At April 1, 2004, as restated	80,245	82,990	48,727	12,585	310,247	16,251	551,045
Net book amount, as restated	411,309	109,614	126,669	8,490	271,541	9,381	937,004
Year ended March 31, 2005							
Opening net book amount	411,309	109,614	126,669	8,490	271,541	9,381	937,004
Exchange adjustment	–	–	–	–	17	3	20
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	–	(2,595)	(57,764)	(553)	(16,774)	(940)	(78,626)
Disposals	(3,969)	(2,106)	(110)	(135)	(14,416)	(183)	(20,919)
Depreciation	(15,806)	(30,467)	(21,697)	(4,891)	(108,589)	(3,040)	(184,490)
Closing net book amount	414,322	90,432	81,475	9,968	218,981	12,698	827,876
At March 31, 2005							
Cost	565,635	188,841	93,928	23,811	569,100	28,224	1,469,539
Reclassify to prepaid lease payments *(Note 1(a))*	(58,672)	–	–	–	–	–	(58,672)
At March 31, 2005, as restated	506,963	188,841	93,928	23,811	569,100	28,224	1,410,867
Accumulated depreciation	101,045	98,409	12,453	13,843	350,119	15,526	591,395
Reclassify to prepaid lease payments *(Note 1(a))*	(8,404)	–	–	–	–	–	(8,404)
At March 31, 2005, as restated	92,641	98,409	12,453	13,843	350,119	15,526	582,991
Net book amount, as restated	414,322	90,432	81,475	9,968	218,981	12,698	827,876
Year ended March 31, 2006							
Opening net book amount	414,322	90,432	81,475	9,968	218,981	12,698	827,876
Exchange adjustment	7,772	1,978	(5,238)	322	1,204	187	6,225
Additions	1,538	28,825	298,549	17,058	226,017	2,744	574,731
Acquisition of businesses	1,427	37,645	310,704	21,004	232,516	–	603,296
Transfer from construction-in-progress	181,730	17,216	5,607	101	35,311	–	239,965
Disposal of subsidiaries	–	–	–	(7)	(390)	(89)	(486)
Disposals	(1,909)	(1,920)	(6,756)	(587)	(13,984)	(751)	(25,907)
Depreciation	(15,034)	(47,508)	(192,536)	(9,521)	(222,883)	(3,778)	(491,260)
Closing net book amount	589,846	126,668	491,805	38,338	476,772	11,011	1,734,440
At March 31, 2006							
Cost	698,081	286,113	758,777	67,538	1,051,094	29,110	2,890,713
Accumulated depreciation	108,235	159,445	266,972	29,200	574,322	18,099	1,156,273
Net book amount	589,846	126,668	491,805	38,338	476,772	11,011	1,734,440

16 Property, plant and equipment *(continued)*

	Company				
	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At April 1, 2004					
Cost	2,352	681	44,757	2,842	50,632
Accumulated depreciation	1,151	465	16,211	690	18,517
Net book amount	1,201	216	28,546	2,152	32,115
Year ended March 31, 2005					
Opening net book amount	1,201	216	28,546	2,152	32,115
Additions	–	5	8,933	690	9,628
Disposals	–	(6)	(34)	(44)	(84)
Depreciation	(836)	(136)	(15,015)	(542)	(16,529)
Closing net book amount	365	79	22,430	2,256	25,130
At March 31, 2005					
Cost	2,352	636	53,048	3,202	59,238
Accumulated depreciation	1,987	557	30,618	946	34,108
Net book amount	365	79	22,430	2,256	25,130
Year ended March 31, 2006					
Opening net book amount	365	79	22,430	2,256	25,130
Additions	12,810	359	228	–	13,397
Disposals	–	(101)	(1)	(703)	(805)
Depreciation	(6,610)	(153)	(17,650)	(576)	(24,989)
Closing net book amount	6,565	184	5,007	977	12,733
At March 31, 2006					
Cost	15,162	722	52,696	1,923	70,503
Accumulated depreciation	8,597	538	47,689	946	57,770
Net book amount	6,565	184	5,007	977	12,733

17 Prepaid lease payments

	Group	
	2006	2005
	HK$'000	HK$'000
At the beginning of the year	**50,268**	51,461
Exchange adjustment	**959**	–
Amortization of prepaid operating lease payment	**(1,209)**	(1,193)
At the end of the year	**50,018**	50,268

Prepaid lease payments represent the land use rights held by the Group in the Chinese Mainland under medium term leases (less than 50 years but not less than 10 years).

At March 31, 2005 and 2006, all land use rights are under medium term leases (less than 50 years but not less than 10 years).

18 Construction-in-progress

	Group								Company	
	Buildings under development		Internal use software		Others		Total		Internal use software	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**236,596**	200,998	**–**	–	**20,563**	59,379	**257,159**	260,377	**–**	–
Exchange adjustment	**4,550**	–	**–**	–	**396**	–	**4,946**	–	**–**	–
Additions	**18,608**	69,857	**141,180**	–	**41,768**	32,302	**201,556**	102,159	**141,180**	–
Transfer to property, plant and equipment	**(193,395)**	(33,134)	**–**	–	**(46,570)**	(67,142)	**(239,965)**	(100,276)	**–**	–
Disposal of businesses	**–**	(1,125)	**–**	–	**–**	–	**–**	(1,125)	**–**	–
Disposals	**(356)**	–	**–**	–	**(5,213)**	(3,976)	**(5,569)**	(3,976)	**–**	–
At the end of the year	**66,003**	236,596	**141,180**	–	**10,944**	20,563	**218,127**	257,159	**141,180**	–

No interest expenses were capitalized in construction-in-progress as at March 31, 2005 and 2006.

19 Intangible assets

	Group						
	Goodwill *(note)* HK$'000	Trademarks and trade names HK$'000	Internal use software HK$'000	Customer relationships HK$'000	Patent and technology HK$'000	Marketing rights HK$'000	Total HK$'000
At April 1, 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
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
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
Year ended March, 31 2006							
Opening net book amount	17,381	–	–	–	20,384	475,313	513,078
Additions	–	–	177,189	–	–	–	177,189
Acquisition of businesses	10,252,810	3,978,000	–	132,600	624,000	–	14,987,410
Exchange adjustment	(327)	–	–	–	339	–	12
Disposal of subsidiaries	(1,549)	–	–	–	–	–	(1,549)
Amortization charge	–	(332,616)	(32,430)	(87,600)	(200,268)	(126,750)	(779,664)
Closing net book amount	10,268,315	3,645,384	144,759	45,000	444,455	348,563	14,896,476
At March 31, 2006							
Cost	10,307,165	3,978,000	177,189	132,600	671,365	507,000	15,773,319
Accumulated amortization and impairment losses	(38,850)	(332,616)	(32,430)	(87,600)	(226,910)	(158,437)	(876,843)
Net book amount	10,268,315	3,645,384	144,759	45,000	444,455	348,563	14,896,476

Note: The significant increase in goodwill during the year is mainly attributable to the acquisition of the IBM PC Business (see details in Note 41). The asset purchase agreement contains provisions that may require miscellaneous "true up" adjustments which are expected to result in cash settlements between the Company and IBM. Such adjustments have not been finalized, but estimates have been recorded as part of the purchase price allocation, and hence the amount of goodwill as stated above. This process is expected to be finalized in the financial year 2006/07.

20 Subsidiaries

(a) Investments in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**8,071,501**	2,327,875

A summary of the principal subsidiaries of the Company is set out in Note 42.

(b) Amounts due from/(to) subsidiaries

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

21 Investments in jointly controlled entities

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**–**	101,010
Loan to a jointly controlled entity	**–**	90,513
	–	191,523

During the year, the Group exercised the put option to sell the remaining 50% interest in the jointly controlled entities to the other joint venture partner. The Group ceased to account for the results of the jointly controlled entities since the exercise of the put option. At March 31, 2006, the carrying amounts of the interests in the jointly controlled entities were settled with the amounts due to the jointly controlled entities; and the shareholder's loan was reclassified as other receivables.

22 Investments in associated companies

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**50,327**	31,722
Unsecured, interest free loan repayable on demand	**1,800**	1,800
Goodwill	**18,545**	18,545
	70,672	52,067

The following is a list of the principal associated companies at March 31, 2006:

Company name	Place of incorporation/ establishment	Interest held indirectly 2006	Interest held indirectly 2005	Principal activities
Beijing Lenovo Li Tai Software Limited[1] (wholly owned foreign enterprise)	Chinese Mainland	35%	35%	Distribution and development of software
Beijing Lenovo Parasaga Information Technology Co. Limited[1] (Chinese equity enterprise)	Chinese Mainland	45%	45%	Distribution and development of software
Kingsoft Corporation	British Virgin Islands	30%	30%	Distribution and development of software
Lenovo Networks (Shenzhen) Limited[1] (wholly owned foreign enterprise)	Chinese Mainland	45%	45%	Provision of IT services
Wuhan Dawnpro Information Technology Limited[1] (Chinese-foreign equity joint venture)	Chinese Mainland	40%	–	Provision of system integration services
IGRS Engineering Lab Limited[1] (wholly owned foreign enterprise)	Chinese Mainland	23%	–	Distribution and development of IT technology

Notes:

(i) The associated companies operate principally in their respective places of incorporation or establishment, except for Kingsoft Corporation which operates principally in Chinese Mainland.

(ii) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

23 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 movements in the deferred tax assets are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
At the beginning of the year	**53,498**	34,718
Exchange adjustment	**1,082**	–
Credited to consolidated income statement *(Note 10)*	**431,710**	18,780
At the end of the year	**486,290**	53,498

The movements in deferred tax assets, analysed by major component, during the year are as follows:

	Provisions		Tax losses		Tax depreciation allowance		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**52,041**	34,171	**–**	–	**1,457**	547	**53,498**	34,718
Exchange adjustment	**1,054**	–	**–**	–	**28**	–	**1,082**	–
Credited to consolidated income statement	**366,224**	17,870	**22,068**	–	**43,418**	910	**431,710**	18,780
At the end of the year	**419,319**	52,041	**22,068**	–	**44,903**	1,457	**486,290**	53,498

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. At March 31, 2006, the Group has unrecognized tax losses of approximately HK$124,190,000 (2005: HK$261,264,000) to carry forward against future taxable income. These tax losses will expire up to fiscal year 2009/10.

24 Available-for-sale financial assets

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities, at fair value				
Listed in Hong Kong	**5,295**	–	**–**	–
Listed outside Hong Kong	**217,085**	–	**3,661**	–
	222,380	–	**3,661**	–
Unlisted	**13,569**	–	**–**	–
	235,949	–	**3,661**	–

25 Investment securities

Investment securities as at March 31, 2005 are set out below. Upon the application of HKAS 39, investment securities were reclassified to available-for-sale financial assets (see Note 1(a) for details).

Group:

- Equity securities listed in Hong Kong with a market value approximate HK$6,947,000.
- Equity securities listed outside Hong Kong with a market value approximate HK$42,562,000.
- Unlisted equity securities with a market value approximate HK$13,461,000.

Company:

- Equity securities listed outside Hong Kong with a market value approximate HK$4,413,000.

There was no such reclassification prior to April 1, 2005 as retrospective application of HKAS 39 is not permitted.

26 Inventories

	Group	
	2006 HK$'000	2005 HK$'000
Raw materials	**872,102**	497,460
Work-in-progress	**879,412**	30,653
Finished goods	**1,080,940**	350,787
	2,832,454	878,900

27 Accounts receivable

(a) Analysis of the trade receivables at March 31, 2006 is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
0 – 30 days	**2,724,707**	588,389
31 – 60 days	**639,298**	56,966
61 – 90 days	**184,613**	40,702
Over 90 days	**232,612**	165,280
	3,781,230	851,337

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

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

(c) The carrying amounts of trade receivables and notes receivable approximate their fair value.

28 Cash and cash equivalents

At March 31, 2006, cash and cash equivalents of the Group amounted to HK$7.84 billion, of which 33.0 (2005: 43.6) percent was denominated in US dollars, 36.7 (2005: 55.6) percent in Renminbi, 7.3 (2005: Nil) percent in Euros, 5.5 (2005: Nil) percent in Japanese Yen, and 17.5 (2005: 0.8) percent in other currencies.

29 Accounts payable

(a) Ageing analysis of the trade payables at March 31, 2006 is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**11,133,500**	1,954,188
31 – 60 days	**1,695,242**	149,691
61 – 90 days	**154,412**	59,383
Over 90 days	**145,583**	112,808
	13,128,737	2,276,070

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

(c) The carrying amounts of trade payables and notes payable approximate their fair value.

30 Accruals and other payables

Included in accruals and other payables are warranty provision and restructuring costs provision as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
(a) Warranty provision		
At the beginning of the year	**188,997**	168,977
Provisions made during the year	**3,195,763**	214,634
Less: Amounts utilized	**(840,996)**	(194,614)
	2,543,764	188,997
Long-term portion classified as non-current liabilities *(Note 31)*	**(1,160,475)**	–
At the end of the year	**1,383,289**	188,997
(b) Restructuring costs *(Note 6)*		
Provision made during and at the end of the year	**542,756**	–

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

31 Non–current liabilities

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Amount payable for marketing rights payable within five years *(Note 31(a))*	396,094	507,000	–	–
Interest-bearing bank loans repayable within five years *(Note 35)*	780,000	–	780,000	–
Share-based compensation *(Note 31(b))*	109,249	–	109,249	–
Convertible preferred shares not wholly repayable within five years and warrants *(Note 31(c))*	2,705,446	–	2,705,446	–
Warranty provision *(Note 30(a))*	1,160,475	–	–	–
Retirement benefit obligations not wholly repayable within five years *(Note 40)*	1,138,695	–	–	–
Other non-current liabilities repayable within five years	225,888	–	–	–
	6,515,847	507,000	3,594,695	–
Current portion payable within one year	(169,880)	(175,866)	–	–
	6,345,967	331,134	3,594,695	–

Notes:

(a) 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 Program. Pursuant to the agreement, the Group has 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.

(b) This represents deferred share-based compensation in relation to replacement shares granted to legacy IBM employees as compensation of IBM vested stock options forfeited by them, and were treated as assumed liabilities of the acquisition (see Note 41 for details).

(c) On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregate cash consideration of approximately HK$2,730 million. The 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 of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Group or the convertible preferred shareholders at any time after the maturity date.

31 Non-current liabilities *(continued)*

The net proceeds received from the issue of convertible preferred shares and unlisted warrants have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company, as follows:

	HK$'000
Nominal value of convertible preferred shares and warrants issued	2,730,000
Liability component at date of issue	(2,646,000)
Equity component embedded to convertible preferred shares	84,000
Liability component representing:	
Convertible preferred shares	2,406,000
Warrants	240,000
	2,646,000

On initial recognition, the fair value of the financial liability component of the convertible preferred shares is determined using valuation techniques with reference to the present value of future cash flows on redemption and cumulative preferential cash dividend payments; and the residual amount, determined by deducting the fair value of the financial liability component from the carrying amount of the convertible preferred shares, is regarded as the equity component. In subsequent periods, the financial liability component is measured at amortized cost using the effective interest method.

Upon conversion the financial liability component is derecognized and equity of the same amount is recognized; and the original equity component will remain as equity.

The interest expense in respect of the liability component of the convertible preferred shares for the year is calculated by applying an effective interest rate of 5.88 percent to the liability component for 11 months period since the convertible preferred shares were issued as follows:

	HK$'000
Liability component of convertible preferred shares at date of issue	2,406,000
Interest charged	137,709
Interest paid	(110,932)
Liability component of convertible preferred shares at March 31, 2006	2,432,777

The warrants are treated as a financial liability and measured at fair value through the income statement as follows:

	HK$'000
Fair value of warrants at date of issue	240,000
Fair value loss charged to income statement	32,669
Fair value of warrants at March 31, 2006	272,669

The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share. The warrant will expire on May 17, 2010.

32 Share capital

	2006 Number of shares	2006 HK$'000	2005 Number of shares	2005 HK$'000
Authorized:				
Ordinary shares at the beginning of the year	20,000,000,000	500,000	20,000,000,000	500,000
Series A cumulative convertible preferred shares *(Note 32(a))*	3,000,000	27,525	–	–
At the end of the year		527,525		500,000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	7,474,796,108	186,870	7,475,594,108	186,890
Issued during the year *(Note 32(b)(i))*	821,234,569	20,531	–	–
Conversion from non-voting shares *(Note 32(b)(ii))*	110,635,946	2,766	–	–
Exercise of share options *(Note 32(d))*	111,254,000	2,781	6,702,000	168
Repurchase of shares	–	–	(7,500,000)	(188)
At the end of the year	8,517,920,623	212,948	7,474,796,108	186,870
Non-voting ordinary shares:				
Issued during the year *(Note 32(b)(i))*	921,636,459	23,041	–	–
Conversion into voting shares *(Note 32(b)(ii))*	(110,635,946)	(2,766)	–	–
Repurchase of shares *(Note 32(b)(ii))*	(435,717,757)	(10,893)	–	–
At the end of the year	375,282,756	9,382	–	–
Total issued and fully paid ordinary shares	8,893,203,379	222,330	7,474,796,108	186,870
Total issued and fully paid Series A cumulative convertible preferred shares *(Notes 31(c) and 32(a))*	2,730,000	25,048	–	–

(a) Series A cumulative preferred shares

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.

Pursuant to a special resolution duly passed in the same meeting, 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.

(b) Unlisted non-voting ordinary shares

(i) Issue of unlisted non–voting ordinary shares

On April 30, 2005, the Company issued 821,234,569 ordinary shares and 921,636,459 unlisted non-voting ordinary shares to International Business Machines Corporation ("IBM") as partial consideration for the acquisition of its global personal computer business. The unlisted non-voting ordinary shares have the same rights as the listed ordinary shares save that the non–voting ordinary shares shall not carry any voting rights until they are converted into listed ordinary shares.

(ii) Conversion and off-market repurchase of unlisted non-voting ordinary shares

On May 17, 2005, IBM converted 110,635,946 unlisted non-voting ordinary shares to an equal number of listed ordinary shares.

The Company repurchased 435,717,757 unlisted non-voting ordinary shares from IBM on August 2, 2005, at a total cash consideration of HK$1,187,330,887.82, representing HK$2.725 per share.

32 Share capital *(continued)*

(c) Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

Under the long-term incentive program, the Company may grant awards, at its discretion, using one of three types of equity-based compensation: (i) share appreciation rights, (ii) restricted share units and (iii) performance share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU is equal to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

(iii) Performance Share Units ("PSUs")

Each PSU is assigned a value equal to a number of the Company's shares based on the Company's performance against specified targets over a three-year period. The equivalent number of shares for each PSU can range from 0 to 2, depending on the Company's performance.

Under all three types of compensation, the Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company.

The Company also issued awards to replace outstanding IBM stock options forfeited by employees transferred from IBM. These awards comprised a combination of SARs and RSUs. During the year, the Company also approved a share-based compensation package for non-executive directors for this financial year.

Movements in the number of units of awards granted during the year and their related average fair values are as follows:

	Number of units		
	SARs	**RSUs**	**PSUs**
Granted during the year	212,981,721	107,575,163	13,381,087
Vested during the year	(39,855,399)	(5,814,509)	(1,924,900)
Lapsed during the year	(532,459)	(415,802)	–
Outstanding at March 31, 2006	172,593,863	101,344,852	11,456,187
Average fair value per unit (HK$)	1.06	2.42	2.42

The fair value of the SARs awarded under the long-term incentive program was calculated by applying a Black-Scholes pricing model. The model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 46.22 percent, expected dividends during the vesting periods, contractual life of 7 years, and a risk-free interest rate of 4.16 percent.

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2006 ranged from 0.09 to 3.09 years.

32 Share capital *(continued)*

(d) 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.

	2006 Number of ordinary shares	2005 Number of ordinary shares
At the beginning of the year	**516,100,000**	469,478,000
Granted during the year (i)	**–**	165,678,000
Exercised during the year (ii)	**(111,254,000)**	(6,702,000)
Lapsed during the year (iii)	**–**	(79,624,000)
Cancelled during the year (iv)	**–**	(32,730,000)
At the end of the year (v)	**404,846,000**	516,100,000

(i) No share options were granted by the Company during the year.

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2006 Number of ordinary shares**	2005 Number of ordinary shares
New Option Scheme			
04.27.2004 to 04.26.2014	2.545	**–**	156,278,000
07.08.2004 to 07.07.2014	2.170	**–**	9,400,000
		–	165,678,000

32 Share capital *(continued)*

(d) Share options *(continued)*

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

Year ended March 31, 2006

Exercise date (MM.DD.YYYY)	Exercise price HK$	Market value per ordinary share at exercise date HK$	Number of ordinary shares	Proceeds received HK$
04.12.2005 to 04.26.2005	2.245	2.38–2.60	1,908,000	4,283,460
05.10.2005 to 05.31.2005	2.245	2.43–2.53	1,512,000	3,394,440
06.07.2005 to 06.21.2005	2.245	2.30–2.45	148,000	332,260
07.05.2005 to 07.26.2005	2.245	2.30–2.60	866,000	1,944,170
08.02.2005 to 08.30.2005	2.245	2.68–3.15	14,939,000	33,538,055
09.06.2005 to 09.27.2005	2.245	3.28–3.68	11,174,000	25,085,630
10.10.2005 to 10.25.2005	2.245	3.45–3.65	2,346,000	5,266,770
11.01.2005 to 11.29.2005	2.245	3.40–3.78	7,803,000	17,517,735
12.05.2005 to 12.28.2005	2.245	3.55–3.85	4,312,000	9,680,440
01.09.2006 to 01.24.2006	2.245	3.40–3.63	1,716,000	3,852,420
02.06.2006 to 02.28.2006	2.245	3.10–3.40	506,000	1,135,970
03.06.2006 to 03.28.2006	2.245	3.08–3.28	1,818,000	4,081,410
04.12.2005	2.435	2.60	196,000	477,260
05.10.2005 to 05.31.2005	2.435	2.48–2.53	614,000	1,495,090
07.19.2005 to 07.26.2005	2.435	2.55–2.60	154,000	374,990
08.02.2005 to 08.30.2005	2.435	2.68–3.15	2,376,000	5,785,560
09.06.2005 to 09.27.2005	2.435	3.28–3.68	2,260,000	5,503,100
10.10.2005 to 10.25.2005	2.435	3.45–3.65	766,000	1,865,210
11.01.2005 to 11.29.2005	2.435	3.40–3.78	1,678,000	4,085,930
12.05.2005 to 12.20.2005	2.435	3.73–3.85	824,000	2,006,440
01.09.2006 to 01.24.2006	2.435	3.40–3.53	232,000	564,920
02.06.2006 to 02.28.2006	2.435	3.10–3.30	76,000	185,060
03.14.2006 to 03.28.2006	2.435	3.08–3.28	240,000	584,400
04.12.2005	2.545	2.60	544,000	1,384,480
05.10.2005	2.545	2.53	14,000	35,630
08.02.2005 to 08.30.2005	2.545	2.85–3.15	11,550,000	29,394,750
09.06.2005 to 09.27.2005	2.545	3.28–3.68	9,884,000	25,154,780
10.10.2005 to 10.25.2005	2.545	3.45–3.65	2,382,000	6,062,190
11.01.2005 to 11.29.2005	2.545	3.40–3.78	7,292,000	18,558,140
12.05.2005 to 12.28.2005	2.545	3.55–3.85	4,324,000	11,004,580
01.09.2006 to 01.24.2006	2.545	3.40–3.63	2,462,000	6,265,790
02.06.2006 to 02.28.2006	2.545	3.10–3.40	614,000	1,562,630
03.06.2006 to 03.28.2006	2.545	3.08–3.28	634,000	1,613,530
08.16.2005 to 08.30.2005	2.876	3.08–3.15	1,476,000	4,244,976
09.06.2005 to 09.27.2005	2.876	3.28–3.68	3,466,000	9,968,216
10.10.2005 to 10.25.2005	2.876	3.45–3.65	780,000	2,243,280
11.01.2005 to 11.29.2005	2.876	3.40–3.78	2,244,000	6,453,744
12.05.2005 to 12.28.2005	2.876	3.55–3.85	3,110,000	8,944,360
01.09.2006 to 01.24.2006	2.876	3.40–3.63	1,494,000	4,296,744
02.06.2006 to 02.28.2006	2.876	3.10–3.40	200,000	575,200
03.13.2006 to 03.28.2006	2.876	3.08–3.28	320,000	920,320
			111,254,000	271,724,060

32 Share capital *(continued)*

(d) Share options *(continued)*

Year ended March 31, 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
			6,702,000	15,233,030

32 Share capital *(continued)*

(d) Share options *(continued)*

(iii) No share options were lapsed during the year.

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2006 Number of ordinary shares**	2005 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
04.26.2003 to 04.25.2013	2.245	–	15,762,000
		–	21,802,000
		–	79,624,000

(iv) No share options were cancelled during the year.

Exercise period (MM.DD.YYYY)	**Exercise price** HK$	**2006 Number of ordinary shares**	2005 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
		–	32,730,000

32 Share capital *(continued)*

(d) Share options *(continued)*

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

Exercise period (MM.DD.YYYY)	Exercise price HK$	2006 Number of ordinary shares	2005 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**	74,480,000
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	**63,170,000**	76,260,000
		181,744,000	194,834,000
New Option Scheme			
10.10.2002 to 10.09.2012	2.435	**31,556,000**	40,972,000
04.26.2003 to 04.25.2013	2.245	**65,568,000**	114,616,000
04.27.2004 to 04.26.2014	2.545	**116,578,000**	156,278,000
07.08.2004 to 07.07.2014	2.170	**9,400,000**	9,400,000
		223,102,000	321,266,000
		404,846,000	516,100,000

33 Share capital and reserves

The changes in the share capital and reserves of the Company during the year are as follows:

	Company							
	Share capital HK$'000	Share premium HK$'000	Convertible rights in respect of convertible preferred shares HK$'000	Share based compensation reserve HK$'000	Investment revaluation reserve HK$'000	Share redemption reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At April 1, 2005	**186,870**	**4,761,498**	**–**	**–**	**(2,877)**	**3,086**	**2,082,202**	**7,030,779**
Deficit in fair market value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**(1,948)**	**–**	**–**	**(1,948)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**913,260**	**913,260**
Exercise of share options	**2,781**	**268,943**	**–**	**–**	**–**	**–**	**–**	**271,724**
Issue of ordinary shares	**43,572**	**4,291,820**	**–**	**–**	**–**	**–**	**–**	**4,335,392**
Issue of convertible preferred shares	**–**	**–**	**84,000**	**–**	**–**	**–**	**–**	**84,000**
Share based compensation	**–**	**–**	**–**	**177,767**	**–**	**–**	**–**	**177,767**
Repurchase of shares	**(10,893)**	**(1,184,836)**	**–**	**–**	**–**	**–**	**–**	**(1,195,729)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(458,948)**	**(458,948)**
At March 31, 2006	**222,330**	**8,137,425**	**84,000**	**177,767**	**(4,825)**	**3,086**	**2,536,514**	**11,156,297**
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)
At March 31, 2005	186,870	4,761,498	–	–	(2,877)	3,086	2,082,202	7,030,779

34 Related party transactions

The Group had the following material related party transactions in the normal course of business during the year:

	Group 2006 HK$'000	Group 2005 HK$'000
Beijing Lenovo Li Tai Software Limited (an associated company)		
Purchase of goods	**3,682**	7,559
Lenovo Networks (Shenzhen) Limited (an associated company)		
Purchase of goods	**6,735**	2,580
Sales of goods	**14,151**	17,874
QDI Technology (Huizhou) Limited (a jointly controlled entity)		
Rental and management fee	**642**	6,720
QDI Technology Limited (a jointly controlled entity)		
Purchase of goods	**267,351**	356,021
Sales of goods	**60,137**	119,600

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

35 Bank facilities

At March 31, 2006, total bank facilities granted to the Group are as follows:

	Group			
	2006		2005	
	Total facilities HK$'000	**Utilized amounts HK$'000**	Total facilities HK$'000	Utilized amounts HK$'000
Bank borrowings				
Term loan	**780,000**	**780,000**	–	–
Short-term syndicated loans	**3,120,000**	**936,000**	–	–
Short-term loans	**1,327,000**	**65,196**	740,000	–
Foreign exchange contracts	**8,822,000**	**4,368,000**	1,062,000	94,000
Other trade finance facilities	**2,138,000**	**545,000**	1,473,000	342,000
	16,187,000	**6,694,196**	3,275,000	436,000

The effective interest rates at March 31, 2006 were as follows:

	US$	Others
Term loan	5.16%	–
Short-term syndicated loans	5.34%	–
Short-term loans	–	9.08%

36 Commitments

(a) Capital commitments

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Property, plant and equipment:				
Contracted but not provided for	**191,407**	27,391	**–**	–
Authorized but not contracted for	**7,123**	177,358	**–**	–
	198,530	204,749	**–**	–
Investment:				
Contracted but not provided for	**61,534**	–	**–**	–
Business acquisition:				
Contracted but not provided for	**–**	9,555,000	**–**	9,555,000
	260,064	9,759,749	**–**	9,555,000

(b) Commitments under operating leases

At March 31, 2006, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancelable operating leases as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Not later than one year	**158,790**	39,137
Later than one year but not later than five years	**612,741**	64,374
Later than five years	**558,698**	37,410
	1,330,229	140,921

At March 31, 2006, the Company did not have any operating lease commitments (2005: Nil).

(c) Other commitments

Pursuant to the agreement entered into on December 17, 2002 in connection with the purchase of a business and the relevant assets, 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 acquired business 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.

37 Contingent liabilities

(a) The Company has executed guarantees with respect to bank facilities made available to its subsidiaries. At March 31, 2006, such facilities granted and utilized amounted to approximately HK$8,458,260,000 and HK$574,597,000 (2005: HK$2,589,000,000 and HK$208,000,000) respectively.

(b) The Company has issued letters of guarantee to certain suppliers and vendors of its subsidiaries. At March 31, 2006, the guarantees granted and utilized amounted to approximately HK$4,286,100,000 and HK$885,632,000 (2005: HK$1,074,060,000 and HK$519,000,000) respectively.

(c) At March 31, 2006, the Group did not have any significant contingent liabilities (2005: Nil).

38 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to cash flows from operating activities

	2006 HK$'000	2005 HK$'000
Profit before taxation	**659,479**	1,127,507
Share of profits of associated companies	**(3,627)**	(4,182)
Share of (profits)/losses of jointly controlled entities	**(1,073)**	12,327
Finance income	**(188,986)**	(105,677)
Finance costs	**438,126**	6,667
Depreciation expense and amortization of prepaid lease payments	**492,469**	184,490
Amortization of intangible assets and share-based compensation	**1,011,677**	58,078
Loss on disposal of tangible fixed assets	**2,365**	567
Impairment of assets	**22,785**	51,364
Exchange difference	**–**	(2,377)
Dividend income	**–**	(1,254)
Loss/(gain) on disposal of investments	**4,913**	(156,958)
(Increase)/decrease in inventories	**(873,655)**	438,106
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(4,449,197)**	(438,434)
Increase in trade payables, notes payable, accruals and other payables	**11,717,011**	43,999
Cash generated from operations	**8,832,287**	1,214,223
Finance income received	**188,986**	105,677
Tax paid	**(575,312)**	(53,688)
Net cash generated from operating activities	**8,445,961**	1,266,212

38 Notes to the consolidated cash flow statement *(continued)*

(b) Analysis of changes in financing activities

	2006			2005		
	Share capital* HK$'000	Minority interests HK$'000	Bank borrowings HK$'000	Share capital* HK$'000	Minority interests HK$'000	Loan from a minority shareholder of a subsidiary HK$'000
Balance at the beginning of the year	4,951,454	23,609	–	4,952,314	29,330	75,000
Exchange adjustment	–	600	–	–	–	–
Interest-bearing bank loans drawn	–	–	4,680,000	–	–	–
Minority interests' share of profits/(losses)	–	42,576	–	–	(27,823)	–
Repayment of bank loans	–	–	(3,900,000)	–	–	–
Changes in short-term bank loans	–	–	1,001,196	–	–	–
Acquisition of minority shareholder's interests in a subsidiary	–	(60,787)	–	–	–	–
Disposal of businesses	–	(195)	–	–	22,102	(75,000)
Issue of new shares	4,607,116	–	–	15,233	–	–
Repurchase of shares	(1,195,729)	–	–	(16,093)	–	–
Balance at the end of the year	8,362,841	5,803	1,781,196	4,951,454	23,609	–

* Including share premium and share redemption reserve.

(c) Significant non-cash transaction

During the year, the Group, as partial consideration for the acquisition of IBM's global personal computer business, issued 821,234,569 ordinary shares and 921,636,459 unlisted non-voting ordinary shares of the Company, totaling HK$4,335,392,000, to IBM.

39 Disposal of businesses

	2006 HK$'000	2005 HK$'000
Net assets disposed		
Intangible assets	**1,549**	25,522
Tangible fixed assets	**486**	78,626
Construction-in-progress	**–**	1,125
Inventories	**–**	76,012
Investments	**–**	3,474
Accounts and notes receivable	**2,418**	180,751
Deposits, prepayments and other receivables	**1,424**	43,234
Cash and cash equivalents	**472**	69,137
Accounts payable	**–**	(138,349)
Accruals and other payables	**(1,502)**	(39,212)
Bank loans	**–**	(150,000)
Minority interests	**(195)**	22,102
	4,652	172,422
Adjustment for partial disposal	**–**	7,514
Considerations	**(841)**	(272,907)
Loss/(gain) on disposal of businesses	**3,811**	(92,971)
Satisfied by:		
Deposits, prepayments and other receivables	**841**	–
Cash and cash equivalents	**–**	23,179
Listed securities	**–**	249,728
	841	272,907

Analysis of the cash flows on disposal of businesses:

	2006 HK$'000	2005 HK$'000
Cash consideration	**–**	23,179
Cash and cash equivalents disposed	**(472)**	(69,137)
Net outflow of cash and cash equivalents on disposal of businesses	**(472)**	(45,958)

40 Retirement benefit obligations

	Group	
	2006	2005
	HK$'000	HK$'000
Pension benefits	**1,118,737**	–
Post-employment medical benefits	**19,958**	–
	1,138,695	–
Expensed in income statement		
Pension benefits	**87,865**	–
Post-employment medical benefits	**20,516**	–
	108,381	–

On the acquisition of the personal computer business of IBM, the Group assumed a cash balance pension liability for substantially all former IBM employees in Japan, and final salary defined benefit obligations for selected employees in other countries. IBM is contractually obliged to transfer assets to separate trustee funds for the benefit of the employees. As of March 31, 2006, most of these transfers had yet to take place.

In the United States, the Group operates a final-salary pension plan that covers approximately 25% of all employees. These were former participants in the IBM US pension plan. In addition, the Group operates a supplemental defined benefit plan that covers certain executives transferred from IBM and is intended to provide benefits in excess of certain US tax and labour law limits that apply to the pension plan. Both plans are frozen to new participation. However, benefits continue to accrue.

In Germany, the Group operates a hybrid plan that contains both a defined contribution feature and a defined benefit feature that contains a final-pay formula. This plan is closed to new entrants.

Participant benefits under the Group plans depend on the provisions of the former IBM plan under which the participant had been covered. The Group's major plans are valued by qualified actuaries annually using the project unit credit method.

(a) Pension benefits

The amounts recognized in the balance sheet are determined as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Present value of funded obligations	**887,223**	–
Fair value of plan assets	**(202,712)**	–
	684,511	–
Present value of unfunded obligations	**434,226**	–
Liability at the end of the year	**1,118,737**	–
Pension plan asset at the end of the year	**563,270**	–

Pension plan assets are primarily receivable from IBM and IBM pension trusts.

40 Retirement benefit obligations *(continued)*

(a) Pension benefits *(continued)*

The movements in the liability recognized in the balance sheet are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Pension liabilities assumed as a result of business acquired	**1,076,000**	–
Total expense, included staff costs are shown above	**87,865**	–
Effect of curtailment	**(11,968)**	–
Contribution paid	**(33,160)**	–
At the end of the year	**1,118,737**	–

The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	**2.0% – 6.4%**	–
Expected return on plan assets	**3.5% – 6.0%**	–
Future salary increases	**2.0% – 5.7%**	–

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

The amounts recognized in the balance sheet are determined as follows:

	2006	2005
	HK$'000	HK$'000
Present value of funded obligations	**64,955**	–
Fair value of plan assets	**(51,412)**	–
	13,543	–
Present value of unfunded obligations	**6,415**	–
Liability at the end of the year	**19,958**	–

40 Retirement benefit obligations *(continued)*

(b) Post-employment medical benefits *(continued)*

The amounts recognized in the income statement are as follows:

	2006 **HK$'000**	2005 HK$'000
Current service costs		
Interest cost	**14,200**	–
Expected return on plan assets	**(436)**	–
Net actuarial losses recognized	**486**	–
Others	**6,266**	–
Total expense, included in staff costs	**20,516**	–

Of the total expenses, HK$2,629,000 and HK$17,887,000 were included in cost of goods sold and administrative expenses respectively.

The actual return on plan assets was HK$184,860 (2005: Nil).

Movements in the liability recognized in the balance sheet are as follows:

	2006 **HK$'000**	2005 HK$'000
Post-employment medical benefit obligations assumed as a result of business acquired	**62,250**	–
Loss on curtailment	**(11,581)**	–
Total expense, included in staff costs as shown above	**20,516**	–
Contributions paid	**(51,227)**	–
Liability at the end of the year	**19,958**	–

41 Business combinations

On April 30, 2005, the Group completed the acquisition of IBM's global personal computer business ("IBM PC Business") under an assets purchase agreement dated December 7, 2004.

The estimated total consideration for acquiring the IBM PC Business is approximately HK$10,400 million, including cash, the Company's shares and related transaction costs.

Set forth below is a preliminary calculation of goodwill:

	HK$'000
Purchase consideration:	
– Cash	5,411,075
– Direct costs related to the acquisition	546,759
– Fair value of shares issued	4,335,392
– Net working capital "true-up"	106,317
Total purchase consideration	10,399,543
Less: Fair value of net assets acquired	162,878
Goodwill	10,236,665

The major components of assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Carrying value HK$'000
Cash and cash equivalents	24,350	24,350
Property, plant and equipment	603,296	587,063
Intangible assets	4,734,600	–
Net working capital excluded cash	(4,333,967)	(4,354,776)
Non-current liabilities	(865,401)	(865,401)
Net assets acquired/(liabilities assumed)	162,878	(4,608,764)

The goodwill is primarily attributable to the significant synergies expected to arise after the integration of the Group's existing business and the IBM PC Business acquired.

Intangible assets acquired that have indefinite useful life are not subject to amortization. Certain acquired intangible assets are expected to be amortized over their useful lives. Preliminary estimates indicate that the useful lives of these acquired intangible assets are expected to range from three to five years.

The acquired tangible assets primarily comprised trade receivables, inventories and plant and equipment. The liabilities assumed primarily comprised trade payables and other current and non-current liabilities.

The asset purchase agreement contains provisions that may require miscellaneous "true up" adjustments which are expected to result in cash settlements between the Company and IBM. Such adjustments have not been finalized, but estimates have been recorded as part of the purchase price allocation, as indicated above. This process is expected to be finalized in the financial year 2006/07.

42 Principal subsidiaries

The following includes the principal subsidiaries of the Company which were directly or 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 holding 2006	Effective holding 2005	Principal activities
Held directly:					
Lenovo (Beijing) Limited[1] (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.[1] (wholly owned foreign enterprise)	Chinese Mainland	HK$10,000,000	100%	100%	Distribution of IT products and provision of IT services
Held indirectly:					
Beijing Lenovo Software Limited[1] (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[1] (Chinese-foreign equity joint venture)	Chinese Mainland	US$2,045,500	100%	100%	Property holding and property management
International Information Products (Shenzhen) Co., Ltd.[1] (wholly owned foreign enterprise)	Chinese Mainland	US$7,800,000	100%	–	Manufacturing and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD36,272,716	100%	–	Distribution of IT products
Lenovo (Belgium) Sprl	Belgium	EUR24,384,053	100%	–	Distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	100%	–	Distribution of IT products
Lenovo (Chengdu) Limited[1] (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.[1] (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

42 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2006	Effective holding 2005	Principal activities
Lenovo (Danmark) ApS	Denmark	DKK126,000	100%	–	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	100%	–	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	100%	–	Distribution of IT products
Lenovo (Huiyang) Electronic Industrial Co., Ltd.[1] (wholly owned foreign enterprise)	Chinese Mainland	HK$16,000,000	100%	100%	Manufacturing of IT products
Lenovo (India) Private Limited	India	INR326,969,990	100%	–	Manufacturing and distribution of IT products
Lenovo Industrial Development Co., (Daya Bay) Ltd.[1] (wholly owned foreign enterprise)	Chinese Mainland	US$10,000,000	100%	100%	Property holding and property management
Lenovo (Israel) Ltd	Israel	ILS1,000	100%	–	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	100%	–	Distribution of IT products
Lenovo (Japan) Ltd	Japan	JPY300,000,000	100%	–	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	100%	–	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN33,313,621	100%	–	Distribution of IT products
Lenovo Mobile Communication Technology Ltd.[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB187,500,000	100%	80.8%	Manufacturing and distribution of mobile handsets
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	100%	–	Distribution of IT products
Lenovo (Shenyang) Limited[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD165,712,452	100%	–	Procurement agency, group treasury and distribution of IT products
Lenovo (South Africa) (Pty) Limited	South Africa	ZAR177,500	100%	–	Distribution of IT products
Lenovo (Spain), SRL	Spain	EUR108,182	100%	–	Distribution of IT products

42 Principal subsidiaries *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective holding 2006	Effective holding 2005	Principal activities
Lenovo (Sweden) AB	Sweden	SEK200,000	100%	–	Distribution of IT products
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL36,685,570	100%	–	Distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,507	100%	–	Distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB50,000,000	100%	–	Distribution of IT products
Lenovo (United States) Inc.	United States	US$1	100%	–	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB2,016,890,000	100%	–	Distribution of IT products
Lenovo (Wuhan) Limited[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Xian) Limited[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
LLC Lenovo (East Europe/Asia)	Russia	RUR1,910,000	100%	–	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. [1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB20,000,000	100%	100%	Manufacturing of IT products
Sunny Information Technology Service (Beijing) Co., Ltd.[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB20,000,000	100%	100%	Provision of repair services for computer hardware and software systems
Think Products (Malaysia) Sdn Bhd	Malaysia	MYR201,315	100%	–	Distribution of IT products

42 Principal subsidiaries *(continued)*

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries and certain overseas subsidiaries have adopted December 31 as their financial year end date for statutory reporting purposes. For preparation of the consolidated financial statements, financial statements of these subsidiaries for the 12 months ended March 31, 2005 and 2006 have been used.

(iii) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

43 Approval of financial statements

The financial statements were approved by the board of directors on May 25, 2006.