Lenovo Group Limited

ANNUAL REPORT 2005/06

New World. New Thinking.™

Stock Code: 992

About Lenovo

Lenovo Group Limited (HKSE: 992; ADR: LNVGY) is the world's third largest personal computing company, providing PC products to more than 160 countries. Formed by Lenovo Group's 2005 acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets innovative, reliable, high-quality, secure, and easy-to-use technology products and services worldwide.

Lenovo has a vision to provide industry-standard products, with selected innovation on high-value segments, efficiently delivered through customer-preferred channels. Lenovo's business model is built on innovation, superior customer satisfaction and operational efficiency as well as a focus on investment in emerging markets.

Globally, Lenovo offers customers the award-winning ThinkPad notebooks and ThinkCentre desktops; featuring the ThinkVantage Technologies software tools as well as Lenovo 3000 series computer products targeting specially at small business. In China, Lenovo commands about one-third of the PC market covering all segments and has been the number-one PC vendor in China for nine consecutive years. Lenovo also has a broad and expanding product line encompassing mobile handsets, servers, peripherals and digital entertainment products for the China market.

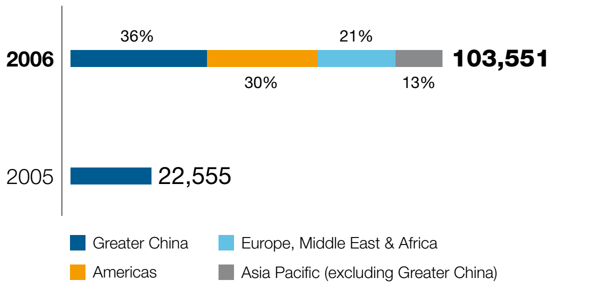
Lenovo is a worldwide partner of the International Olympic Committee. The company provided computing technology equipment for the 2006 Turin Olympic Winter Games and will provide the same support for the 2008 Beijing Olympic Summer Games.

Contents

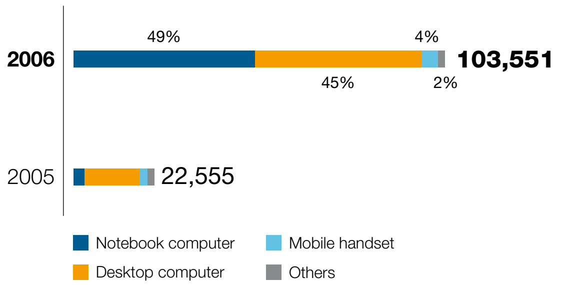
Financial Highlights

For the year ended March 31	**2006 HK$ m**	2005 HK$ m	Year-on-year Change
Operating Results			
Turnover	**103,551**	22,555	359.1%
Gross profit#	**14,496**	2,910	398.1%
Gross profit margin (%)	**14.0**	12.9	8.5%
Operating expenses	**13,564**	1,979	585.4%
Expense-to-revenue ratio (%)	**13.1**	8.8	48.9%
Pre-tax income	**659**	1,128	(41.6%)
Pre-tax income margin (%)	**0.6**	5.0	(88.0%)
Profit attributable to shareholders	**173**	1,120	(84.6%)
EPS – basic (HK cents)	**1.97**	14.99	(86.9%)
EPS – diluted (HK cents)	**1.93**	14.97	(87.1%)
Cash and Working Capital			
EBITDA*	**2,979**	1,174	153.7%
Cash and cash equivalents	**7,839**	3,019	159.7%
Total bank borrowings	**1,781**	–	NA
Net cash reserves	**6,058**	3,019	100.7%
Cash conversion cycle (day)	**(28)**	5	(33)
Dividend Per Ordinary Share			
Interim dividend (HK cents)	**2.4**	2.4	–
Proposed final dividend (HK cents)	**2.8**	2.8	–
Proposed total dividend (HK cents)	**5.2**	5.2	–

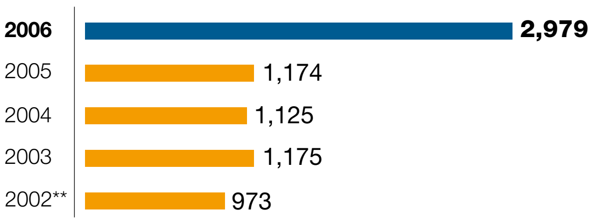
Turnover Analysis by Geography
for the year ended March 31 (HK$ m)



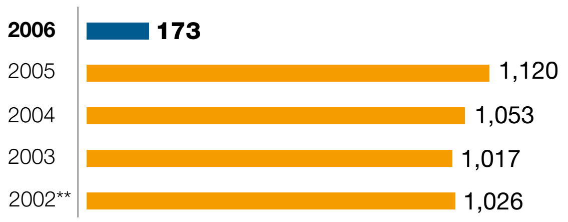
Turnover Analysis by Product
for the year ended March 31 (HK$ m)



EBITDA*
for the year ended March 31 (HK$ m)



Profit Attributable to Shareholders
for the year ended March 31 (HK$ m)



2005 figures restated, see note 1(c) on page 70
* Excluding restructuring charges
** Proforma

Chairman's Statement

In its first year as a global company, Lenovo not only smoothly incorporated the IBM PC Division into its operations, but also successfully competed in IT markets worldwide. Thanks to a carefully planned and executed strategy, Lenovo maintained its business stability, completed the initial acquisition integration and entered the next phase of its profitable growth strategy ahead of schedule.

Our strategic direction for the next few years is based on the proven competitive strengths of our dual business model and on the next wave of growth opportunities in PCs: small- and medium-sized businesses (SMBs) and emerging markets. On one hand, Lenovo will continue to strengthen our China business and the relationship business that mainly services large enterprises outside of China. On the other hand, Lenovo will expand its successful dual "transaction and relationship" business model in China into the worldwide SMB and emerging markets.

Lenovo's dual business model approach was developed and refined in China, where, based on different customer needs and preferences in products, service, and buying channels, Lenovo first segmented customers into two types – relationship and transaction – and built complementary business models accordingly. The success of Lenovo's dual model in China lies in the end-to-end integration of product development, marketing, sales, manufacturing and customer service, allowing fast, yet disciplined, response to market shifts, allowing Lenovo to operate efficiently on an optimized cost structure.

The success of our relationship/transaction model also allows Lenovo to achieve faster-than-market growth and strong profitability, even though our share of the PC market in China has already been more than 30 percent in the last fiscal year.

Yang Yuanqing
Chairman of the Board

It made the China PC business the core of the new Lenovo. At the same time, Lenovo's mobile handset business in China improved its market position and established its own core competence in a short period of time by leveraging Lenovo's strengths in business model, branding, operating platform and corporate culture.

In our worldwide relationship business, the Think-brand business has established strong competitive advantages addressing the needs of large enterprise customers. ThinkPad has a leadership position in the high-end notebook market. And, Think-brand products successfully address the large enterprises' requirement on total cost of ownership with its industry-leading service and support capability.

We believe that if we can combine these complementary strengths by quickly expanding the transaction business outside of China and building the relationship business inside China, we can build our PC business with core competence in every market of the world.

In the past year, Lenovo took significant steps to build on these strengths. We launched the Lenovo brand globally during the Turin Olympic Winter Games, rolled out Lenovo 3000 PC products – the first Lenovo-brand launch outside of China – and introduced new business partner programs to address the SMB and emerging markets. We implemented a global action plan to reduce cost and improve efficiency.

Going forward, Lenovo will launch more initiatives to further enhance its competitive strengths, operational efficiency and dual model worldwide. I believe that under the leadership of our experienced management team, Lenovo is well positioned to capture growth opportunities in the worldwide SMB and emerging markets, and to continue to build on its existing strengths, making Lenovo the best company in the PC industry with a strong presence in all major markets.

Lenovo's ultimate goal has always been to become an outstanding company with sustained high performance. In the next few years, my expectation for Lenovo's management is to continue focusing on PC business, pursue above-average growth, increase market share, achieve sustainable, profitable growth, and explore new growth opportunities beyond the PC industry. I believe Lenovo as a global company will strongly endeavor to bring sustainable long-term returns to investors.

Yang Yuanqing
Chairman of the Board
Hong Kong, May 25, 2006

more innovation in the

Since 1984, Lenovo has been committed to putting more innovation in the hands of more people so they can do more amazing things.

Lenovo is the number-one brand in the world's fastest-growing PC market: China. We have spent the last 20 years developing a strong consumer and small-business market for a wide range of products – from desktops to notebook computers, mobile phones to MP3 players, etc.

IBM's PC Division, meanwhile, spent 20 years selling to large enterprises. And perfecting its flagship product, ThinkPad, which leads the industry in design awards and productivity.

The new Lenovo has a combined expertise across both product and customer segments. It also marries a world-class sales and support network to a cost-efficient supply chain and distribution system. It's the best of both worlds.

hands of more people.

One year on. When Lenovo bought IBM's PC division, we expected some attention. So far, we've given the world plenty to watch.

We've launched new products and introduced entire product lines. We have won design awards, major new contracts and kudos from international IT experts. We have built a better, stronger partner program. In short, we've been busy.

Today, it's a new world, where technology has brought down barriers of time and distance, creating truly global companies. Where collaboration is a key component for business success.

Continuous innovation is necessary. Lenovo lives and breathes innovation in every product, every business process. It's a new world. And it needs **new thinking**.

new world. new thin

king.

People are living their lives differently. They're inventing new products and creating new companies every day. They're communicating more broadly, doing business in real time, and finding new ways to entertain themselves. Technology and innovation are the key drivers enabling this new world.

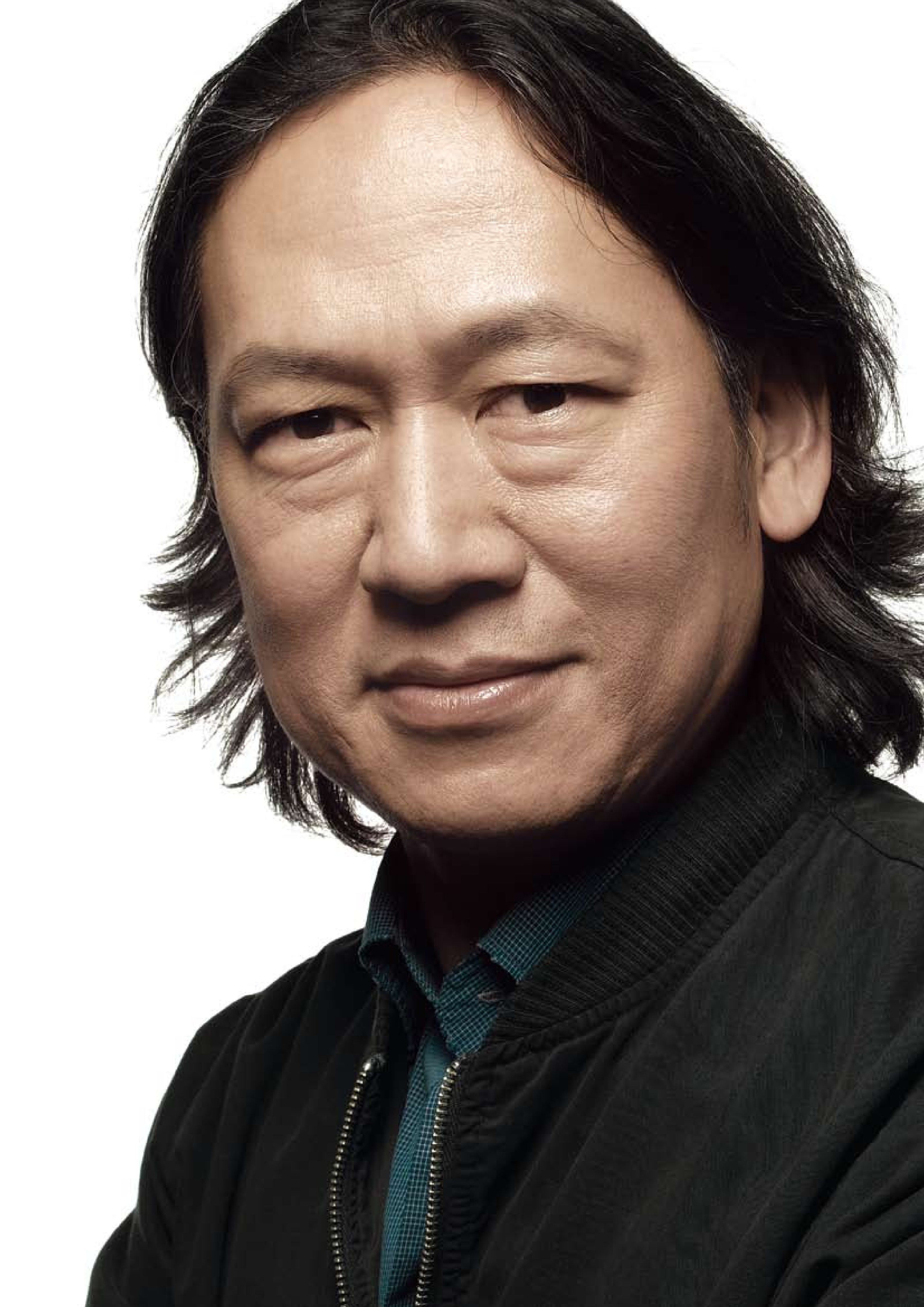
Lenovo is the first truly global company of the new world. We have award-winning design teams on three continents, and sales and support networks around the world. They are all working to give every person, at every price point, options beyond the average, beyond the commodity.

Because we believe in innovation. We believe there is value in innovation for everyone. And we believe that real innovation should be accessible to everyone.

In this new world, where our lives are on our PCs, commodities just won't do.

new customers

The new Lenovo is putting more emphasis on the unique needs of small business owners. We listened. Then we created the 3000 series, a line of hassle-free desktops and notebooks just for them. Our ability to deliver targeted products quickly helps us grow our business while expanding important markets.



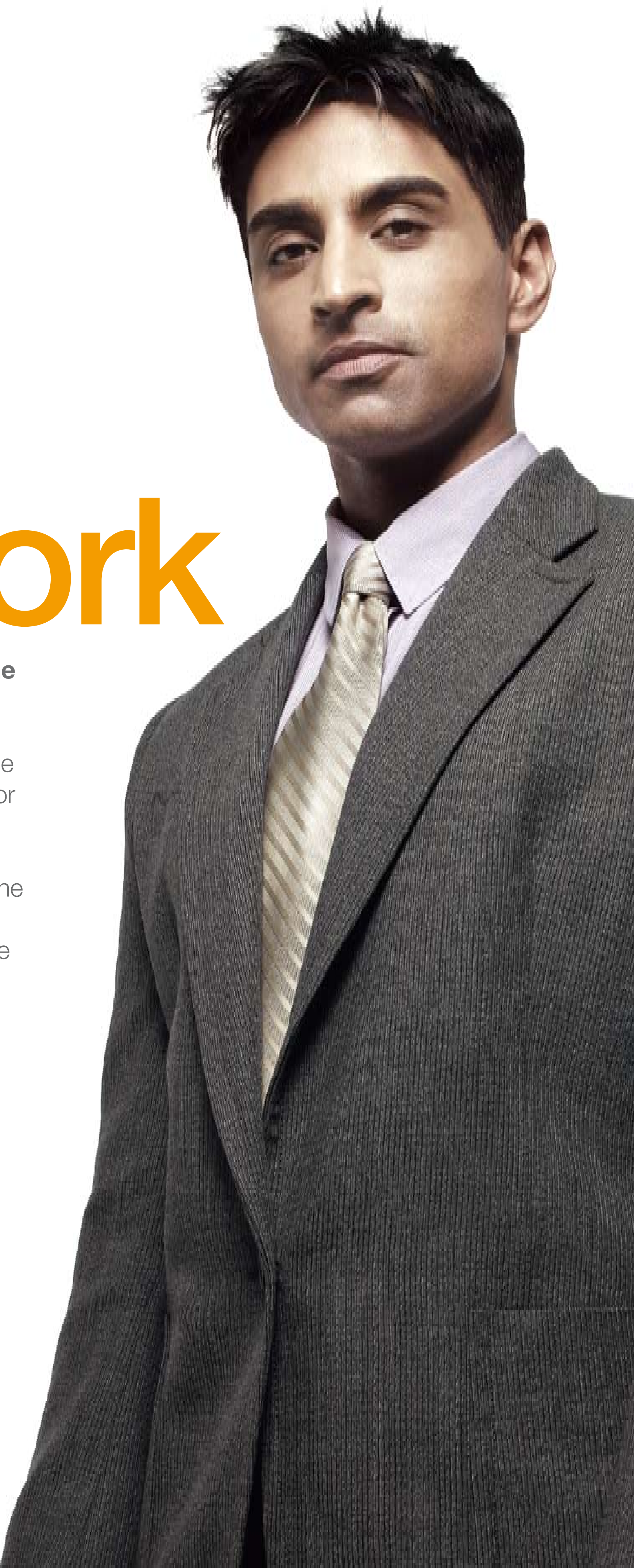
new choices

Innovative new products, hundreds of design awards. This year we introduced the Lenovo brand outside of China for the first time with the Lenovo 3000. We also launched the ThinkPad tablet – the thinnest and lightest convertible laptop in the market. The ThinkPad widescreen – the first notebook to offer integrated, high-speed wireless connectivity. In select markets, we continue to provide innovative new choices in consumer PCs, mobile phones, etc.

new

network

In March of 2006, we launched the Lenovo Partner Network, our new business partner program. The Network positions our partners as the primary route to market for Lenovo for small- to medium-sized businesses worldwide. And provides them with new tools and solutions to address the unique requirements of the SMB market. In the US, in addition to close relationships with business partners, Lenovo is reaching out to the SMB audience at select Office Depot and Best Buy stores.



ASK THE CEO
with William Amelio

Why do you think Lenovo is positioned to grow and win?

Lenovo will grow and win by excelling in innovation, superior customer satisfaction and operational excellence. We are committed to innovation that delivers great performance and a lower total cost of ownership for customers, not just a lower purchase price. We are already number-one in key measures of customer satisfaction. And, our teams are focused on improvements in the third critical area, operational excellence.

We will create the infrastructure and marketing programs needed to capture a larger share of business from our customers, which range from transaction-based small businesses and consumers to relationship-based global enterprises. We will simplify our processes to improve the speed of our end-to-end global supply chain from planning products, to the sales process, to order fulfillment, to production and delivery.

Why is operational excellence so important?

Operational excellence is key to increasing customer satisfaction and generating sustained, profitable growth. We must have the most efficient supply chain, manufacturing and distribution, to get our products to our customers faster. We will drive operational excellence in three key areas: improved operational efficiency, improved market competitiveness, and expanding our worldwide dual business model.

How will Lenovo improve its efficiency?

The action plan we announced in March has three key initiatives focused both on expense and efficiency: integrating key customer support functions, streamlining global sales and marketing, and centralizing teams where it makes sense.

Integrating key customer-support functions will give customers a simpler "one-touch" relationship with Lenovo. We are reducing layers in our sales structure, empowering sales leaders and bringing decision-making closer to our customers. Centralizing teams where it makes sense will deliver multiple efficiency, design and production benefits.

You also mentioned market competitiveness as a focus of Lenovo.

We will take success of the desktop business unit in China and use the knowledge and experience to inject more excitement into the desktop marketplace around the world.

We will build on the leadership functionality and value of our flagship ThinkPad notebooks in our relationship customer business. And, we are only beginning to tap into transaction customers, such as small- and medium-sized businesses, with our new Lenovo 3000 and selected ThinkPad models.

I am also excited about opportunities in our newly established Services, Software & Peripherals business unit. The added value and profitability that options bring can have a tremendous effect on our business.

Marketing is an important part of competing. During your tenure as CEO, Lenovo has launched new advertising for the Think family and also, launched the Lenovo brand worldwide.

We are taking actions to establish Lenovo as a compelling worldwide brand. ThinkPad's image and reputation remain strong and, importantly, overall awareness of Lenovo is increasing. We're diversifying our initiatives, with exciting new campaigns on the Web, expanded public relations and corporate social initiatives and sponsorships, all designed to build recognition and trust for Lenovo and its brands.

What about business partners?

We are absolutely committed to our channel partners for serving our transaction customers and for fulfillment of our large enterprise customers. At the same time, we will continue to provide end-users who prefer to buy directly with the means to do so.

Looking forward, what are you most excited about?

"New World. New Thinking." is Lenovo's new advertising and marketing theme. I want it to become our mantra inside the company too. "New World. New Thinking." means taking the best thinking from our legacies, discarding outmoded thinking, and then driving brand-new thinking in the company.

Our company will delight our customers. We will build global brands, known everywhere for innovation, high quality, and great service. With customer success and operational efficiency comes profitable growth. We will be the company that others admire, point to, and try to emulate.

William Amelio
President and
Chief Executive Officer

Lenovo Management Team

Liu Zhijun
*Senior Vice President,
Mobile Handset Business*

George He
*Senior Vice President and
Chief Technology Officer*

Peter Hortensius
*Senior Vice President and
General Manager, Notebook
Business Unit*

Deepak Advani
*Senior Vice President and
Chief Marketing Officer*

Fran O'Sullivan
Senior Vice President, Product Group

Liu Jun
Senior Vice President, Global Supply Chain

Mary Ma
*Senior Vice President and
Chief Financial Officer*

Yang Yuanqing
Chairman of the Board

William Amelio
President and Chief Executive Officer

Ravi Marwaha
Senior Vice President and
President, Asia Pacific

Chen Shaopeng
Senior Vice President and
President, Greater China

Scott Smith
Senior Vice President and
President, The Americas

Milko van Duijl
Senior Vice President and
President, EMEA

James Shaughnessy
Senior Vice President and General Counsel

Wang Xiaoyan
Senior Vice President, Information Services

Qiao Song
Senior Vice President and
Chief Procurement officer

Steven Bandrowczak
Senior Vice President and
Chief Information Officer

Robert Cones
Controller and
Vice President, Finance

Lu Yan
Vice President and
General Manager, Desktop Business Unit

Steve Petracca
Vice President and
General Manager, Services,
Software & Peripherals Business Unit

Management's Discussion and Analysis

Business Review

With the completion of its acquisition of IBM's personal computer business in April 2005, Lenovo was transformed into a global PC company. The company met its first-year objectives for a smooth transition, business stability and operational profitability during the integration of the acquired business.

During the 2005/06 fiscal year, Lenovo continued its significant profitable growth in the China PC business and reached new heights in market share. Its efficient business model effectively addressed a broad range of customers – from large enterprises to consumers – with the products, sales channels, and support they preferred.

In contrast, the focus of the PC business acquired from IBM had traditionally been on large enterprise customers, with continued success from its premium ThinkPad notebooks. In February 2006, the company launched the Lenovo brand outside of China, along with products and sales channels to address the faster-growing market for Small- and Medium-Sized Businesses (SMB) and emerging markets such as India. These initiatives, together with the measures taken to improve operational efficiency, were designed to build on Lenovo's existing regional strengths so as to compete more effectively in the market and improve its profitability on a worldwide basis.

With 11 months of contribution from the acquired PC business, the Group's consolidated turnover surged 359 percent year-on-year to HK$103,551 million. And despite the significant challenges of this transition, Lenovo's profit before taxation, excluding the cost of the strategic restructuring action, increased approximately 7 percent year-on-year.

Integration of IBM's Personal Computer Business

To ensure a successful integration of the IBM Personal Computing Division, Lenovo initiated a strategic phased plan, with sustained, profitable growth as its ultimate goal.

The first phase of the plan focused on ensuring a smooth transition and delivering on the Group's commitments to PC customers worldwide. Importantly, Lenovo retained key customers. In addition, Lenovo combined the strengths of the two PC businesses by integrating the separate product groups, supply and sales structures into unified global organizations in October 2005.

With this integration, Lenovo could begin the second phase of its development plan at the end of the fiscal year by bringing more innovative products and services to its customers worldwide, particularly in the high-growth segments of SMB and emerging markets, while maintaining its competitive edge in the large-enterprise market.

Although the business performance of the acquired PC business during the first year was stable and in line with the Group's expectations, its operational efficiency needed to become more competitive. To address expense and cost issues and improve responsiveness to customers, Lenovo announced a restructuring program in March 2006. Benefits of the restructuring are expected to come during the 2006/07 fiscal year.

Performance of Geographies

The worldwide PC market enjoyed a strong unit growth of 16 percent during the 2005/06 fiscal year, mainly driven by the growth in SMB and emerging markets. Lenovo benefited from this strong market demand, particularly in China where Lenovo has a broad product mix that addresses these high-growth segments. Lenovo's worldwide PC client shipments grew 11 percent year-on-year during the 2005/06 fiscal year, ranking third with approximately 7.4 percent market share.

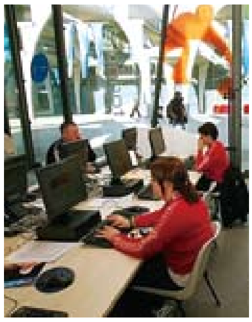
Greater China: Greater China accounted for approximately 36 percent of Lenovo's overall revenue during the 2005/06 fiscal year. Lenovo's leadership position in the China PC market was further strengthened with a significant PC shipment increase of 31 percent year-on-year during the 2005/06 fiscal year, exceeding the market growth of 16 percent excluding Lenovo. Lenovo's market share in China reached a new height of 34 percent in the 2005/06 fiscal year with a gain of about 2.7 percentage points year-on-year. This outstanding performance in China was the result of the successful implementation of the Group's product and channel strategies and a smooth integration of the sales team for the acquired Think-brand business.

One of Lenovo's strategies in China was to leverage its end-to-end operations that address the needs of transaction-based SMB customers and consumers as well as relationship-based large enterprise customers. This dual go-to-market model led to strong business growth by enabling Lenovo to specifically design new product models that customers prefer, and to build up a focused sales and service system to better serve customers. The Group's supply chain was built to support both "build-to-stock" and "configuration-to-order" models.

During the 2005/06 fiscal year, Lenovo leveraged both its acquisition of IBM PC business and worldwide sponsorship of Olympic Games to boost its brand equity and reputation in China. A number of product marketing activities were centered on the Olympic Games by joining with other Olympic sponsors like Visa International and Coca-Cola. The strategically designed business model and marketing activities allowed Lenovo grow faster than the market in three focused market segments, including notebook computer, large enterprises and township markets, during the 2005/06 fiscal year.

Americas, EMEA, Asia Pacific: The acquired business outside of China was best positioned to address the large enterprise customer segment, based on a relationship model designed to meet the complex global needs of these customers. ThinkPad notebooks ranked number-one in customer satisfaction worldwide, with particular strengths on product design, quality, parts availability, phone support and time-to-repair in the United States. However, as the growth of worldwide PC market in 2005 was mainly driven by the SMB segment, Lenovo was under pressure from the need to expand product mix to address this segment.

The Americas is Lenovo's second-largest geography, accounting for approximately 30 percent of total revenue and delivered steady profitability during the 2005/06 fiscal year. In the United States, Lenovo maintained a stable market position during the transition. However, Canada and Latin America proved more challenging as growth in those markets was driven by the home computing segment and lower-cost desktop segment respectively, where Lenovo did not compete.



Top: Lenovo i.lounges at the 2006 Turin Olympic Winter Games enabled athletes to stay in touch with their families and supporters.

Middle: Lenovo engineers at Turin Olympic Winter Games.

Bottom: Joining hands with Coca-Cola on large-scale promotional activities in China.

Top: In February 2006, Lenovo unveiled the first-ever Lenovo-brand PCs to be offered worldwide, the Lenovo 3000 product family.

Bottom: Unique functions of ThinkPad X41 Tablets help students discover new ways to learn in the classroom.

EMEA (Europe, Middle East and Africa) accounted for 21 percent of Lenovo's total revenue during the 2005/06 fiscal year. The slowdown in commercial desktop growth in the region and, as in the Americas, the lack of suitable product offerings to address the fast-growing SMB segment affected Lenovo's overall performance in EMEA. However, in regions such as the Nordic countries, where Think-brand products are an excellent match for customer needs, Lenovo delivered better results.

Asia Pacific (excluding Greater China) contributed 13 percent of Lenovo's total revenue. Lenovo's financial performance in this region was affected by the need to pursue business opportunities in Japan more aggressively. However, despite weakness in Japan, Lenovo held the number-one market position for commercial notebooks in a number of key Asian countries, including Singapore, the Philippines and Vietnam. In India, a fast-growing emerging market, Lenovo saw improvement in market position with strong shipment growth and market share gain.

Performance of Product Groups

Lenovo is committed to offering the highest levels of innovation, quality, reliability, and design excellence in its products. During the 2005/06 fiscal year, Lenovo further strengthened its PC product portfolio with award-winning notebook and desktop computers as well as ThinkVantage Technologies software tools featuring one-button virus recovery and software that allows users to connect anytime or anywhere. In February 2006, Lenovo launched the new Lenovo 3000 series of notebook and desktop computers to address the needs of small businesses outside of China.

Notebook Computer: Upon the completion of the acquisition of IBM PC business, notebook computers became the largest contributor to Lenovo's total revenue and accounted for approximately 49 percent during the 2005/06 fiscal year. Lenovo ranked third in worldwide commercial notebook market. In China, Lenovo had a strong position in the notebook market with approximately 32 percent market share during the 2005/06 fiscal year.

Lenovo's notebook mix continued to increase in the worldwide PC market, with innovative products that led the market trends in widescreen, wireless access and security. In September 2005, Lenovo fully integrated Verizon's BroadbandAccess 3G technology in the ThinkPad Z60t. During the 2005/06 fiscal year, Lenovo sold its millionth ThinkPad notebook with an integrated fingerprint reader, making it the largest provider of biometric-enabled PCs in the world. Lenovo also reinvigorated the tablet PC market with the launch of the innovative ThinkPad X41 Tablet in June 2005. With its combination of a writable slate, full-size keyboard and light weight, the X41 Tablet has substantially broadened the appeal and potential applications for tablet PC technology.

Lenovo's notebook products enjoyed significant growth in China, where the Group's notebook shipments increased approximately 42 percent during the 2005/06 fiscal year. Lenovo's widescreen notebook Tianyi 100, with its entertainment features, was popular among consumers. To address the mobile computing need of SMBs in China, Lenovo launched Xuri 125 with a high performance-to-price ratio.

Desktop Computer: About 45 percent of Lenovo's total revenue came from this business segment. The growth of Lenovo's desktop computer shipments was also driven by strong growth in China where it accounted for approximately 35 percent of the market during the 2005/06 fiscal year. Lenovo ranked third in the worldwide commercial desktop market.

Lenovo's capabilities in customer segmentation and matching customer needs with competitive products was key to its outstanding performance in China's desktop market. Lenovo continued its successful penetration into the township market during the 2005/06 fiscal year by launching the new Jiayue with pre-installed software and on-line education service. For China's large SMB segment, Lenovo introduced the highly successful Yangtian series featuring "one-key virus kill" and "one-key system restoration."

The February launch of the Lenovo 3000 brand introduced the company's first mainstream product family outside of China targeting the price and function requirements of SMB and emerging markets. For managed computing, Lenovo led the industry by developing ThinkCentre-based solutions that leveraged Intel's Active Management Technology, and incorporating dual-core processing and 64-bit computing capabilities in its award-winning ThinkCentre line of business desktop products.

Mobile Handset: The performance of Lenovo's mobile handset business was very strong in the 2005/06 fiscal year. Shipments more than doubled from a year ago in China, the largest mobile handset market in the world. Lenovo successfully moved up its ranking in China from ninth place in March 2005 to fourth with an overall market share of approximately 7 percent by the fiscal year end. Mobile handset accounted for approximately 4 percent of Lenovo's total revenue with strong profitability.

Lenovo's mobile handset business employs a successful growth model. The segment's profitable growth reflects Lenovo's ability to respond quickly to new customer preferences in a very dynamic market. The decision to focus on the one-mega-pixel camera phone and MP3 music phone proved accurate and timely and drove strong shipment growth. Lenovo's in-house research and development capability won its first design award in the international *BusinessWeek*/IDSA competition in June 2005 with the Lenovo Smartphone ET960.

The mobile handset business also expanded its sales channel in electronics chain stores and partnered with mobile telecom service carriers to offer customized product design. In March 2006, Lenovo was added to the list of 12 best mobile phone partners of China Mobile, the biggest mobile telecom carrier in China.

During the year, to enhance its control over this profitable business, Lenovo acquired the remaining 19.2 percent equity interest in the mobile handset joint venture for a cash consideration of approximately HK$69 million. Upon completion of the acquisition in 2006, the joint venture became a wholly-owned subsidiary of Lenovo.

Top: Lenovo addresses different customer needs with innovative products.

Bottom: Lenovo's mobile handset business employs a successful growth model.

Financial Review

Results Highlights

For the year ended March 31	**2006 HK$'000**	2005 HK$'000
Turnover	**103,550,857**	22,554,678
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain / loss on disposal of available-for-sale financial assets and restructuring costs (EBITDAR)	**2,978,519**	1,173,616
Profit attributable to shareholders	**173,236**	1,120,146
Dividends per ordinary share (HK cents)		
Interim dividend	**2.4**	2.4
Proposed final dividend	**2.8**	2.8
Earnings per share (HK cents)		
Basic	**1.97**	14.99
Diluted	**1.93**	14.97

Results

For the year ended March 31, 2006, the Group achieved a turnover of approximately HK$103,551 million. Profit attributable to shareholders was approximately HK$173 million during the year, representing a decrease of HK$947 million against HK$1,120 million recorded last year. Basic earnings per share and diluted earnings per share were 1.97 HK cents and 1.93 HK cents, representing decreases of 13.02 HK cents and 13.04 HK cents respectively as compared to last year.

Segment Results

Due to the acquisition of IBM PC Business, the Group has adopted geographical segments as the primary reporting format. During the year, geographical turnover included the Americas, EMEA (Europe, Middle East and Africa), Asia Pacific (excluding Greater China), and Greater China.

In Greater China, the results include both the results from Legacy Lenovo and Greater China segment of newly acquired IBM PC Business.

Capital Expenditure

Apart from the acquisition of the IBM PC Business, the Group incurred capital expenditures of HK$992 million during the year ended March 31, 2006, mainly for the acquisition of fixed assets, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At March 31, 2006, total assets of the Group amounted to HK$39,316 million, which was financed by shareholders' funds of HK$8,142 million, minority interests of HK$6 million, and non-current and current liabilities of HK$31,168 million. The current ratio of the Group was 0.86.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operating activities. At March 31, 2006, cash and cash equivalents totaled at HK$7.84 billion, of which 33 percent was denominated in US dollars, 36.7 percent in Renminbi, 7.3 percent in Euros, 5.5 percent in Japanese Yen, and 17.5 percent in other currencies.

On March 13, 2006, the Group concluded a US$400 million (approximately HK$3,120 million) 5-Year Revolving and Term Loan Facility with a syndicated banks, bearing interest at the London Interbank Offered Rate plus 0.52 percent per annum. Also in March 2006, the Group arranged a US$100 million (approximately HK$780 million) 5-Year Fixed Rate Loan Facility with a policy bank in China. The purpose of these facilities was to replace the acquisition facility with which the Group funded the acquisition of IBM's PC Business in April 2005.

The Group has also arranged other short-term credit facilities for contingency purposes. At March 31, 2006, the Group's total available credit facilities amounted to HK$12,287 million, of which HK$2,138 million was in trade lines, HK$1,327 million in short-term and revolving money market facilities and HK$8,822 million in forward foreign exchange contracts.

Turnover and Segment Results

For the year ended March 31	**2006** Turnover HK$'000	**2006** Segment operating results HK$'000	2005 Turnover HK$'000	2005 Segment operating results HK$'000
Americas	**30,899,631**	**197,451**	–	–
Europe, Middle East and Africa	**21,615,023**	**(353,794)**	–	–
Asia Pacific (excluding Greater China)	**13,037,997**	**(86,435)**	–	–
Greater China	**37,998,206**	**2,176,473**	22,554,678	979,653
Amortization of marketing rights and intangible assets		**(770,065)**		(48,605)
Amortisation of share-based compensation		**(232,013)**		–
Impairment of assets		**(22,785)**		(51,364)
(Loss) / gain on disposal of investments and available for-sale financial assets		**(4,913)**		156,958
Finance income		**188,986**		105,677
Finance costs		**(438,126)**		(6,667)
Total	**103,550,857**	**654,779**	22,554,678	1,135,652

At March 31, 2006, the Group's outstanding bank loan represented the term loan of HK$780 million and short-term bank loans of HK$1,001 million. When compared with total equity of HK$8,148 million, the Group's gearing ratio was 0.22.

The net cash position of the Group as at March 31, 2005 and 2006:	**2006** **HK$ million**	2005 HK$ million
Cash	**7,839**	3,019
Less: Bank loans	**1,781**	–
Net cash position	**6,058**	3,019

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2006, the Group had commitments in respect of outstanding foreign exchange forward contracts amounting to HK$4,368 million.

The Group's foreign exchange forward contracts are used to hedge a percentage of future intercompany transactions which are highly probable. Any gain or loss on these contracts is more than offset by movements in the value of the underlying transactions.

The Group issued 2,730,000 convertible preferred shares at an issue price of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 shares for an aggregated 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 issue price 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 at May 17, 2012. The fair value of the liability component and equity component of the convertible preferred shares as at March 31, 2006 amounted to approximately HK$2,433 million and HK$84 million respectively. The warrants will expire on May 17, 2010.

Contingent Liabilities

The Group had no material contingent liabilities as at March 31, 2006.

Human Resources

At March 31, 2006, the Group had a total of approximately 19,500 employees, 14,200 of whom were employed on the Chinese mainland, 2,200 in the U.S. and 3,100 in other countries. Details of the remuneration of employees are set out in Note 11 to the financial statements.

The Group's remuneration policies, bonus, share options schemes and long-term incentive programme, designed to adjust total remuneration according to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

Future Prospects

With the integration of the acquired PC business progressing steadily, Lenovo will continue to take the necessary actions that enable sustained, profitable growth. As indicated by industry analysis, growth in the worldwide PC market in the coming few years will be driven by notebook computers, the SMB segment and emerging markets such as China and India. Lenovo is positioning itself to address these segments while it builds on its large enterprise customer business. In line with this goal, Lenovo has newly established a business unit for services, software and peripherals to focus on customer experience and their ability to use computing tools. Lenovo's demonstrated strengths in the China market and its strong notebook market leadership should enable it to successfully pursue these market opportunities.

The Chinese PC market is expected to continue its growth momentum on the back of a strong economy. In the coming year, Lenovo will take advantage of the combined strengths of the Lenovo and Think brands and to further leverage its dual model to address the high-growth notebook and township consumer markets and SMB segments.

Improve Operational Efficiency

In March 2006, Lenovo announced an action plan aimed at improving the Group's overall operating expense and cost structure and to better position itself to pursue growth aggressively.

First, Lenovo integrated its sales, services, support and fulfillment operations into one highly responsive customer-service unit in the Americas, EMEA and Asia Pacific. Second, Lenovo streamlined its global sales and marketing by reducing layers in the structure to empower sales leaders and bring decision-making closer to customers. Third, Lenovo is ensuring that teams are centralized for better performance and efficiency wherever appropriate. Lenovo centralized the desktop team in China and moved corporate functions currently located in Purchase, New York to Raleigh, North Carolina. This plan involves resource reductions, staff relocation and real estate consolidation. Lenovo expects most of these actions to be carried out during the first half of the 2006/07 fiscal year. Upon completion, Lenovo will have a lower cost structure and will be able to use part of the savings to support its growth initiatives.

Operational efficiency demands a high performance corporate culture. Lenovo will continually look at ways of simplifying its business processes from product development to supply chain to sales to remain competitive in an increasingly competitive marketplace.

Drive Product Competitiveness

Lenovo delivers wide-ranging computer products that serve a full spectrum of customer segments in China. To address the high-growth opportunities such as emerging markets and SMB outside of China, Lenovo must broaden and strengthen its product line with innovative, high-quality, appropriately priced products.

In late February 2006, Lenovo announced its Lenovo 3000 family of desktop and notebook computers outside of China to meet the needs of the high-growth SMB customer segment. These Lenovo-brand products complement the existing Think-brand products targeted at large enterprises worldwide. Building on Lenovo's branding and marketing success in the Turin Olympic Winter Games, Lenovo 3000 products were launched to good reviews. The Lenovo 3000 products are positioned as great value for carefree computing for the SMB customers. In the 2006/07 fiscal year, Lenovo will be focused on the success of Lenovo 3000 series.

Lenovo also plans to drive its desktop business by further leveraging its leadership position in the China desktop computer market. With the integration of the desktop team in China, Lenovo will be in a better position to roll out and market desktop products that operate in converged product platforms and serve customer needs more efficiently worldwide.

Fully Implement the Transaction/Relationship Model

The effectiveness and efficiency of Lenovo's dual business model is the cornerstone of its success in the China PC market. The model makes products available in the channels that customer prefers. During the 2006/07 fiscal year, Lenovo will implement this globally to enhance its competitiveness in the worldwide PC market.

Lenovo 3000 N100 Notebook

Lenovo took a major step in its implementation of the transaction model by launching a new business partner program – the Lenovo Partner Network – in March 2006 to complement the rollout of the Lenovo 3000 product line. The new program covers the entire lifecycle of the partner relationship and features a simplified framework with two levels of membership. Built with incorporated feedback from more than 100 of Lenovo's channel partners, industry influencers and members of the analyst community, this channel program will grow the business of Lenovo's partners along with its own.

This expansion has already resulted in new business relationships with leading business partners such as Best Buy and Office Depot, where very small businesses shop for computer products in the United States.

Develop Emerging Markets

With its proven success in China, Lenovo plans to actively develop other emerging markets in the coming years.

According to industry analysis, the India market – currently accounting for about 2 percent of worldwide shipments in the 2005/06 fiscal year – will grow more than 20 percent compounded annually over the next few years. Lenovo aims to replicate its China business model in India. It has already established a large channel presence in the market, ranking second in the notebook computer market during the year. It will also address the consumer market opportunity by increasing retail coverage.

Maintain Growth in Mobile Handset Business

Building on the outstanding business performance during the 2005/06 fiscal year, Lenovo aims to sustain the growth of its mobile handset business and strengthen its market position in China in the coming year. According to industry analysis, the China mobile handset market is expected to continue its rapid growth in 2006, driven by the middle- to low-end replacement market and the efforts of mobile telecom service carriers to grow their customer base.

During the 2006/07 fiscal year, Lenovo's mobile handset business will emphasize user experience from product development to sales to after-sales services. At the same time, its research and development team will develop products that respond to increasing demand for MP3 and MP4 multimedia and other feature trends. Lenovo's new mobile phone manufacturing facility in Xiamen, China, will commence operations during the second half of 2006, ensuring a stable supply of mobile handset products for the market.

It is generally expected that 3G mobile service licenses will be issued in China in 2006. Lenovo has been actively preparing for the burgeoning 3G market and has completed the construction of its platform for 3G phone development. In April 2006, Lenovo rolled out for the first time two 3G mobile handset models.

Building on Existing Strengths

Lenovo has proven success in complementary PC businesses of its newly formed company. In the coming years, Lenovo plans to further leverage on its highly efficient and effective operating platform in China on a worldwide basis. For example, it will optimize its global supply chain network to support the dual model worldwide and implement industry-leading supply/demand processes to achieve better results.

Lenovo's plan is straightforward – to combine and build on the best of these successful models with increasing operational efficiency on a global basis. Lenovo will take the necessary steps to achieve sustained, profitable growth.

Corporate Governance

Corporate Governance Practices

Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") came into effect on January 1, 2005 and is effective for accounting periods commencing on or after that date.

The Company believes maximizing shareholders' returns should have the backing of sound and well-established corporate governance practices and has applied the principles and complied with the provisions of the CG Code in the manner as contained under the section "CG Code" in this report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules to govern the directors' securities transactions. In response to a specific request, all the directors of the Company have confirmed their compliance with the required standard set out in the Model Code during the year.

Board of Directors

The board of directors (the "Board") is responsible for steering the success of the Company by overseeing the overall strategy and directing and supervising its affairs in a responsible and effective manner, whilst management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer ("CEO"). The Board has reserved for its decision or consideration matters covering major capital and equity transactions, major disposals and acquisitions, connected transactions, recommendation on appointment or reappointment of auditors and other significant operational matters. Each director has a duty to act in good faith in the best interests of the Company.

The Board is responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Group on a going concern basis.

Currently, there are twelve Board members, of whom three are executive directors, five are non-executive directors and four are independent non-executive directors. Mr. Wong Wai Ming, an independent non-executive director and Chairman of the Audit Committee, has the appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules.

Mr. Liu Chuanzhi and Mr. Zhu Linan, the non-executive directors, also serve on the board of directors of Legend Holdings Limited, the controlling shareholder of the Company. The remaining three non-executive directors are nominated by investors and have appointed respective alternate directors. Mr. James G. Coulter, Mr. Justin T. Chang (alternate director to Mr. James G. Coulter), Mr. Shan Weijian and Mr. Daniel A. Carroll (alternate director to Mr. Shan Weijian) are business related persons based on the relationship between their respective organizations, Texas Pacific Group and Newbridge Capital. Save for the relationships mentioned above, no director has any relationship (including financial, business, family or other material/relevant relationship) with any other directors of the Company.

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The positions of the Chairman and CEO are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved.

The composition of the Board and attendance of individual directors at Board, Audit and Compensation Committee meetings during the financial year are as follows:

Directors	Board: Full board for high level corporate decisions *(Total no.: 20)*	Board: General corporate matters and execution *(Total no.: 17)*	Board: Executive meeting *(Total no.: 3)*	Board Committees: Audit Committee *(Total no.: 6)*	Board Committees: Compensation Committee *(Total no.: 7)*
	Attendance/Number of Meetings Obligated to Attend				
Executive directors					
Mr. Yang Yuanqing (Chairman) [1]	20/20	16/16	3/3	N/A	N/A
Mr. William J. Amelio (CEO) [2]	7/7*	N/A	3/3	N/A	N/A
Ms. Ma Xuezheng (CFO)	20/20	17/17	3/3	N/A	N/A
Mr. Stephen M. Ward, Jr. (resigned on December 20, 2005)	12/12*	6/6	N/A	N/A	N/A
Non-executive directors					
Mr. Liu Chuanzhi [3]	20/20	9/9	N/A	N/A	N/A
Mr. Zhu Linan [4]	19/19*	N/A	N/A	N/A	N/A
Mr. James G. Coulter [5]	16/17**(Note i)*	N/A	N/A	N/A	N/A
Mr. William O. Grabe [5 #]	17/17**(Note ii)*	N/A	N/A	N/A	6/6*
Mr. Shan Weijian [5 @]	17/17**(Note iii)*	N/A	N/A	5/6	N/A
Mr. Zeng Maochao (resigned on April 30, 2005)	1/1*	2/2	N/A	N/A	N/A
Independent non-executive directors					
Mr. Wong Wai Ming [# @]	18/20	2/2	N/A	6/6	7/7
Professor Woo Chia-Wei [# @]	20/20	1/1	N/A	6/6	7/7
Mr. Ting Lee Sen [@]	20/20	N/A	N/A	6/6	N/A
Mr. John W. Barter III [6 @]	11/12*	N/A	N/A	3/3*	N/A

* attendance taken during term of service for the financial year under review

Remark:
"General corporate matters and execution" means any matters that can be decided by any three or more directors.

Note:
i Four out of total attendance were attended by Mr. Coulter's alternate director, Mr. Justin T. Chang.
ii Three out of total attendance were attended by Mr. Grabe's alternate director, Mr. Vince Feng.
iii One out of total attendance was attended by Mr. Shan's alternate director, Mr. Daniel A. Carroll.

Legend:
1 Ceased to be CEO and appointed as Chairman on April 30, 2005
2 Appointed as an executive director, president and CEO on December 20, 2005
3 Ceased to be Chairman and re-designated from an executive director to a non-executive director on April 30, 2005
4 Appointed as a non-executive director on April 30, 2005
5 Appointed as non-executive directors on May 17, 2005
6 Appointed as an independent non-executive director on August 10, 2005
\# Members of Compensation Committee
@ Members of Audit Committee

Biography and responsibility of directors and senior management are set out on pages 44 to 47 of this annual report.

The Board has established four committees with defined terms of reference (available to shareholders upon request): the Audit Committee, Strategy Committee, Governance Committee and Compensation Committee. Majority of both Audit Committee and Compensation Committee are independent non-executive directors.

Audit Committee

The Board established the Audit Committee (defined as "Committee" in this section) in 1999 with the responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in an advisory capacity and makes recommendations to the Board.

The Committee meets regularly to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the quarterly, interim and annual financial statements before submission to the Board for approval. The external auditors, Chief Financial Officer ("CFO") and the management of Finance and Planning Department and Internal Audit Department attend those meetings to answer questions on the reports of their work.

As at March 31, 2006, the Committee members were Mr. Wong Wai Ming (Committee Chairman), Professor Woo Chia-Wei, Mr. Ting Lee Sen, Mr. John W. Barter III and Mr. Shan Weijian. Mr. Zeng Maochao ceased to be a Committee member on April 30, 2005. His vacancy was filled by Mr. Shan Weijian effective on May 26, 2005. Mr. Barter was appointed as an additional Committee member on October 19, 2005. The Committee members possess diversified industry experience and the Chairman is a chartered accountant with extensive knowledge and experience in investment banking. All Committee members are non-executive directors and the majority including the Chairman are independent directors.

Strategy Committee

The Strategy Committee was established in 2005 and currently comprises Mr. Yang Yuanqing (Committee Chairman), Mr. William J. Amelio, Mr. Liu Chuanzhi, Mr. James G. Coulter, Mr. William O. Grabe and board observer Mr. Robert W. Moffat, Jr.. The Strategy Committee has the responsibility of assisting the Board in developing the business strategy for the Company. The Strategy Committee met 8 times during the year ended March 31, 2006.

Governance Committee

The Governance Committee was established in 2005 and currently comprises Mr. Yang Yuanqing (Committee Chairman), Mr. Liu Chuanzhi and Mr. James G. Coulter. The Governance Committee is to assist the Board in developing its corporate governance principles and directorship practices. During the year, the Governance Committee passed resolution on recommendation on appointment of director.

Compensation Committee

The Compensation Committee (formerly known as the Remuneration Committee) (defined as "Committee" in this section) was established in 2003. It comprises two independent non-executive directors, namely Mr. Wong Wai Ming and Professor Woo Chia-Wei, and one non-executive director, Mr. William O. Grabe (Committee Chairman).

The Committee is responsible for considering and recommending to the Board the Company's remuneration policy, including its long-term incentive policy. It is also responsible for the determination of the remuneration level and package paid to the Chairman, and has the delegated authority to determine the remuneration levels and package of the CEO, other directors and senior management. Its complete terms of reference are available upon request.

The Committee is authorized to obtain outside independent professional advice to support its activities.

In the financial year ended March 31, 2006, the Compensation Committee held 7 meetings. The attendance record is set forth on page 27 of this report. During the year, the Committee undertook the following activities:

(1) Consideration of and recommendations to shareholders on the employment contracts for the CEO

(2) Review of and recommendations to the Board concerning the 2005 Long-Term Incentive Program awards made under this plan in 2005 and the engagement of professional consultant to make independent recommendation to the Board on the remuneration policy for non-executive directors

(3) Review of the remuneration policy and levels for executive directors and senior management

(4) Review of the Company's proposed Savings Plan for selected executives based in the PRC

No individual director or any of his associates is involved in deciding his own remuneration.

Remuneration Policy

The Company recognizes the importance of attracting and retaining top-caliber talent and is strongly committed to effective corporate governance. Consistent with this philosophy, the Company recognizes the importance of a formal, transparent and performance-driven remuneration policy covering its directors and senior management.

The Company's remuneration policy for its directors and senior management is to ensure that remuneration is aligned to support the Company's strategy, attract and retain top talent, reinforce the Company's performance driven culture, and reflects the market practices of other leading international and IT-focused enterprises, with particular focus on those who compete in the PC sector.

Non-Executive Directors

To ensure that non-executive directors are appropriately remunerated, in 2005 the Committee engaged an independent international compensation consulting firm who conducted a thorough review of market practices among and fees paid by leading international and IT-focused enterprises listed on the NYSE, NASDAQ and HKSE.

The firm then made independent recommendations directly to the Board. In making its recommendations to the Board, which were subsequently approved by the Board and shareholders of the Company in August, 2005, the firm also reviewed other relevant factors such as the time commitment, workload, job requirements and responsibilities of the non-executive directors.

The remuneration of non-executive directors is comprised of an annual cash retainer equal to US$40,000 (approximately HK$312,000) and an annual award of Stock Appreciation Rights ("SARs") which can be settled in either the Company shares or their cash equivalent upon exercise. SARs are subject to a three-year vesting period and are otherwise subject to the same terms and conditions of the Share Appreciation Rights scheme described below.

The Chairman of the Audit Committee also receives an additional cash retainer equal to US$10,000 (approximately HK$78,000). The Chairman of other committees of the Board receive an additional cash retainer of US$5,000 (approximately HK$39,000).

Details of the remuneration of the non-executive directors are set out in note 12 to the financial statements. SAR awards outstanding for non-executive as of March 31, 2006 under this scheme are presented below.

Chairman, Executive Directors and Senior Management

To ensure that the Company's remuneration reflects the policy principles described above, the Committee considers a number of relevant factors including: salaries and total remuneration paid by comparable companies, job responsibilities and scope, employment conditions elsewhere in the Company, market practices, Company business performance and individual performance.

The Company's remuneration structure for its employees, including its Chairman, executive directors and senior management, is comprised of base salaries and allowances, performance bonus, long-term incentives, retirement benefits, and benefits-in-kind. These components are described in more detail below.

Fixed Compensation

Fixed compensation includes base salary, allowances and benefits-in-kind (e.g. medical, dental and life insurance, etc.). Base salary and allowances are set and reviewed annually, reflecting competitive market positioning for comparable positions, market practices, as well as the Company's performance and individual contribution to the business. Allowances are also provided to facilitate temporary and permanent staff relocations. Benefits-in-kind are reviewed regularly taking into consideration relevant industry and local market practices.

Performance Bonus

Executive directors, including the Chairman and CEO, as well as senior management and selected employees of the Company are eligible to receive a performance bonus payable in cash. The amounts paid under the plan are based on the performance of the Company and its subsidiaries, as well as the performance of the individual.

2005 Long-Term Incentive Program

The Company operates a Long-Term Incentive Program ("LTI Program") which was approved by the Company on May 26, 2005. The purpose of the LTI Program is to attract, retain, reward and motivate non-executive and executive directors, senior management and selected top-performing employees of the Company and its subsidiaries.

Under the LTI Program, the Company may grant awards, at its discretion, using any of three types of equity-based compensation vehicles: (i) share appreciation rights, (ii) restricted share units, and (iii) performance share units. These vehicles are described in more detail below.

(i) *Share Appreciation Rights ("SARs")*
SARs entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level. SARs are subject to a vesting schedule of up to four years.

(ii) *Restricted Share Units ("RSUs")*
RSUs are equivalent to the value of one ordinary share of the Company. Once vested, RSUs are converted to an ordinary share, or its cash equivalent. RSUs are subject to a vesting schedule of up to four years. Dividends are not paid on RSUs.

(iii) *Performance Share Units ("PSUs")*
PSUs are assigned a value equal to a number of the Company's ordinary shares based on the Company's performance against pre-determined targets over a three-year period. The equivalent number of Company shares for each PSU can range from 0 to 2, depending on the Company's performance. PSUs vest in full at the end of the three-year performance period. Dividends are not paid on PSUs.

The Company reserves the right, at its discretion, to pay any awards under the LTI Program in cash or ordinary shares. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, awards are due after exercise by the recipient. In the case of RSUs, awards are due after the employee satisfies any vesting conditions. In the case of PSUs, awards are due after the Company performance is determined.

The number of units that are awarded under the plan is set and reviewed annually, reflecting competitive market positioning, practices, especially those among the Company's competitors, as well as the Company's performance and the individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires.

During 2005, certain executive directors and senior management received an annual award comprised of up to three of the vehicles identified above. The Company also made additional one-time awards to replace outstanding IBM stock options held by employees transferred from IBM. These awards comprised a combination of SARs and RSUs.

Awards outstanding for executive and non-executive directors as of March 31, 2006 under the LTI Program are presented below.

Share Option Scheme
The Company operates two share option schemes for employees in China, the "New Share Option Scheme" and the "Old Option Scheme". Details of the schemes are set out in the Directors' Report on pages 40 and 41. Options outstanding for executive and non-executive directors as of March 31, 2006 under this scheme are presented in the Directors' Report on page 42.

No options were granted under these Schemes during the year ended March 31, 2006.

Retirement Benefits

The Company operates a number of retirement schemes for its employees, including executive directors and senior management. These schemes are reviewed regularly and are intended to deliver benefit levels that are consistent with local market practices. Details of the programs are set out in the Directors' Report on pages 52 to 54.

2005 Long-Term Incentive Awards

The total number of awards of the members of the Board, including the Chairman and CEO, under the LTI Program is set out below.

Name	Award type	Date of acceptance (MM.DD.YYYY)	Effective price (HK$)	Number of units: As at April 1, 2005	Awarded during the year	Vested during the year	Lapsed during the year	As at March 31, 2006	Maximum number of shares subject to conditions	Vesting period (MM.DD.YYYY)
Executive Directors										
Mr. Yang Yuanqing	SAR	11.02.2005	2.42	–	6,362,756	–	–	6,362,756	6,362,756	05.01.2006 to 05.01.2009
	RSU	11.02.2005	2.42	–	928,795	–	–	928,795	928,795	05.01.2006 to 05.01.2009
	PSU	11.02.2005	2.42	–	928,795	–	–	928,795	1,857,590	*Note*
Ms. Ma Xuezheng	SAR	11.02.2005	2.42	–	2,081,500	–	–	2,081,500	2,081,500	05.01.2006 to 05.01.2009
	RSU	11.02.2005	2.42	–	303,900	–	–	303,900	303,900	05.01.2006 to 05.01.2009
	PSU	11.02.2005	2.42	–	303,900	–	–	303,900	607,800	*Note*
Mr. Stephen M. Ward, Jr.	SAR	11.02.2005	2.42	–	39,855,399	39,855,399	–	–	–	12.20.2005
	RSU	11.02.2005	2.42	–	5,814,509	5,814,509	–	–	–	12.20.2005
	PSU	11.02.2005	2.42	–	1,924,900	1,924,900	–	–	–	12.20.2005
Non–Executive Directors										
Mr. Liu Chuanzhi	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Mr. Zhu Linan	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Mr. William O. Grabe	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Mr. Shan Weijian	SAR	11.03.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Independent Non–Executive Directors										
Mr. Wong Wai Ming	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Professor Woo Chia-Wei	SAR	11.04.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Mr. Ting Lee Sen	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008
Mr. John W. Barter III	SAR	11.02.2005	3.15	–	564,000	–	–	564,000	564,000	05.01.2006 to 05.01.2008

Note: Within 75 days following the announcement of the audited financial results of the Company for the financial year ending March 31, 2008.

The total number of awards granted in the year (including members of the Board and employees) under the LTI Program is set out below.

	Award type	Effective price (HK$)	Number of units: As at April 1, 2005	Awarded during the year	Vested during the year	Lapsed during the year	As at March 31, 2006	Maximum number of shares subject to conditions	Vesting period (MM.DD.YYYY)
All Directors									
	SAR	2.32 – 3.78	–	52,811,655	39,855,399	–	12,956,256	12,956,256	12.20.2005 to 05.01.2009
	RSU	2.32 – 3.78	–	7,047,204	5,814,509	–	1,232,695	1,232,695	12.20.2005 to 05.01.2009
	PSU	2.32 – 3.78	–	3,157,595	1,924,900	–	1,232,695	2,465,390	12.20.2005 to 05.01.2008
All other employees									
	SAR	2.32 – 3.78	–	160,170,066	–	532,459	159,637,607	159,637,607	05.01.2006 to 05.01.2008
	RSU	2.32 – 3.78	–	100,527,959	–	415,802	100,112,157	100,112,157	05.01.2006 to 05.01.2009
	PSU	2.32 – 3.78	–	10,223,492	–	–	10,223,492	20,446,984	05.01.2008
Total									
	SAR	2.32 – 3.78	–	212,981,721	39,855,399	532,459	172,593,863	172,593,863	12.20.2005 to 05.01.2009
	RSU	2.32 – 3.78	–	107,575,163	5,814,509	415,802	101,344,852	101,344,852	12.20.2005 to 05.01.2009
	PSU	2.32 – 3.78	–	13,381,087	1,924,900	–	11,456,187	22,912,374	12.20.2005 to 05.01.2008

External Auditors

The Group's external auditors are PricewaterhouseCoopers, who are remunerated for their audit services provided to the Group. For the sake of independence of external auditors, PricewaterhouseCoopers will not be engaged for non-audit work unless it is indispensable to the benefit of the Group and has no adverse effect on the independence of their audit work.

During the year, the external auditors (including any entity that is under common control, ownership or management with the external auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the external auditors nationally or internationally) provided audit and insignificant non-audit services to the Group.

Significant Changes in the Company's Articles of Association

During the year and up to the date of this annual report, the articles of association of the Company were amended on the date and for the reasons stated below.

To confirm the terms of the Series A Cumulative Convertible Preferred Shares (a then new class of shares in the share capital of the Company), an ordinary resolution and a special resolution were duly passed to increase the authorized capital of the Company and to add a new Article A to the articles of association of the Company respectively on May 13, 2005. A full text of such resolutions was contained in the circular of the Company dated April 20, 2005.

CG Code

The Company has complied with all the code provisions in the CG Code throughout the year ended March 31, 2006, save for the deviations mentioned below:

Code A.1.7

This code stipulates that there should be procedure agreed by the Board to enable directors to seek independent professional advice at the Company's expense.

The Board has on November 1, 2005 approved a procedure to enable the directors to seek independent advice at the Company's expense to the extent that it is reasonably incurred. In addition, the terms of reference for the Company's board committees explicitly allow directors to seek independent professional advice at the Company's expense.

Code A.4.1

This code stipulates that non-executive directors should be appointed for a specific term.

Non-executive directors of the Company do not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same purpose as a specific term of appointment.

Code A.4.2

The code stipulates that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Mr. William J. Amelio who was appointed executive director of the Company to replace director Mr. Stephen M. Ward, Jr. on December 20, 2005 will retire and be eligible for re-election at the forthcoming annual general meeting (to be held after the first extraordinary general meeting of the Company on May 24, 2006) in accordance with the Company's Articles of Association which conforms Appendix 3 of the Listing Rules.

Code A.5.1

This code stipulates that new director be provided with a comprehensive formal induction upon appointment.

During the year the Company commenced a practice of providing newly-appointed directors with induction materials consisting of a description of director's duties and an opportunity to consult with independent counsel.

Code A.5.4

This code stipulates that, inter alia, the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company.

Appropriate guidelines have been approved to be established by the Board on October 19, 2005 for relevant employees in respect of their dealings in the securities of the Company. The Company has had a policy concerning the dealings by relevant employees in the securities of the Company and the Board has also ratified such policy on October 19, 2005.

Code B.1.3

This code stipulates that the terms of reference of the Compensation Committee should include such details set out therein.

A set of new terms of reference complying with this code has been adopted by the Board on October 19, 2005.

Code C.3.3

This code stipulates that the terms of reference of the Audit Committee should include such details set out therein.

A set of new terms of reference complying with this code has been adopted by the Board on October 19, 2005.

Shareholders' Rights

The Company is committed to safeguard shareholders' interests and encourage shareholders to attend the annual general meeting for which at least 21 days' notice is given. The Chairman of the Board and directors are available to answer questions at the meeting. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. All substantive resolutions at general meetings are decided on a poll. The poll is conducted by the Company's share registrars and the results of the poll are published on the Company's website. Statutory announcements, financial and other information is made available on the Company's website, which is regularly updated.

Investor Relations

The Company is committed to communicating with the investment community. As the Company became a global PC vendor, it also saw increasing interest from institutional investors worldwide during the year.

In addition to maintaining regular contact and meetings with institutional investors and securities analysts, the Company provided more flexibility for international investors by making live webcast available on its corporate website for results announcements and other major corporate developments. Senior executives of the Company also participated in investment conferences in a number of major financial cities to discuss with institutional investors company strategy and growth potential.

The Company will expand and enhance its investor relations program to provide better support to the investment community worldwide. In 2006, the Company's continuing efforts and commitment to investor communications was recognized by investors when it was presented with the award for China's best investor relations company by *FinanceAsia*.

The Company welcomes suggestions from investors and shareholders and invites them to share their views and suggestions by contacting the Company's Investor Relations team at cmk@lenovo.com.

Information for Investors

Listing Information

Listing:	Hong Kong Stock Exchange
Stock code:	0992

American Depositary Receipts (Level I Program)

Ordinary share to ADR:	20:1
Stock code:	LNVGY

Share Information

Board lot size: 2,000 shares

Ordinary voting shares outstanding as of March 31, 2006: 8,517,920,623 shares

Market capitalization as of March 31, 2006: HK$25,127,865,838

Basic earnings per share for the year ended March 31, 2006: 1.97 HK cents

Dividend per ordinary share for the year ended March 31, 2006:

– Interim	2.4 HK cents
– Proposed final	2.8 HK cents
– Proposed total	5.2 HK cents

Key Dates

August 1, 2005	Extraordinary General Meeting
August 10, 2005	Announcement of First Quarter Results
November 1, 2005	Announcement of Interim Results
November 17-23, 2005 (both days inclusive)	Closure of Register of Members
December 2, 2005	Payment of 2005/06 Interim Dividend
January 26, 2006	Announcement of Third Quarter Results
May 24, 2006	Extraordinary General Meetings
May 25, 2006	Announcement of Annual Results
August 23-29, 2006 (both days inclusive)	Closure of Register of Members
August 29, 2006	Annual General Meeting
September 8, 2006	Proposed Payment of 2005/06 Final Dividend

Directors’ Report and Financial Statements

Contents

Directors' Report

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

Principal business and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

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

Results and appropriations

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

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

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

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

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

The Register of Members of ordinary shares of the Company will be closed from Wednesday, August 23, 2006 to Tuesday, August 29, 2006, both dates inclusive, during which period, no transfer of ordinary shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar not later than 4:00 p.m. on Tuesday, August 22, 2006.

Five-year financial summary

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2006 and for the last four financial years are set out on page 128.

Reserves

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

Distributable reserves

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

Bank loans

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

Donations

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

Property, plant and equipment

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

Share capital

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

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

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

Subsidiaries and associated companies

Particulars of the Company's principal subsidiaries and associated companies as at March 31, 2006 are set out in notes 42 and 22 to the financial statements respectively.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

During the year, the Group sold less than 15 percent of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	20 percent
Five largest suppliers combined	39 percent

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

Directors' rights to acquire shares or debentures

Share option schemes

At the Extraordinary General Meeting of the Company held on March 25, 2002, the shareholders of the Company approved the adoption of a new share option scheme ("New Option Scheme") and the termination of the old share option scheme ("Old Option Scheme"). Although no further options may be granted under the Old Option Scheme, all remaining provisions will remain in force to govern the exercise of all the options previously granted.

1. Old Option Scheme

The Old Option Scheme was adopted on January 18, 1994 and was terminated on April 26, 2002. The Old Option Scheme was designed to provide qualified employees with appropriate incentives linked to share ownership. Only employees, including directors, of the Group could participate in the Old Option Scheme. Total number of options must not exceed 10 percent of the issued share capital of the Company. The maximum entitlement of any individual participant thereunder must not exceed 2.5 percent of the shares in issue. The exercise price for options was determined based on not less than 80 percent of the average closing price of the listed ordinary shares for the 5 trading days immediately preceding the date of grant. Options granted were exercisable at any time during a period of 10 years.

As at March 31, 2006, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder is 181,744,000 ordinary shares, representing approximately 2.04 percent of the issued share capital of the Company (including voting and non-voting ordinary shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

2. New Option Scheme

(a) Purpose

The New Option Scheme became effective on April 26, 2002. It serves as a way of providing incentives to and attracting qualified participants for better performance of the Group by allowing them to participate in increases in the value of the Company.

(b) Qualified participants

1. (i) any employee or officer, executive or non-executive director (or persons proposed to be appointed as such) of the Group;

   (ii) any consultant, professional or other adviser to the Group;

   (iii) any director, executive and senior officer of any associated company of the Company; and

   (iv) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons; and

2. (i) any customer, supplier, agent, partner, distributor, professional or other advisers of, or consultants or contractors to, the Group; and

   (ii) the trustee of any trust pre-approved by the directors of which the beneficiary (or in case of discretionary trust, the discretionary objects) include any of the above-mentioned persons.

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

Share option schemes *(continued)*

2. New Option Scheme *(continued)*

(c) *Maximum number of shares*

As at March 31, 2006, the maximum number of ordinary shares available for issue under the New Option Scheme is 223,102,000, representing approximately 2.51 percent of the issued share capital of the Company (including voting and non-voting ordinary shares but not Series A Cumulative Convertible Preferred Shares) as at the date of this report.

(d) *Maximum entitlement of each qualified participant*

The maximum number of ordinary shares issued and to be issued upon exercise of share options granted to each qualified participant (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1 percent of the ordinary shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options to be granted to a director or chief executive of the Company or any of their respective associates are subject to approval by the independent non-executive directors of the Company. In addition, any grant of share options to an independent non-executive director of the Company or any of their respective associates, when aggregated with all share options (whether exercised, cancelled or outstanding) already granted to any of them during the 12-month period up to the date of grant, in excess of 0.1 percent of the ordinary shares of the Company in issue and with an aggregate value in excess of HK$5,000,000, is subject to shareholders' approval in general meeting of the Company.

(e) *Timing for exercise of options*

In respect of any particular option, the directors may in their absolute discretion determine the period within which an option may be exercised provided that such period must expire no later than 10 years from the date upon which the option is deemed to be accepted by the grantee. Option will then lapse to the extent not exercised during the option period.

(f) *Acceptance of offers*

An option shall be deemed to have been granted and accepted when the duplicate offer letter comprising acceptance of the option duly signed by the grantee shall have been received by the Company on or before the last day for acceptance as set out in the offer letter.

(g) *Basis for determination of exercise price*

The exercise price must be no less than the highest of: (i) the closing price of the listed ordinary shares on the date of grant; (ii) the average of the closing prices of the listed ordinary shares of the Company for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of the ordinary shares.

(h) *Life of the scheme*

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

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

Share option schemes *(continued)*

3. Outstanding options

Particulars of the outstanding options are as follows:

	Options held at April 1, 2005	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at March 31, 2006	Exercise price HK$	Grant date (MM.DD.YYYY)	Exercise period (MM.DD.YYYY)
Old Option Scheme								
Directors								
Mr. Yang Yuanqing	6,000,000	–	–	–	6,000,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	2,250,000	–	–	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Ms. Ma Xuezheng	2,920,000	–	–	–	2,920,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	1,600,000	–	–	–	1,600,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Mr. Liu Chuanzhi	2,250,000	–	–	–	2,250,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
Continuous contract employees	7,712,000	–	–	–	7,712,000	4.038	01.28.2000	01.28.2000 to 01.27.2010
	74,480,000	–	–	–	74,480,000	4.312	01.15.2001	01.15.2001 to 01.14.2011
	26,630,000	–	–	–	26,630,000	4.072	04.16.2001	04.16.2001 to 04.15.2011
	832,000	–	–	–	832,000	2.904	08.29.2001	08.29.2001 to 08.28.2011
	70,160,000	–	13,090,000	–	57,070,000	2.876	08.31.2001	08.31.2001 to 08.30.2011
New Option Scheme								
Directors								
Mr. Yang Yuanqing	3,000,000	–	–	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Ms. Ma Xuezheng	1,600,000	–	–	–	1,600,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Mr. Liu Chuanzhi	3,000,000	–	–	–	3,000,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
Continuous contract employees	24,830,000	–	8,304,000	–	16,526,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	105,416,000	–	49,048,000	–	56,368,000	2.245	04.26.2003	04.26.2003 to 04.25.2013
	156,278,000	–	39,700,000	–	116,578,000	2.545	04.27.2004	04.27.2004 to 04.26.2014
	9,400,000	–	–	–	9,400,000	2.170	07.08.2004	07.08.2004 to 07.07.2014
Other participants	16,142,000	–	1,112,000	–	15,030,000	2.435	10.10.2002	10.10.2002 to 10.09.2012
	–	–	–	–	1,600,000*	2.245	04.26.2003	04.26.2003 to 04.26.2013

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

Notes:

1. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the Old Option Scheme was HK$3.567.

2. Weighted average closing price of the listed ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees under the New Option Scheme was HK$3.344.

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

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

Share option schemes *(continued)*

4. Valuation of share options

The share options granted are not recognized in the financial statements until they are exercised. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

2005 long-term incentive program

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

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

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

Purchase, sale or redemption of the Company's securities

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

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

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

Directors

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

In accordance with articles 92 and 101 of the Company's articles of association, Mr. William J. Amelio, Mr. John W. Barter III, Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Wong Wai Ming and Mr. Ting Lee Sen will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

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

Biography of directors and senior management

Biography of directors

Executive directors

Mr. Yang Yuanqing, 41, is the Chairman of the Board. Mr. Yang is a former Chief Executive Officer of the Company and has been an executive director since December 16, 1997. He has more than 15 years of experience in the field of computer, graduating from the Department of Computer Science at the University of Science and Technology of China with a master's degree in 1989. Mr. Yang is also an independent non-executive director of UFIDA Software Co. Ltd. (listed on the Shanghai Stock Exchange).

Mr. William J. Amelio, 48, has been an executive director, the President and Chief Executive Officer of the Company since December 20, 2005. Prior to joining the Company, he was the Senior Vice President for the Asia-Pacific and Japan regions of Dell Inc. Prior to joining Dell in March 2001, he was Executive Vice President and Chief Operating Officer of the retail and financial group of NCR Corporation from July 2000 to March 2001. From 1997 until 2000, Mr. Amelio was President of AlliedSignal Inc.'s turbo charging systems business and President and Chief Executive Officer of Honeywell International Inc.'s transportation and power-systems divisions after the merger of AlliedSignal and Honeywell. He also spent 18 years from 1979 to 1997 with IBM and held a variety of senior-management positions, including as General Manager of Worldwide Operations for IBM's personal computing business. He holds a bachelor's degree in Chemical Engineering from Lehigh University and a master's degree in Management from Stanford University.

Ms. Ma Xuezheng, 53, is the Senior Vice President and Chief Financial Officer. Ms. Ma has been an executive director of the Company since May 15, 1997. She has more than 27 years of experience in financial and executive management. She graduated from Capital Normal University in 1976 with a bachelor of Arts degree. Ms. Ma is also an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited and Sohu.com Inc. (NASDAQ listed).

Non-executive directors

Mr. Liu Chuanzhi, 62, was re-designated as a non-executive director of the Company on April 30, 2005 when he ceased to be the Chairman of the Board. Mr. Liu is the leading founder of Lenovo Group. He had been the Chairman of the Board and an executive director of the Company from February 8, 1994 and November 8, 1993 respectively. He has more than 35 years of experience in the computer industry. He graduated from the Department of Radar Communications at Xian Military Communications Engineering College of China in 1966. Mr. Liu is also a director of Legend Holdings Limited, the controlling shareholder of the Company.

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

Mr. James G. Coulter, 46, has been a non-executive director of the Company since May 17, 2005. Mr. Coulter is a founding partner of Texas Pacific Group. Prior to forming Texas Pacific Group, he was a Vice President of Keystone Inc. and a financial analyst with Lehman Brothers Kuhn Leob Inc. Mr. Coulter also serves on the board of directors of Zhone Technologies Inc. (NASDAQ listed).

Mr. William O. Grabe, 68, has been a non-executive director of the Company since May 17, 2005. Mr. Grabe is a Managing Director of General Atlantic LLC and has been with the General Atlantic Group since 1992. Prior to that, he served as the Vice President and Corporate Officer of IBM. Mr. Grabe is also a director of the following listed companies: Bottomline Technologies Inc. (NASDAQ listed), Digital China Holdings Limited (Hong Kong Stock Exchange listed), Patni Computer Systems Limited (Mumbai Stock Exchange listed), Gartner Inc. (NYSE listed) and Compuware Corporation (NASDAQ listed).

Mr. Shan Weijian, 52, has been a non-executive director of the Company since May 17, 2005. Mr. Shan is Co-Managing Partner of Newbridge Capital, and serves on the board of directors at BOC Hong Kong (Holdings) Limited, China Unicom Limited, TCC International Holdings Limited (each of which is listed on the Hong Kong Stock Exchange) and Baoshan Iron & Steel Company Limited (listed on the Shanghai Stock Exchange), Shenzhen Development Bank (Listed on the Shenzhen Stock Exchange) and Taishin Financial Holdings Limited (listed on the Taiwan Stock Exchange) and Mr. Shan holds a PhD from the University of California Berkeley.

Alternate directors

Mr. Justin T. Chang, 39, has been an alternate director to Mr. James G. Coulter since May 17, 2005. Mr. Chang is a partner of Texas Pacific Group and co-heads the firm's investment activities in technology and related industries. Mr. Chang received his MBA from Harvard Business School and his bachelor degree, cum laude, in Economics and Political Science from Yale University. Mr. Chang is also a director of ON Semiconductor Corporation (NASDAQ listed).

Mr. Vince Feng, 33, has been an alternate director to Mr. William O. Grabe since May 17, 2005. Mr. Feng is a Managing Director of General Atlantic LLC. Mr. Feng has overall responsibility for the East Asia investment activities of General Atlantic LLC. He has been with the General Atlantic Group since 1998. Prior to that, Mr. Feng worked at Goldman Sachs (Asia) LLC. He is also a director of Vimicro International Corporation (NASDAQ listed), A-Max Technology Limited, Oak Pacific Interactive and Data Systems Consulting Co., Ltd. (Taiwan Stock Exchange Listed).

Biography of directors and senior management *(continued)*

Biography of directors *(continued)*

Alternate directors (continued)

Mr. Daniel A. Carroll, 45, has been an alternate director to Mr. Shan Weijian since May 26, 2005. Mr. Carroll is Co-Managing Partner of Newbridge Capital. He joined Newbridge in 1995 and has been responsible for raising and investing the firm's three investment funds and building the firm's Asia-based investment teams. Mr. Carroll runs Newbridge's investment committee and, together with Mr. Shan Weijian, oversees the firm's investment strategy and operations. Prior to that, Mr. Carroll spent nine years with Hambrecht & Quist Group. He holds a bachelor degree in Economics from Harvard University and an MBA from the Stanford University Graduate School of Business. Mr. Carroll is also currently a director of Advanced Interconnect Technologies and Shenzhen Development Bank (listed on the Shenzhen Stock Exchange).

Independent non-executive directors

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

Professor Woo Chia-Wei, 68, has been an independent non-executive director of the Company since August 23, 1999. Professor Woo is Senior Advisor to The Shui On Group, and is also President Emeritus and University Professor Emeritus of Hong Kong University of Science and Technology. He serves on the Hong Kong Special Administrative Region's Commission on Strategic Development and the Chinese People's Political Consultative Conferences. In addition, Professor Woo is an independent non-executive director of First Shanghai Investments Ltd., Shanghai Industrial Holdings Ltd., IDT International Limited and Synergis Holdings Ltd. (all listed on the Hong Kong Stock Exchange).

Mr. Ting Lee Sen, 63, has been an independent non-executive director of the Company since February 27, 2003. He has extensive knowledge and experience in IT industry and is the Managing Director of W.R. Hambrecht + Co. and Board Director of Microelectronics Technology Inc. (listed on Taiwan Stock Exchange). He is also a former corporate vice president of Hewlett-Packard Company, where he worked for more than 30 years. Mr. Ting obtained a bachelor of Science degree in Electrical Engineering from the Oregon State University in 1965. He attended graduate studies in the same field at Stanford University and is a graduate of the Stanford Executive Program.

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

Biography of senior management

(in alphabetical order of surname)

Mr. Deepak Advani, 42, joined the Group in May 2005 and is currently the Senior Vice President and Chief Marketing Officer of Lenovo Group. Before joining the Group, Mr. Advani was the Vice President, Marketing, of IBM's Personal Computing Division. He spent 12 years with IBM and has expertise in business strategy and brand management. He holds a bachelor of Science degree in Computer Science, a master's degree in Computer Engineering and an MBA from The Wharton School.

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

Biography of directors and senior management *(continued)*

Biography of senior management *(continued)*

(in alphabetical order of surname)

Mr. Chen Shaopeng, 37, joined the Group in 1993 and is currently the Senior Vice President and President for Greater China of Lenovo Group. Mr. Chen has expertise in the sales and marketing of IT products and held various senior positions in regional sales, the commercial desktop PC business, and sales and marketing. Mr. Chen graduated in 1992 from the Department of Computer Science at the Beijing Technology and Business University with a bachelor degree in Engineering. Mr. Chen obtained his EMBA master's degree in Business and Administration from Tsinghua University in 2004.

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

Mr. He Zhiqiang, 43, joined the Group in 1986 and is currently the Senior Vice President and Chief Technology Officer of Lenovo Group. He has expertise in R&D of computer products, development of R&D system and R&D project management. He graduated with a master's degree in Computer Sciences from the Institute of Computing Technology of the Chinese Academy of Sciences.

Dr. Peter D. Hortensius, 45, joined the Group in May 2005 as Senior Vice President for worldwide product development and was appointed General Manager for the Notebook Business Unit of Lenovo in October 2005. Before joining the Group, Dr. Hortensius was the Vice President, Products and Offerings, for IBM's Personal Computing Division. He spent 17 years with IBM and has extensive expertise in product and technology research and development. Before moving to Raleigh, North Carolina, he spent 10 years working at IBM's renowned T.J. Watson Research Center in Yorktown Heights, New York, and is the holder of 10 patents. He holds a doctorate degree in Electrical Engineering from the University of Manitoba in Canada, which he received in 1988.

Mr. Liu Jun, 37, joined the Group in 1993 and is currently the Senior Vice President for Global Supply Chain. Mr. Liu has extensive experience in the operation of IT business and corporate strategy management. He held various senior positions for PC design & development, desktop computer business unit, consumer IT business group, corporate operation, and corporate strategy. Mr. Liu graduated in 1993 from the Department of Automation, Tsinghua University, with a bachelor of Engineering degree and received the EMBA master's degree from Tsinghua University in 2005.

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

Mr. Lu Yan, 41, joined the Group in 1992 and is currently the Vice President and General Manager for the Desktop Business Unit. Mr. Lu has expertise in project R&D, operations and marketing, and held various senior positions for the R&D of desktops, motherboard business, handheld device business and information product business. He graduated in 1989 with a master's degree in the Department of Automatic Control from the Beijing Institute of Technology and obtained the EMBA master's degree from China Europe International Business School in 2005.

Mr. Ravi Marwaha, 63, joined the Group in May 2005 and is currently the Senior Vice President and President for Asia Pacific of Lenovo Group. Before joining the Group, Mr. Marwaha was the Vice President of worldwide sales for IBM's Personal Systems Group. He spent 36 years with IBM and has expertise in hardware product sales, channel sales, emerging marketing sales, small and medium business sales, distribution channel marketing and marketing management. He holds a bachelor of Engineering degree with honors from the University of Jabalpur, India.

Mr. Bill Matson, 46, joined the Group in May 2005 and is currently the Senior Vice President for human resources of Lenovo Group. Before joining the Group, he worked at IBM's Business Transformation Outsourcing organization. He spent 24 years with IBM and has experience in a wide range of human resources roles, including staffing, benefits, executive development, compensation and employee relations, supporting the manufacturing, development, marketing, sales and services segments. Mr. Matson graduated with honors from Cornell University's School of Industrial and Labor Relations.

Ms. Fran O'Sullivan, 47, joined the Group in May 2005 and is currently the Senior Vice President for the Product Group. Before joining the Group, Ms. O'Sullivan was the General Manager of the Personal Computing Division of IBM. She spent 24 years with IBM, where she gained engineering and management expertise in development, manufacturing, procurement, and technical and business operations. She graduated from the University of Virginia with a bachelor of Science degree in Electrical Engineering in 1980.

Biography of directors and senior management *(continued)*

Biography of senior management *(continued)*

(in alphabetical order of surname)

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

Mr. Qiao Song, 38, joined the Group in 1991 and is currently the Senior Vice President and Chief Procurement Officer of Lenovo Group. He has expertise in product development, sales and marketing, and supply chain and procurement logistic management, and held various senior positions in the supply chain management, notebook computer business, commercial PC division and international business. Mr. Qiao graduated with a bachelor of Engineering degree from the Department of Computer Science and Technology at Tsinghua University in 1991.

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

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

Mr. Milko van Duijl, 44, joined the Group in May 2005 and is currently the Senior Vice President and President for EMEA (Europe, Middle East and Africa) of Lenovo Group. Before joining the Group, Mr. van Duijl was the Vice President, EMEA, of IBM's Personal Computing Division. He spent 16 years with IBM and has diverse expertise across the entire spectrum of the Technology business. Prior to IBM, he was employed by Andersen Consulting and held positions in London and Amsterdam. He holds a doctorandus title/MBA from the University of Rotterdam and a BBA from University of Nijenrode.

Ms. Wang Xiaoyan, 44, joined the Group in 1994 and is currently the Senior Vice President responsible for Information Services. She has extensive experience in establishment of IT information systems, finance and administration, and was responsible for information technology development, financial control, administration and logistic functions. She graduated in 1988 with a master's degree in Engineering from Beijing Institute of Technology.

Qualified Accountant

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

Directors' service contracts

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

Mr. William J. Amelio, an Executive Director, President and Chief Executive Officer of the Company entered into a service contract with the Company for an initial term of 3 years on December 20, 2005 which will automatically continue for successive one-year periods unless otherwise terminated by either party. Upon termination of the service contract, Mr. Amelio may be entitled to compensation and other payments equivalent to more than one year's emoluments depending on a number of factors including the amount of his unvested equity awards and the entitlement and amount of his target bonus. The service contract was approved by the shareholders at an extraordinary general meeting of the Company held on May 24, 2006 (at which Mr. Amelio and his associates abstained from voting) pursuant to Rule 13.68 of the Listing Rules.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

Directors' interests

As at March 31, 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer in the Listing Rules ("Model Code") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Interests in shares/ underlying shares	Capacity and number of shares/underlying shares held: Personal interests	Family interests	Trust	Aggregate long position
Mr. Yang Yuanqing	Ordinary voting shares	10,200,000	–	–	10,200,000
	Share options	11,250,000	–	–	11,250,000
	Share awards	9,149,141	–	–	9,149,141
					30,599,141
Mr. William J. Amelio	Ordinary voting shares	3,000,000	–	–	3,000,000
Ms. Ma Xuezheng	Ordinary voting shares	15,834,000	–	7,240,000	23,074,000
	Share options	6,120,000	–	–	6,120,000
	Share awards	2,993,200	–	–	2,993,200
					32,187,200
Mr. Liu Chuanzhi	Ordinary voting shares	16,010,000	976,000	–	16,986,000
	Share options	5,250,000	–	–	5,250,000
	Share awards	564,000	–	–	564,000
					22,800,000
Mr. Zhu Linan	Ordinary voting shares	3,720,000	–	–	3,720,000
	Share awards	564,000	–	–	564,000
					4,284,000
Mr. William O. Grabe	Share awards	564,000	–	–	564,000
Mr. Shan Weijian	Share awards	564,000	–	–	564,000
Mr. Wong Wai Ming	Share awards	564,000	–	–	564,000
Professor Woo Chia-Wei	Share awards	564,000	–	–	564,000
Mr. Ting Lee Sen	Share awards	564,000	–	–	564,000
Mr. John W. Barter III	Share awards	564,000	–	–	564,000

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

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

Save as disclosed above, as at March 31, 2006, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' interests in securities of the Company

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

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

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

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

Notes:

1. The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name.

2. The shares were beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.

3. Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. Therefore, it is taken to be interested in any shares in which they are interested.

4. International Business Machines Corporation ("IBM") had an interest in an aggregate of 1,307,153,271 ordinary shares, comprising 931,870,515 ordinary voting shares and 375,282,756 ordinary non-voting shares. 821,234,569 voting ordinary shares and 921,636,459 ordinary non-voting shares were allotted to IBM upon initial closing of the Company's acquisition of IBM's global desktop computer and notebook computer business on April 30, 2005. On May 17, 2005, IBM converted 110,635,946 ordinary non-voting shares to an equal number of ordinary voting shares. The Company repurchased 435,717,757 ordinary non-voting shares from IBM on August 2, 2005. The ordinary non-voting shares have the same rights as the ordinary voting shares save that the ordinary non-voting shares shall not carry any voting rights until they are converted into listed ordinary voting shares.

5. TPG IV Acquisition Company LLC is indirectly wholly owned by TPG Advisors IV, Inc.

6. Mr. David Bonderman has an interest in underlying shares by virtue of his shareholding in TPG Advisors IV, Inc., TPG Advisers III, Inc., T^3 Advisors II, Inc. and Tarrant Advisors, Inc. (Tarrant Advisers, Inc. owns 50% of the Shares of Newbridge Asia Advisors III, Inc.).

7. T^3 II Acquisition Company, LLC is indirectly wholly owned by T^3 Advisors II, Inc.

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

8. TPG III Acquisition Company, LLC is indirectly wholly owned by TPG Advisors III, Inc.

9. Newbridge Asia Acquisition Company LLC is indirectly wholly owned by Newbridge Asia Advisors III, Inc.

10. GAP (Bermuda) Ltd. is the general partner of General Atlantic Partners (Bermuda), L.P.

11. GAPCO Management GmbH is the general partner of GAPCO GmbH & Co. KG.

12. General Atlantic LLC is the general partner of General Atlantic Partners 81, L.P.

13. GapStar, LLC is directly wholly owned by General Atlantic LLC.

14. The percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.

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

Transactions in the Company's securities

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

   On May 1, 2005, the Company entered into a Repurchase Agreement with IBM pursuant to which IBM agreed to sell and the Company agreed to purchase 435,717,757 of the non-voting ordinary shares, issued to IBM to satisfy part of the consideration for the Acquisition. Total cash consideration paid by the Company for repurchase of such shares is approximately US$152,221,909 which is equivalent to HK$2.725 per share. Details of the repurchase were disclosed in the circular of the Company dated July 6, 2005. The repurchase was completed on August 2, 2005.

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

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

Transactions in the Company's securities *(continued)*

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

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

Retirement scheme arrangements

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

Defined benefit pensions plans

Hong Kong – Mandatory Provident Fund

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

Chinese Mainland – retirement schemes

The Group participates in respective local municipal government retirement schemes in the mainland of China ("Chinese Mainland") whereby it is required to make an annual contribution of no more than 20 percent of three times the monthly average salaries as set out by the local municipal government each year. The local municipal governments undertake to assume the retirement benefit obligations of all retirees of the qualified employees in the Chinese Mainland.

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

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

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

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

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

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

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

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	5.00%
– Future salary increases:	3.00%
– Future pension increases:	0.00%

- The plan was unfunded at the actuarial valuation date as it is a new plan. The Group will start funding in 2006 as for the relevant tax rules.
- There was a deficit of HK$257,408,000 (US$33,001,052) under this plan for this reason at the actuarial valuation date.

Retirement scheme arrangements *(continued)*

Defined benefit pensions plans *(continued)*

Japan – Pension Plan

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

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

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

- The actuarial valuation was prepared by Mitsubishi Trust Bank. The actuaries involved are fully qualified under the requirements of Japanese law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	2.00%
– Expected return on plan assets:	3.80%
– Future salary increases:	3.10%
– Future pension increases:	0.00%

- The plan was 32% funded at the actuarial valuation date. A further amount of HK$229,820,000 (US$29,464,128) is to be received from IBM under the terms of the Employee Matters Agreement.
- There was a deficit of HK$427,103,000 (US$54,756,798) due to the receivables from IBM and the adoption of more conservative assumptions than those used by IBM to calculate the assets transferred.

Germany – Pension Plan

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

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

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

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

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

- The actuarial valuation was prepared by Kern, Mauch & Kollegen. The actuaries involved are fully qualified under the requirements of German law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	4.25%
– Future salary increases:	2.50%
– Future pension increases:	0.00%

- The plan was entirely unfunded at the actuarial valuation date, as it is a new plan and an asset transfer of HK$120,673,000 (US$15,470,885) had not yet been received from IBM.
- There was a deficit of HK$146,993,000 (US$18,845,297) under this plan at the actuarial valuation date for the above reason, and the adoption of more conservative actuarial assumptions than those used by IBM to calculate the assets transferred.

Retirement scheme arrangements *(continued)*

Defined Contribution Plans

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

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

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

US Lenovo Executive Deferred Compensation Plan

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

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

United Kingdom ("UK") – Lenovo Savings Plan

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

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

Canada – Lenovo Savings Plan

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

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

Connected transactions

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

Connected transactions with connected persons other than IBM

1. On October 27, 2003, Lenovo (Beijing) Limited, the Company's subsidiary, entered into a Services Agreement with Shenzhen Zhiqin International Freight Forwarding Co., Ltd. pursuant to which Shenzhen Zhiqin International Freight Forwarding Co., Ltd. together with its group companies agreed to provide logistics services to the Group for a term of 2 years. Shenzhen Zhiqin International Freight Forwarding Co., Ltd. is an associate of the controlling shareholder of the Company and thus a connected person within the meaning of the Listing Rules.

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

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

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

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

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

Connected transactions *(continued)*

Continuing connected transactions with IBM or its associates

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

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

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

(1) A Share Repurchase Agreement dated May 1, 2005 ("Repurchase Agreement") pursuant to which the Company agreed to repurchase from IBM 435,717,757 Non-voting Shares at a total consideration of approximately HK$1,187,330,888 (HK$2.725 per share). Details of the Repurchase Agreement are set out in the circular issued by the Company to the shareholders on July 6, 2005. The Repurchase Agreement was approved by the independent shareholders at an extraordinary general meeting of the Company on August 1, 2005.

(2) A China Services Agreement dated April 27, 2005 and as amended by an amendment agreement dated July 22, 2005 ("CSA") and a Reverse Transition Services Agreement ("Reverse TSA") dated April 30, 2005 (i) pursuant to the CSA Changchun Blue Express Computer Engineering Technology Co., Ltd. ("Blue Express"), a subsidiary of IBM, has agreed to provide maintenance and warranty services to IIPC, a subsidiary of the Company and (ii) pursuant to the Reverse TSA the Company has agreed to provide certain transitional services to IBM. Details of the CSA and the Reverse TSA are set out in the circular issued by the Company to the shareholders on July 23, 2005. CSA and the Reverse TSA were approved by the independent shareholders at an extraordinary general meeting of the Company on August 9, 2005 and are subject to reporting requirements under the Listing Rules.

(3) A Master Services Agreement dated December 30, 2005 ("MSA") pursuant to which IBM has agreed to provide certain human resources related information technology services to the Group. Details of the MSA are set out in an announcement published by the Company on January 17, 2006.

(4) A letter of agreement dated March 30, 2006 pursuant to which IBM and the Company have agreed to extend or renew, for 35 IBM locations, the corresponding license agreements for a fixed term of 60 days or 90 days (as the case may be) at an aggregate license fee not exceeding US$3,630,633 (HK$28,318,937.40). Details of the letter of agreement are set out in an announcement published by the Company on April 21, 2006.

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

Transition Services Agreement

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

Connected transactions *(continued)*

Strategic Financing and Asset Disposition Services Agreement

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

Connected transactions *(continued)*

IGS Services Agreement

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

Marketing Support Agreement

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

Connected transactions *(continued)*

Internal Use Purchase Agreement

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

Master Distribution Agreement

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

Real Estate Arrangements

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

Connected transactions *(continued)*

China Services Agreement

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

Reverse Transition Services Agreement

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

Master Services Agreement

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

Connected transactions *(continued)*

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

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Auditors

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

Public float

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

On behalf of the Board

Yang Yuanqing
Chairman

Hong Kong, May 25, 2006

Auditors' Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
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AUDITORS' REPORT TO THE SHAREHOLDERS OF LENOVO GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 63 to 127 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 25, 2006

Consolidated Income Statement

For the year ended March 31, 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	5	**103,550,857**	22,554,678
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs	1(b)	**2,978,519**	1,173,616
Depreciation expenses and amortization of prepaid lease payments		**(492,469)**	(184,490)
Restructuring costs	6	**(542,756)**	–
Amortization of intangible assets	7	**(779,664)**	(58,078)
Amortization of share-based compensation	7	**(232,013)**	–
Impairment of assets	7	**(22,785)**	(51,364)
(Loss)/gain on disposal of investments and available-for-sale financial assets	7	**(4,913)**	156,958
Finance income	7	**188,986**	105,677
Profit from operations	7	**1,092,905**	1,142,319
Finance costs	9	**(438,126)**	(6,667)
		654,779	1,135,652
Share of profits/(losses) of jointly controlled entities		**1,073**	(12,327)
Share of profits of associated companies		**3,627**	4,182
Profit before taxation	8	**659,479**	1,127,507
Taxation	10	**(443,667)**	(35,184)
Profit for the year		**215,812**	1,092,323
Profit attributable to:			
Shareholders of the Company	13	**173,236**	1,120,146
Minority interests		**42,576**	(27,823)
		215,812	1,092,323
Dividends	14	**461,741**	388,806
Earnings per share			
– Basic	15(a)	**1.97 HK cents**	14.99 HK cents
– Diluted	15(b)	**1.93 HK cents**	14.97 HK cents

Balance Sheets

At March 31, 2006

		Group		Company	
	Note	**2006**	2005 As restated *(Note 1(a))*	**2006**	2005
		HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets					
Property, plant and equipment	16	**1,734,440**	827,876	**12,733**	25,130
Prepaid lease payments	17	**50,018**	50,268	**–**	–
Construction-in-progress	18	**218,127**	257,159	**141,180**	–
Intangible assets	19	**14,896,476**	513,078	**–**	–
Investments in subsidiaries	20(a)	**–**	–	**8,071,501**	2,327,875
Investments in jointly controlled entities	21	**–**	191,523	**–**	–
Investments in associated companies	22	**70,672**	52,067	**–**	–
Deferred tax assets	23	**486,290**	53,498	**–**	–
Available-for-sale financial assets	24	**235,949**	–	**3,661**	–
Investment securities	25	**–**	62,970	**–**	4,413
Other non-current assets		**287,163**	569,673	**–**	565,340
		17,979,135	2,578,112	**8,229,075**	2,922,758
Current assets					
Amounts due from subsidiaries	20(b)	**–**	–	**8,750,366**	3,965,624
Inventories	26	**2,832,454**	878,900	**–**	–
Trade receivables	27(a)	**3,781,230**	851,337	**–**	–
Notes receivable	27(b)	**721,668**	1,137,174	**–**	–
Deposits, prepayments and other receivables		**6,163,015**	567,046	**104,497**	19,595
Cash and cash equivalents	28	**7,838,854**	3,019,385	**814,291**	401,939
		21,337,221	6,453,842	**9,669,154**	4,387,158
Current liabilities					
Amounts due to subsidiaries	20(b)	**–**	–	**2,029,357**	115,494
Amounts due to jointly controlled entities	21	**–**	108,446	**–**	–
Trade payables	29(a)	**13,128,737**	2,276,070	**–**	–
Notes payable	29(b)	**385,576**	195,032	**–**	–
Accruals and other payables	30	**9,827,844**	716,906	**181,880**	163,643
Tax payable		**308,914**	493	**–**	–
Short-term bank loans	35	**1,001,196**	–	**936,000**	–
Current portion of non-current liabilities	31	**169,880**	175,866	**–**	–
		24,822,147	3,472,813	**3,147,237**	279,137
Net current (liabilities)/assets		**(3,484,926)**	2,981,029	**6,521,917**	4,108,021
Total assets less current liabilities		**14,494,209**	5,559,141	**14,750,992**	7,030,779
Share capital	32	**222,330**	186,870	**222,330**	186,870
Reserves	33	**7,920,109**	5,017,528	**10,933,967**	6,843,909
Shareholders' funds		**8,142,439**	5,204,398	**11,156,297**	7,030,779
Minority interests		**5,803**	23,609	**–**	–
Total equity		**8,148,242**	5,228,007	**11,156,297**	7,030,779
Non-current liabilities	31	**6,345,967**	331,134	**3,594,695**	–
		14,494,209	5,559,141	**14,750,992**	7,030,779

On behalf of the Board

William J. Amelio
Director

Ma Xuezheng
Director

Consolidated Cash Flow Statement

For the year ended March 31, 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Net cash generated from operations	38(a)	**8,832,287**	1,214,223
Finance income		**188,986**	105,677
Tax paid		**(575,312)**	(53,688)
Net cash generated from operating activities		**8,445,961**	1,266,212
Cash flows from investing activities			
Purchase of tangible fixed assets	16	**(574,731)**	(74,611)
Sale of tangible fixed assets		**23,542**	20,352
Payment for construction-in-progress	18	**(201,556)**	(102,159)
Payment for internal use software	19	**(177,189)**	–
Purchase of investment securities		**–**	(80,500)
(Payments)/net proceeds from disposal of investments		**(3,278)**	91,075
Payment for acquisition of a business		**(5,082,572)**	(411,022)
Capital contribution to an associated company		**(11,538)**	(6,399)
Dividends received from an associated company		**–**	3,813
Settlement of loan from a jointly controlled entity		**10,000**	10,000
Payment for acquiring minority shareholder's interests in a subsidiary		**(69,231)**	–
Proceeds from disposal of an associated company		**79,936**	63,669
Net cash used in investing activities		**(6,006,617)**	(485,782)
Cash flows from financing activities			
Issue of convertible preferred shares and warrants	31(c)	**2,730,000**	–
Exercise of share options and issue of new shares		**271,724**	15,233
Repurchase of shares	38(b)	**(1,195,729)**	(16,093)
Contributions to employee share trust		**(398,132)**	–
Dividends paid		**(457,897)**	(403,570)
Bank loans	38(b)	**1,781,196**	–
Finance costs paid		**(350,322)**	(6,667)
Net cash generated from/(used in) financing activities		**2,380,840**	(411,097)
Increase in cash and cash equivalents		**4,820,184**	369,333
Effect of foreign exchange rate changes		**(715)**	(19)
Cash and cash equivalents at the beginning of the year		**3,019,385**	2,650,071
Cash and cash equivalents at the end of the year		**7,838,854**	3,019,385

Consolidated Statement of Changes in Equity

For the year ended March 31, 2006

	Share capital HK$'000	Share premium HK$'000	Convertible rights in respect of convertible preferred shares HK$'000	Surplus arising on consolidation HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Share redemption reserve HK$'000	Employee share trusts HK$'000	Share-based compensation reserve HK$'000	Retained earnings/ (Accumulated losses) HK$'000	Minority interests HK$'000	Total HK$'000
At April 1, 2005	186,870	4,761,498	–	27,871	2,093	(3,530)	3,086	–	–	226,510	23,609	5,228,007
Adoption of HKFRS 3	–	–	–	(27,871)	–	–	–	–	–	27,871	–	–
As restated	186,870	4,761,498	–	–	2,093	(3,530)	3,086	–	–	254,381	23,609	5,228,007
Fair value loss on available-for-sale financial assets	–	–	–	–	–	(24,173)	–	–	–	–	–	(24,173)
Exchange differences	–	–	–	–	(27,933)	–	–	–	–	–	600	(27,333)
Profit for the year	–	–	–	–	–	–	–	–	–	173,236	42,576	215,812
Acquisition of minority shareholder's interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	(60,787)	(60,787)
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(195)	(195)
Reserves realized on disposal of available-for-sale financial assets	–	–	–	–	–	(215)	–	–	–	–	–	(215)
Issue of ordinary shares	43,572	4,291,820	–	–	–	–	–	–	–	–	–	4,335,392
Issue of convertible preferred shares	–	–	84,000	–	–	–	–	–	–	–	–	84,000
Exercise of share options	2,781	268,943	–	–	–	–	–	–	–	–	–	271,724
Share-based compensation	–	–	–	–	–	–	–	–	177,768	–	–	177,768
Repurchase of shares	(10,893)	(1,184,836)	–	–	–	–	–	–	–	–	–	(1,195,729)
Contributions to employee share trusts	–	–	–	–	–	–	–	(398,132)	–	–	–	(398,132)
Dividends paid	–	–	–	–	–	–	–	–	–	(457,897)	–	(457,897)
At March 31, 2006	222,330	8,137,425	84,000	–	(25,840)	(27,918)	3,086	(398,132)	177,768	(30,280)	5,803	8,148,242
Company and subsidiaries	222,330	8,137,425	84,000	–	(25,840)	(27,918)	3,086	(398,132)	177,768	(52,863)	5,803	8,125,659
Associated companies	–	–	–	–	–	–	–	–	–	22,583	–	22,583
At March 31, 2006	222,330	8,137,425	84,000	–	(25,840)	(27,918)	3,086	(398,132)	177,768	(30,280)	5,803	8,148,242
At April 1, 2004	186,890	4,762,526	–	27,871	4,581	(5,976)	2,898	–	–	(490,066)	29,330	4,518,054
Deficit in fair market value of investment securities	–	–	–	–	–	(4,247)	–	–	–	–	–	(4,247)
Exchange differences	–	–	–	–	(111)	–	–	–	–	–	–	(111)
Profit for the year	–	–	–	–	–	–	–	–	–	1,120,146	(27,823)	1,092,323
Disposal of business	–	–	–	–	–	–	–	–	–	–	22,102	22,102
Reserves written off on disposal of subsidiaries	–	–	–	–	(2,377)	–	–	–	–	–	–	(2,377)
Reserves realized on disposal of investment securities	–	–	–	–	–	(12,908)	–	–	–	–	–	(12,908)
Impairment of investments	–	–	–	–	–	19,601	–	–	–	–	–	19,601
Exercise of share options	168	15,065	–	–	–	–	–	–	–	–	–	15,233
Repurchase of shares	(188)	(16,093)	–	–	–	–	188	–	–	–	–	(16,093)
Dividends paid	–	–	–	–	–	–	–	–	–	(403,570)	–	(403,570)
At March 31, 2005	186,870	4,761,498	–	27,871	2,093	(3,530)	3,086	–	–	226,510	23,609	5,228,007
Company and subsidiaries	186,870	4,761,498	–	27,871	2,093	(3,530)	3,086	–	–	212,794	23,609	5,214,291
Jointly controlled entities	–	–	–	–	–	–	–	–	–	(5,279)	–	(5,279)
Associated companies	–	–	–	–	–	–	–	–	–	18,995	–	18,995
At March 31, 2005	186,870	4,761,498	–	27,871	2,093	(3,530)	3,086	–	–	226,510	23,609	5,228,007

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$'000	**Leasehold improve-ments** HK$'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$'000	Group 2005 HK$'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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'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		2005	
	Number of shares	HK$'000	Number of shares	HK$'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	2005
	HK$'000	HK$'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		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'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	2005
	HK$'000	HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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.

Five-Year Financial Summary

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Turnover	**103,550,857**	22,554,678	23,175,944	20,233,290	20,853,254
Earnings before interest, taxation, depreciation, amortization, impairment charge, gain/loss on disposal of available-for-sale financial assets and restructuring costs	**2,978,519**	1,173,616	1,125,129	1,174,720	1,008,938
Depreciation expenses and amortization of prepaid lease payments	**(492,469)**	(184,490)	(211,161)	(160,304)	(143,048)
Restructuring costs	**(542,756)**	–	–	–	–
Amortization of intangible assets	**(779,664)**	(58,078)	(34,999)	(15,246)	–
Amortization of share-based compensation	**(232,013)**	–	–	–	–
Impairment of assets	**(22,785)**	(51,364)	–	–	–
(Loss)/gain on disposal of investments and available-for-sale financial assets	**(4,913)**	156,958	47,558	(26,802)	164,240
Finance income	**188,986**	105,677	93,368	77,233	67,360
Profit from operations	**1,092,905**	1,142,319	1,019,895	1,049,601	1,097,490
Finance costs	**(438,126)**	(6,667)	(2,881)	(20)	(11,785)
	654,779	1,135,652	1,017,014	1,049,581	1,085,705
Share of profits/(losses) of jointly controlled entities	**1,073**	(12,327)	(39,053)	(34,756)	8,468
Share of profits/(losses) of associated companies	**3,627**	4,182	16,891	13,826	(12,979)
Profit before taxation	**659,479**	1,127,507	994,852	1,028,651	1,081,194
Taxation	**(443,667)**	(35,184)	20,150	(26,018)	(23,092)
Profit for the year	**215,812**	1,092,323	1,015,002	1,002,633	1,058,102
Profit attributable to:					
Shareholders of the Company	**173,236**	1,120,146	1,052,885	1,017,152	1,044,900
Minority interests	**42,576**	(27,823)	(37,883)	(14,519)	13,202
	215,812	1,092,323	1,015,002	1,002,633	1,058,102
Total assets	**39,316,356**	9,031,954	8,342,041	6,755,596	5,691,737
Total liabilities	**31,168,114**	3,803,947	3,823,987	2,507,334	2,002,653
Net assets	**8,148,242**	5,228,007	4,518,054	4,248,262	3,689,084

Corporate Information

Board of Directors

Executive directors

Mr. Yang Yuanqing
Mr. William J. Amelio
Ms. Ma Xuezheng

Non-executive directors

Mr. Liu Chuanzhi
Mr. Zhu Linan
Mr. James G. Coulter
Mr. William O. Grabe
Mr. Shan Weijian
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)

Independent non-executive directors

Mr. Wong Wai Ming
Professor Woo Chia-Wei
Mr. Ting Lee Sen
Mr. John W. Barter III

Qualified Accountant

Mr. Damian Glendinning

Company Secretary

Mr. Mok Chung Fu

Registered Office

23rd Floor, Lincoln House, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong

Principal Bankers

BNP Paribas
Standard Chartered Bank (Hong Kong) Limited
ABN AMRO Bank N.V.
Industrial and Commercial Bank of China (Asia) Limited
China Merchants Bank
Citibank, N.A.

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building,
Central, Hong Kong

Share Registrar

Abacus Share Registrars Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Hong Kong

American Depositary Receipts

(Depositary and Registrar)
Citibank, N.A.
14th Floor, 388 Greenwich Street,
New York, NY 10013, USA

Stock Codes

Hong Kong Stock Exchange:	992
American Depositary Receipts:	LNVGY

Website

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