THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Lenovo Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

lenovo联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

PROPOSED OFF-MARKET REPURCHASE OF NON-VOTING SHARES CONNECTED TRANSACTION

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ROTHSCHILD

A letter from the Independent Board Committee containing its recommendations in respect of the proposed off-market repurchase of Non-voting Shares and the connected transaction to the Independent Shareholders is set out on page 29 of this circular. A letter from N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser, containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 30 to 47 of this circular.

A notice convening the Extraordinary General Meeting to be held at 9:30 a.m. on Monday, 1 August 2005 at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 134 to 136 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event no less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

Hong Kong, 6 July 2005

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In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Announcement"	the announcement dated 4 May 2005 made by the Company, in relation to, among others, the Share Repurchase
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"Closing"	closing of the Share Repurchase in accordance with the terms of the Repurchase Agreement
"Company"	Lenovo Group Limited, a company incorporated on 5 October 1993 with limited liability under the laws of Hong Kong, the Shares of which are listed on the main board of the Stock Exchange
"Company Agreement"	the company agreement entered into between the Company and IBM on 7 December 2004 which became effective from the Initial IBM Closing, further details of which are set out in the section entitled "Company Agreement" in the "Letter from the Board" contained in this circular
"Consideration Shares"	821,234,569 Shares and 921,636,459 Non-voting Shares allotted and issued by the Company to IBM to satisfy part of the consideration for the IBM Acquisition
"Convertible Preferred Shares"	Series A cumulative convertible preferred shares of nominal value HK$9.175 each and stated value of HK$1,000 each in the share capital of the Company
"CPS Subscription"	the subscription by the Investors of the Convertible Preferred Shares and the Warrants, the principal terms of which are set out in the CPS Subscription Circular
"CPS Subscription Circular"	the circular of the Company dated 20 April 2005 containing details of the CPS Subscription, the Convertible Preferred Shares and the Warrants and the amendments to the articles of association of the Company
"CPS Subscription Closing Date"	17 May 2005, being the date on which closing of the CPS Subscription occurred
"Directors"	the directors of the Company

"Enlarged Group"	the Group following the IBM Acquisition
"Excess Shares"	435,717,757 Non-voting Shares, being part of the Consideration Shares issued to IBM
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Share Repurchase
"General Atlantic Group"	collectively, General Atlantic Partners (Bermuda), L.P., General Atlantic Partners 81, L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC and GAPCO GmbH & Co. KG. The general partner of General Atlantic Partners 81, L.P. is General Atlantic LLC. General Atlantic LLC is also the sole member of GAPSTAR, LLC. The general partner of General Atlantic Partners (Bermuda), L.P. is GAP (Bermuda) Limited. The directors and senior executive officers of GAP (Bermuda) Limited are Managing Directors of General Atlantic LLC. In addition, the Managing Members of GAP Coinvestments III, LLC and GAP Coinvestments IV, LLC are Managing Directors of General Atlantic LLC. Finally, the Managing Directors of General Atlantic LLC control the voting and investment power of GAPCO GmbH & Co. KG and its general partner, GAPCO Management GmbH
"Group" or "Lenovo Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Holdings Agreement"	an agreement entered into between the Major Shareholder and IBM on 7 December 2004 whereby the Major Shareholder agrees to vote in favour of any repurchase by the Company of the Excess Shares
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong GAAP"	accounting principles that are generally accepted in Hong Kong
"IBM"	International Business Machines Corporation

"IBM Acquisition"	the Group's acquisition of IBM's global personal computer business as described in the IBM Circular
"IBM Circular"	the circular of the Company in relation to the IBM Acquisition dated 31 December 2004
"Independent Board Committee"	the independent committee of the Board consisting of Mr Wong Wai Ming, Professor Woo Chia-Wei and Mr Ting Lee Sen, formed to advise the Independent Shareholders
"Independent Shareholders"	Shareholders who do not have any material interest in the Share Repurchase, being Shareholders other than IBM, the Investors and their respective concert parties and associates
"Initial IBM Closing"	initial closing of the IBM Acquisition on 30 April 2005
"Investors"	TPG IV Acquisition Company LLC, TPG III Acquisition Company, LLC, T^3 II Acquisition Company, LLC, General Atlantic Partners (Bermuda), L.P., General Atlantic Partners 81, L.P., GAPSTAR, LLC, GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GAPCO GmbH & Co. KG and Newbridge Asia Acquisition Company LLC; and the term "Investor" shall mean any one of them
"Issue Price"	HK$2.675 per Share and per Non-voting Share, being the price at which the Consideration Shares were issued
"Latest Practicable Date"	30 June 2005, being the latest practicable date for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Major Shareholder"	Legend Holdings Limited, the controlling shareholder of the Company holding approximately 45.32% of all the Ordinary Shares in issue as at the Latest Practicable Date
"Newbridge Capital"	Newbridge Asia Acquisition Company LLC. The sole member of Newbridge Asia Acquisition Company LLC is Newbridge Asia III, L.P., of which the general partner is Newbridge Asia GenPar III, L.P., of which the general partner is Newbridge Asia Advisors III, Inc. Each of Tarrant Advisors, Inc. and an entity controlled by Blum Capital Partners owns 50% of Newbridge Asia Advisors III, Inc.

"Non-voting Shares"	ordinary unlisted shares of nominal value HK$0.025 each in the ordinary share capital of the Company, which have the same rights as the Shares save that the Non-voting Shares do not carry any voting rights until they are converted into Shares
"Ordinary Shares"	Shares and Non-voting Shares
"Relevant Period"	the period commencing six months prior to 4 May 2005, being the date of the Announcement, up to and including the Latest Practicable Date
"Repurchase Agreement"	the agreement dated 1 May 2005 entered into between the Company and IBM in relation to the Share Repurchase, a copy of which is being sent to the Shareholders together with this circular
"Rothschild"	N M Rothschild & Sons (Hong Kong) Limited, a corporation licensed by the SFC to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in respect of the Share Repurchase
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Share Repurchase"	the purchase of 435,717,757 Non-voting Shares constituting Excess Shares, by the Company from IBM pursuant to the Repurchase Agreement
"Share Repurchase Code"	the Hong Kong Code on Share Repurchases
"Share Repurchase Price"	HK$2.725 per Excess Share
"Shareholders"	holders of Shares (excluding Non-voting Shares) and Convertible Preferred Shares
"Shares"	ordinary shares of nominal value of HK$0.025 each in the ordinary share capital of the Company which carry voting rights
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subsequent IBM Closings"	the subsequent closings of the IBM Acquisition which take place after the Initial IBM Closing contemplated under the multiple closing arrangements set out in the IBM Circular
"TPG"	collectively TPG IV Acquisition Company LLC, TPG III Acquisition Company, LLC, T^3 II Acquisition Company, LLC. The managing member of TPG IV Acquisition Company LLC is TPG Partners IV, L.P., of which the general partner is TPG GenPar IV, L.P., of which the general partner is TPG Advisors IV, Inc. The managing member of TPG III Acquisition Company, LLC is TPG Partners III, L.P., of which the general partner is TPG GenPar III, L.P., of which the general partner is TPG Advisors III, Inc. The managing member of T^3 II Acquisition Company, LLC is T^3 Partners II, L.P., of which the general partner is T^3 GenPar II, L.P., of which the general partner is T^3 Advisors II, Inc.
"US$"	United States Dollars, the lawful currency of the United States of America
"US GAAP"	accounting principles that are generally accepted in the United States of America
"Warrants"	237,417,474 unlisted warrants issued by the Company entitling the holders of the Warrants to subscribe for the same number of new Shares to be issued upon the exercise of the subscription rights attaching to the Warrants at the price of HK$2.725 per Share (subject to certain anti-dilution adjustments) at any time from the CPS Subscription Closing Date (i.e. 17 May 2005) up to the fifth anniversary thereof (both dates inclusive)
"%"	per cent.

This circular contains translation between HK$ and US$ at HK$7.80 = US$1.00. The translation shall not be taken as representation that the HK$ amount could actually be converted into US$ at that rate, or at all.

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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

Executive Directors:
Mr Yang Yuanqing
Mr Stephen M Ward, Jr
Ms Ma Xuezheng

Non-executive Directors:
Mr Liu Chuanzhi
Mr Zhu Linan
Mr James G Coulter
Mr William O Grabe
Mr Shan Weijian

Independent Non-executive Directors:
Mr Wong Wai Ming
Professor Woo Chia-Wei
Mr Ting Lee Sen

Alternate Directors:
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)

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

6 July 2005

**PROPOSED OFF-MARKET REPURCHASE OF NON-VOTING SHARES
CONNECTED TRANSACTION**

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

Reference is made to the Announcement of the Company dated 4 May 2005 relating to, among other things, the proposed Share Repurchase which constitutes a connected transaction.

On 1 May 2005, the Company entered into the Repurchase Agreement with IBM pursuant to which IBM agreed to sell and the Company agreed to purchase the Excess Shares, representing 435,717,757 Non-voting Shares, which were issued to IBM as partial consideration for the IBM Acquisition. The Excess Shares subject to the Repurchase Agreement are Non-voting Shares and represent approximately 4.72% of the issued ordinary share capital of the Company (including Shares and Non-voting Shares, but excluding the Convertible Preferred Shares) and approximately 53.73% of the all issued Non-voting Shares, in each case as at the Latest Practicable Date. The total cash consideration payable by the Company for the proposed repurchase of the Excess Shares is approximately US$152,221,909 (approximately HK$1,187,330,888) which is equivalent to HK$2.725 per Excess Share.

Upon the Initial IBM Closing, the Consideration Shares representing 821,234,569 Shares and 921,636,459 Non-voting Shares were issued to IBM. As disclosed in the announcement of the Company dated 17 May 2005, upon the issuance of the Convertible Preferred Shares, 110,635,946 Non-voting Shares held by IBM were converted into an equal number of Shares so that IBM's percentage holding of voting rights in the Company remained at 9.90%. Immediately following the Closing, IBM, its associates and its concert parties will be interested in 931,870,515 Shares and 375,282,756 Non-voting Shares, representing 14.88% of the total issued ordinary share capital (including Shares and Non-voting Shares, but excluding the Convertible Preferred Shares).

In accordance with Rule 2 of the Share Repurchase Code, the Share Repurchase is subject to the approval of the Executive and such approval will be conditional upon, among other things, the approval of the Share Repurchase by the Independent Shareholders by at least three-fourths of the votes cast on a poll at the EGM. The Company has applied to the Executive for its approval to the Share Repurchase as required under Rule 2 of the Share Repurchase Code and the Executive has indicated that the approval will be granted subject to compliance with the Share Repurchase Code by the parties to the Share Repurchase.

The Share Repurchase is conditional upon (i) closing of the CPS Subscription (which occurred on 17 May 2005); (ii) approval by the Executive (which the Executive has indicated will be granted); (iii) approval by at least three-fourths of the votes cast at the EGM on a poll by the Independent Shareholders; and (iv) the issuance of the Excess Shares (which occurred upon the Initial IBM Closing on 30 April 2005). The Closing is expected to take place on the first business day after the fulfilment of all the conditions of the Repurchase Agreement or any other day as may be agreed by the parties thereto (unless terminated earlier in accordance with the terms of the Repurchase Agreement). If the conditions have not been fulfilled by midnight on 29 October 2005, IBM will have the right, by notice in writing to the Company, to rescind the Repurchase Agreement without any liability to the Company.

Since the conditions precedent to the Repurchase Agreement may or may not be satisfied, the Repurchase Agreement may or may not be completed and the Share Repurchase may or may not proceed, Shareholders and other investors are advised to exercise caution in dealing in the Shares.

The Board comprises eleven Directors of whom three are executive Directors, five are non-executive Directors and three are independent non-executive Directors. Further, each of Mr Justin T Chang, Mr Vince Feng and Mr Daniel A Carroll has been appointed as alternate director to Mr James G Coulter, Mr William O Grabe and Mr Shan Weijian respectively. The three executive Directors, namely Mr Yang Yuanqing, Mr Stephen M Ward, Jr and Ms Ma

Xuezheng, are salaried employees of the Company, as such, none of them is considered to be independent for the purpose of giving any advice or recommendation on the Share Repurchase to the Independent Shareholders under the Share Repurchase Code. In addition, under the Listing Rules, the non-executive Directors, namely Mr Liu Chuanzhi, Mr Zhu Linan, Mr James G Coulter, Mr William O Grabe and Mr Shan Weijian cannot be appointed as members of the Independent Board Committee in relation to the connected transaction. As a result, Mr Wong Wai Ming, Professor Woo Chia-Wei and Mr Ting Lee Sen who are independent and do not have an interest in the Share Repurchase have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the Share Repurchase. Rothschild has been appointed as the independent financial adviser to advise the Independent Shareholders and the Independent Board Committee in respect of the Share Repurchase.

IBM and its concert parties and associates will abstain from voting at the EGM. The Company and the Investors approached the Stock Exchange to determine whether or not the Investors are eligible to vote at the EGM and the Stock Exchange has determined that the Investors' interests in the Share Repurchase are not the same as those of the minority Shareholders and accordingly the Investors and their respective associates should abstain from voting in favour of the proposed resolution at the EGM.

The purpose of this circular is (i) to provide you with further information relating to the Share Repurchase; (ii) to set out the recommendation from the Independent Board Committee and the advice of Rothschild to the Independent Board Committee and the Independent Shareholders in respect of the Share Repurchase; and (iii) to give you notice of the Extraordinary General Meeting to be convened for the purpose of considering and, if thought fit, approving the Share Repurchase.

THE REPURCHASE AGREEMENT

The Repurchase Agreement was entered into on 1 May 2005 between the Company and IBM pursuant to which IBM agreed to sell and the Company agreed to purchase 435,717,757 the Excess Shares, which were issued to IBM as partial consideration for the IBM Acquisition. The Excess Shares subject to the Repurchase Agreement are Non-voting Shares and represent approximately 4.72% of the issued ordinary share capital of the Company (including Shares and Non-voting Shares, but excluding the Convertible Preferred Shares) and approximately 53.73% of all the issued Non-voting Shares, in each case as at the Latest Practicable Date.

The Excess Shares will be sold free from any option, charge, lien, equity, encumbrance, rights of pre-emption or any other third party rights of any nature whatsoever and together with all rights attaching to them at Closing.

The total cash consideration payable by the Company for repurchase of the Excess Shares is approximately US$152,221,909 (approximately HK$1,187,330,888), representing HK$2.725 per Excess Share.

The Closing shall take place on the first business day after the fulfilment of all the conditions of the Repurchase Agreement or any other day as may be agreed by the parties thereto (unless terminated earlier in accordance with the Repurchase Agreement). According to the present schedule, the Closing is expected to occur prior to 5 August 2005. A further announcement will be made if Closing does not take place by this date.

All costs and expenses incurred in connection with the Repurchase Agreement and the transactions contemplated therein shall be paid by the party incurring such costs and expenses, save that all stamp duty in respect of the Share Repurchase will be borne by the Company. The amount of stamp duty payable by the Company is approximately 0.2 per cent of the higher of (i) the aggregate consideration paid by the Company for the Excess Shares; and (ii) the assessed value of the Excess Shares as determined by the Stamp Office of the Hong Kong Inland Revenue Department. Based on the Share Repurchase Price of HK$2.725, being the higher of the Share Repurchase Price and the closing price of the Shares as at the Latest Practicable Date (i.e. HK$2.300), the stamp duty payable would be approximately US$304,444 (approximately HK$2.375 million).

THE PRINCIPAL TERMS OF THE NON-VOTING SHARES

Ranking

The Non-voting Shares rank *pari passu* in all respects with the Shares, except for voting rights.

Voting Rights

The Non-voting Shares do not have any voting rights at all general meetings of the Company.

Transferability

The Non-voting Shares are subject to the lock-up provisions which are summarised in the IBM Circular and upon the expiry of such lock-ups, the Non-voting Shares are transferable. Save as otherwise disclosed, there are no restrictions on the transfer of the Non-voting Shares.

Subject to the relevant lock-up restrictions, if IBM intends to transfer its Non-voting Shares other than to its affiliates, it shall be a condition for such transfer that the transferee will request the Company to convert the Non-voting Shares into Shares immediately following the transfer.

Conversion

The Non-voting Shares are convertible, by the holder thereof giving written notice to the Company, into Shares on a one for one basis, subject to any adjustments as a result of any consolidation or sub-division of the Shares. There is not a defined period during which the Non-voting Shares must be converted.

No conversion of the Non-voting Shares shall be permitted if following such conversion the holder of the Non-voting Shares would become a substantial shareholder (as defined in the Listing Rules) of the Company immediately following such conversion.

IBM may not convert any Non-voting Shares if such conversion would reduce the holdings of Shares of persons who count as members of the public for the purposes of the Listing Rules falling below 25% of the total outstanding Shares (or such other percentage as is required of the Company under the Listing Rules to maintain the minimum public float). The Company will ensure that upon the conversion of any Non-voting Shares into Shares, the minimum public float requirements under Rule 13.32 of the Listing Rules are observed.

Listing

The Non-voting Shares are not listed.

Others

With respect to any bonus, capitalisation, rights or similar issues of additional securities of the Company which all the shareholders, including holders of Shares and Non-voting Shares, are entitled to participate in or benefit from (by virtue of their being shareholders of the Company) in proportion to their shareholding, whether for any consideration or for no consideration payable by such shareholders, any additional securities to be issued to the holder of Non-voting Shares under such issues shall be Non-voting Shares.

Please also refer to the table set out on pages 17 to 18 of the CPS Subscription Circular for a comparison of the principal terms of Shares and Convertible Preferred Shares and pages 20 to 24 of the CPS Subscription Circular for the principal terms of the Warrants.

SHARE REPURCHASE PRICE

The Share Repurchase Price was determined after arm's length negotiations between the Company and IBM.

The Share Repurchase Price of HK$2.725 represents:

(i) a premium of approximately 1.87% to the Issue Price of the Excess Shares of HK$2.675;

(ii) a premium of approximately 1.87% to the closing price of the Shares of HK$2.675 as quoted on the Stock Exchange on 3 December 2004 being the last day of trading in the Shares on the Stock Exchange before release of the announcement in relation to the IBM Acquisition;

(iii) a premium of approximately 12.37% to the closing price of the Shares of HK$2.425 as quoted on the Stock Exchange on 29 April 2005, being the last day of trading in the Shares on the Stock Exchange before signing of the Repurchase Agreement and before release of the Announcement;

(iv) a premium of approximately 12.93% to the 10-day average closing price of the Shares of HK$2.413 as quoted on the Stock Exchange up to and including 29 April 2005;

(v) a premium of approximately 12.79% to the 6-month daily average closing price of the Shares of HK$2.416 as quoted on the Stock Exchange since 1 November 2004 up to and including 29 April 2005; and

(vi) a premium of approximately 18.48% to the closing price of the Shares of HK$2.300 as quoted on the Stock Exchange on 30 June 2005, being the Latest Practicable Date.

Based on the latest published audited consolidated accounts of the Company for the year ended 31 March 2004, the net book asset value of the Company was US$575.48 million (equivalent to approximately US$0.077 (HK$0.60) per Ordinary Share based on 7,475,594,108 Ordinary Shares in issue as at 31 March 2004). The Share Repurchase Price represents a premium of approximately 354.17% to the net book asset value per Ordinary Share as at 31 March 2004.

Based on the the audited announced consolidated accounts of the Company for the year ended 31 March 2005 which was published on 8 June 2005, the net book asset value of the Company was US$667.23 million (equivalent to approximately US$0.090 (HK$0.70) per Ordinary Share based on 7,474,796,108 Ordinary Shares in issue as at 31 March 2005). The Share Repurchase Price represents a premium of approximately 289.29% to the net book asset value per Ordinary Share as at 31 March 2005.

For the years ended 31 March 2003 and 2004, the audited consolidated profits of the Company before taxation and minority interests were approximately US$131.88 million (HK$1,028.65 million) (2003) and US$127.54 million (HK$994.85 million) (2004) respectively. For the same periods, the audited consolidated profits of the Company after tax and minority interests were approximately US$130.40 million (HK$1,017.15 million) (2003) and US$134.99 million (HK$1,052.89 million) (2004) respectively.

On this basis, the basic earnings per Ordinary Share for the year ended 31 March 2004 based on the number of Ordinary Shares in issue as at 31 March 2004 was approximately HK$0.1409; and the Share Repurchase Price represents a multiple of approximately 19 times such earnings per Ordinary Share.

For the year ended 31 March 2005, the audited consolidated profits of the Company before taxation and minority interests were approximately US$144.55 million (HK$1,127.51 million). For the same period, the audited consolidated profits of the Company after tax and minority interests were approximately US$143.61 million (HK$1,120.15 million). On this basis, the basic earnings per Ordinary Share for the year ended 31 March 2005 based on the number of Ordinary Shares in issue as at 31 March 2005 were approximately HK$0.1499; and the Share Repurchase Price represents a multiple of approximately 18 times such earnings per Ordinary Share.

Based on the unaudited pro forma balance sheet on the Enlarged Group prepared on the basis as if the Initial IBM Closing, Subsequent IBM Closings and the issuance of Convertible Preferred Shares and Warrants had taken place on 31 March 2005 (the full text of which, including the basis and assumptions on which such pro forma financial information was prepared, is set out in Appendix II to this circular), the net book assets value of the Company was US$1,220 million (HK$9,515 million) (equivalent to approximately US$0.13 (HK$1.03) per Ordinary Share assuming 9,217,667,136 Ordinary Shares were in issue as at 31 March 2005, based on 7,474,796,108 Ordinary Shares were in issue as at 31 March 2005 and assuming the issuance of 1,742,871,028 Consideration Shares to IBM had occurred on 31 March 2005). The Share Repurchase Price represents a premium of approximately 164.56% to such pro forma net book assets value per Ordinary Share as at 31 March 2005.

IBM ACQUISITION

On 30 April 2005, the Initial IBM Closing occurred. The consideration paid by the Company was US$1.25 billion (approximately HK$9.75 billion), subject to certain adjustments, details of which are set out on pages 17 to 18 in the IBM Circular. At the Initial IBM Closing, the Company paid cash consideration of US$650 million (approximately HK$5.07 billion) which includes the goodwill deposit paid on 8 December 2004 and interest accrued thereon and issued 821,234,569 new Shares and 921,636,459 new Non-voting Shares, in each case credited as fully paid to IBM at the Issue Price (HK$2.675 per Share and Non-voting Share).

Immediately following the Initial IBM Closing but before the issuance of the Convertible Preferred Shares, IBM held approximately 18.90% of the total enlarged issued ordinary share capital (comprising Shares and Non-voting Shares) and approximately 9.90% of the voting rights of the Company. The Stock Exchange has deemed IBM as a connected person of the Company upon the Initial IBM Closing under the Listing Rules.

As stated in the IBM Circular and the announcement of the Company dated 30 April 2005, the remaining assets of IBM's personal computer business which have not been transferred to the Company as of the Initial IBM Closing will be transferred from time to time in one or more Subsequent IBM Closings to be agreed between the Company and IBM. The Company will make a further announcement when the final Subsequent IBM Closing takes place and further announcements in respect of other Subsequent IBM Closings, if appropriate. For further information on the Initial IBM Closing, please refer to the announcement of the Company dated 30 April 2005. The Subsequent IBM Closings will involve the transfer of certain remaining assets, subsidiaries, representative offices and branches from IBM to the Company. The Company believes the financial impact of the Subsequent IBM Closings on the Group will not be significant since a majority of the personal computer business of IBM has been transferred to the Company at the Initial IBM Closing.

COMPANY AGREEMENT

On 7 December 2004, the date on which the Company and IBM agreed on the IBM Acquisition, the Company and IBM entered into the Company Agreement. Pursuant to the terms of the Company Agreement, the Company has agreed to use its reasonable best efforts to arrange for the sale of the Excess Shares, being 435,717,757 Non-voting Shares, to one or more third parties, or subject to applicable laws and regulations, repurchase the Excess Shares at a price per Excess Share not less than the higher of (i) the market price per Share prevailing at the time of the repurchase offer (i.e. HK$2.425, the closing price of the Shares on 29 April 2005 being the last trading day of the Shares on the Stock Exchange before signing of the Repurchase Agreement), and (ii) the Issue Price (i.e. HK$2.675), net of stamp duty, transaction levy and trading fees, if any. As the prescribed repurchase price is stated to be net of stamp duty, the Company could either pay the stamp duty or gross up the repurchase price to take into account of any stamp duty payable by IBM upon the Share Repurchase. The Company agreed in the Repurchase Agreement to bear the stamp duty in full. The Excess Shares were not originally designated to be Shares or Non-voting Shares (see the section below entitled "Second Amendment Agreement"). As disclosed in the Announcement, pursuant to the Repurchase Agreement the Company and IBM have agreed that the Excess Shares to be repurchased by the Company shall be 435,717,757 Non-voting Shares.

Under the Company Agreement, IBM undertakes not to, without the prior written consent of the Board, transfer any of the Excess Shares for a period of six months following the Initial IBM Closing or transfer any of the 1,307,153,271 Shares and Non-voting Shares being the remaining part of the Consideration Shares for a period of up to three years following the Initial IBM Closing, save for certain exceptions. Please refer to page 22 of the IBM Circular for further details on the lock-up provisions in respect of the Consideration Shares and the exceptions thereto. Further, the Company has agreed that until IBM has sold all of the Excess Shares, it will not issue any new shares (including securities convertible into Shares) without IBM's consent except for the purpose of repaying the bridge loan arranged by Goldman Sachs Credit Partners L.P. in connection with the IBM Acquisition.

Further details of the Company Agreement are contained in the IBM Circular.

CPS SUBSCRIPTION

On 30 March 2005 the CPS Subscription was agreed among the Company and the Investors. On 17 May 2005, the Company issued to the Investors 2,730,000 unlisted Convertible Preferred Shares and unlisted Warrants which entitled the holders thereof to subscribe for 237,417,474 Shares, for an aggregate cash consideration of US$350 million (approximately HK$2,730 million). The principal terms and conditions of the CPS Subscription are set out on pages 10 to 19 of the CPS Subscription Circular which was distributed to the shareholders of the Company on 20 April 2005. The closing of the CPS Subscription was conditional upon, amongst others, (i) IBM granting its consent to the CPS Subscription (pursuant to the Company Agreement the Company agreed that until IBM had sold its Excess Shares, it would not issue any new shares (including securities convertible into Shares) (subject to certain exceptions described above) without IBM's consent); (ii) the Initial IBM Closing taking place concurrently with, or having occurred prior to, the closing of the CPS Subscription; and (iii) the approval by at least three-fourths of the votes cast at the EGM on a poll by the independent shareholders of the Company. At the closing of the CPS Subscription on 17 May 2005, the Company received proceeds of US$350 million (approximately HK$2,730 million).

It was stated on page 6 of the IBM Circular that "assuming closing of the CPS Subscription takes place no later than the Initial IBM Closing, the Directors intend to apply the net proceeds from the issue of the Convertible Preferred Shares and the Warrants as to approximately US$150 million to satisfy part of the consideration payable to IBM for the IBM Acquisition, and as to the balance for general corporate purposes. If the Company pays US$150 million cash to IBM, it would not issue the Excess Shares to IBM that would otherwise be issuable as consideration for the IBM Acquisition. However, in the event that closing of the CPS Subscription does not occur before or concurrently with the Initial IBM Closing and depending on the financial resources then available to the Company, the Company may pay IBM cash of up to US$150 million or issue the Excess Shares to IBM as partial settlement of the consideration. Further, if the Company has issued the Excess Shares, subject to applicable laws and regulations and the Company having obtained all the relevant approvals, it would consider repurchasing the Excess Shares from IBM when the Company has sufficient financial resources and the Directors consider appropriate to do so. In that event, the Company will ensure that all applicable rules and regulations (such as chapters 10 and 14A of the Listing Rules and the Code on Share Repurchases) are complied with and all applicable consents or approvals are obtained from the relevant authorities (such as the Securities and Futures Commission)." As it happened that the closing of the CPS Subscription occurred after the Initial IBM Closing, the Excess Shares were issued to IBM and the Company decided to repurchase the Excess Shares. Accordingly, the Company intends to fund the Share Repurchase from the proceeds from the issuance of the Convertible Preferred Shares and the Warrants.

FIRST AMENDMENT AGREEMENT

At the time when the Investors agreed to subscribe for the Convertible Preferred Shares (i.e. 30 March 2005), it had been contemplated that the Initial IBM Closing and the closing of the CPS Subscription would occur simultaneously such that proceeds from the CPS Subscription would be applied to settle part of the consideration of the IBM Acquisition and no Excess Shares would have been issued by the Company. As a consequence of the restriction on the Company under the Company Agreement to issue any new shares until IBM has sold all the Excess Shares as described in the earlier section entitled "Company Agreement" in this letter from the Board, the issuance of Convertible Preferred Shares was subject to IBM's consent. To this end, the Company and IBM entered into an agreement entitled Amendment, Waiver and Agreement on 30 March 2005 (the "First Amendment Agreement") whereby IBM consented to the closing of the CPS Subscription upon the condition that if the closing of the CPS Subscription did not occur concurrently with the Initial IBM Closing, the prior approval of the Shareholders for a repurchase of the Excess Shares (if such Excess Shares were issued at Initial IBM Closing) would be required prior to the closing of the CPS Subscription.

SECOND AMENDMENT AGREEMENT

When it became evident that the Initial IBM Closing would occur before the closing of the CPS Subscription, the Company and IBM entered into the Company Agreement Amendment No. 2 on 29 April 2005 (the "Second Amendment Agreement") whereby IBM consented to the closing of the CPS Subscription without the requirement for the Shareholders to first approve the Share Repurchase (as required under the First Amendment Agreement), thereby facilitating the Company's early closing of the CPS Subscription. In consideration of IBM's consent, the Company agreed to the following: (i) to enter into the Repurchase

Agreement; (ii) to use its reasonable best efforts to procure that the sale and purchase of the Excess Shares from IBM to the Company is approved by at least three-fourths of the votes cast by the Independent Shareholders on a poll in accordance with applicable laws and regulations; (iii) to use its reasonable best efforts to do all things necessary to obtain, prior to the closing of the CPS Subscription, written confirmation from the Executive and the Stock Exchange that the Investors and the Major Shareholder are eligible to vote in favour of the resolution of the Shareholders of the Company to approve the Repurchase Agreement and the transactions contemplated thereby and to maintain such confirmation during the term of the Repurchase Agreement; and (iv) if the Company fails to complete the Repurchase Agreement during the six-month period immediately following the Initial IBM Closing (i.e. 30 April 2005), 435,717,757 Shares will be deemed, for the purposes of the Company Agreement, to be the Excess Shares in substitution for the 435,717,757 Non-voting Shares. If the Share Repurchase is not completed during the six month period following the Initial IBM Closing, IBM will be able to sell the Excess Shares without the prior consent of the Board in accordance with the terms of the Company Agreement.

The waivers and agreements set forth in the Second Amendment Agreement became effective upon the satisfaction of each of the following conditions precedent: (i) the Investors having consented to the Second Amendment Agreement and a certified true and complete copy of each of their consents being delivered to IBM; and (ii) each of the Investors having executed a voting undertaking and a certified true and complete copy of each of the executed voting undertakings which are described below being delivered to IBM.

INVESTORS' VOTING UNDERTAKINGS

Following the closing of the CPS Subscription, the Investors became the registered and/or beneficial owners of the Convertible Preferred Shares and the Warrants. The Investors entered into various investor voting undertakings with IBM on 29 April 2005 pursuant to which the Investors covenanted and agreed to vote in favour of the Repurchase Agreement at any general meeting of the Shareholders subject to any applicable laws or regulations, the Listing Rules and the requirements and decisions of any regulatory authority or governmental authority.

In order to secure votes for the Share Repurchase, IBM sought these voting undertakings from the Investors. Though the Investors are not parties to the Second Amendment Agreement, the entry into the voting undertakings was a condition precedent of the Second Amendment Agreement pursuant to which IBM consented to the closing of the CPS Subscription as set out above.

The Stock Exchange has ruled that the Investors' interests in the Share Repurchase are not the same as those of the minority Shareholders and accordingly the Investors and their respective associates should abstain from voting in favour of the proposed resolution at the EGM.

MAJOR SHAREHOLDER VOTING UNDERTAKING

On 7 December 2004, the Major Shareholder and IBM entered into the Holdings Agreement whereby the Major Shareholder agreed to vote in favour of any repurchase by the Company of the Excess Shares. Further, on 30 April 2005, the Major Shareholder and IBM entered into a voting undertaking agreement pursuant to which the Major Shareholder has, subject to any applicable laws or regulations, the Listing Rules and the requirement and decisions of any applicable authority, undertaken and agreed with IBM to vote in favour of the resolution proposed at any general meeting of Shareholders to, inter alia, approve all agreements and other arrangements entered into by IBM and the Company or either of their respective subsidiaries or affiliates as of the Initial IBM Closing and to refresh the connected transaction approvals granted in respect of some or all of such transactions. The agreement includes an undertaking to vote in favour of any shareholder resolution that authorizes the Company to repurchase any of the Excess Shares. The Major Shareholder and IBM entered into the voting undertaking with the aim to facilitate and permit the Company's timely closings of the IBM Acquisition and the CPS Subscription. The Major Shareholder has confirmed that it and its associates (as defined in the Listing Rules) have no interest in the Share Repurchase which is different from other Shareholders. The SFC has confirmed that the Major Shareholder is a disinterested shareholder for the purposes of the Share Repurchase Code and accordingly the Major Shareholder may vote at the EGM. The Stock Exchange has confirmed that it has no comment on the Major Shareholder voting on the proposed resolution at the EGM.

REASONS FOR THE SHARE REPURCHASE

As the Company is restricted from issuing any new shares (including securities convertible into Shares) as described in the earlier section entitled "Company Agreement" in this letter from the Board, the issuance of the Convertible Preferred Shares was subject to the prior consent of IBM. Pursuant to the First Amendment Agreement, IBM agreed to give consent subject to the Company first obtaining Shareholders' approval for the Company to repurchase the Excess Shares. The Board considers that IBM having consented to the closing of the CPS Subscription without the need to have prior Shareholders' approval for the Share Repurchase pursuant to the Second Amendment Agreement provided the Company with certainty with respect to its fund raising activities and with respect to its working capital requirements. In addition, the Company views the investment in the Company by the Investors as being of strategic benefit to the Company from both a financial and operational perspective. Subject to having obtained the necessary approval of the Executive (which the Executive has indicated will be granted) and the approval by at least three-fourths of the votes cast at the EGM on a poll by the Independent Shareholders, the Company intends to apply the proceeds from the issue of the Convertible Preferred Shares and the Warrants (which is US$350 million (approximately HK$2,730 million)) as to approximately US$152,221,909 (approximately HK$1,187,330,890) for the repurchase of 435,717,757 Non-voting Shares allotted and issued to IBM.

The terms of the Company Agreement provide that the Company will use its reasonable best efforts to arrange for the sale of the Excess Shares, being 435,717,757 Non-voting Shares, to one or more third parties or subject to applicable laws and regulations, repurchase the Excess Shares at a price per Excess Share not less than the higher of (i) the then prevailing market price per Share, and (ii) the Issue Price (i.e. HK$2.675), net of stamp duty, transaction levy and trading fees, if any.

However, in consideration for IBM's consent to the CPS Subscription and after arm's length negotiations between the Company and IBM, the Company has unconditionally agreed to a repurchase price of the Excess Shares of HK$2.725. The Share Repurchase Price is equivalent to the price by reference to which the Convertible Preferred Shares may be converted into Shares (the "Reference Price") and represents a premium of HK$0.05 to the Issue Price of HK$2.675 of the Excess Shares and a premium of HK$0.25 to the closing price of the Shares on 29 April 2005, being the last trading day immediately before the signing of the Repurchase Agreement.

The Company considers that the Reference Price provides a useful benchmark for determining the boundaries of the Share Repurchase Price as the Reference Price provides the reference point based on the most recent transaction in which the Company is involved with respect to its Shares and it was arrived at after arm's length negotiations with the Investors. Furthermore, the Company considers that as the Share Repurchase Price is equivalent to the Reference Price and that the agreement with IBM permits the timely closing of the CPS Subscription, the Repurchase Agreement's terms and conditions are fair and reasonable and that the Share Repurchase is in the best interests of the Company and the Shareholders as a whole.

Following the Closing, the Excess Shares will be cancelled and the total issued ordinary share capital of the Company will be reduced by the aggregate nominal value of the Excess Shares. Details of the authorised and issued ordinary share capital of the Company before and after the Closing of the Share Repurchase are set out on page 48 of Appendix I to this circular.

The Board also considers that the Repurchase Agreement reduces the dilution effect (on an earnings per share basis) resulting from the closing of the CPS Subscription and the Initial IBM Closing.

In view of the above, the Board believes that the terms of the Share Repurchase are fair and reasonable and it is in the interests of the Company and the Shareholders as a whole.

ACCOUNTING TREATMENT

In terms of accounting treatment, the Non-voting Shares are accounted for as equity of the Company. Under Hong Kong Financial Reporting Standards, the Convertible Preferred Shares are a compound financial instrument, containing both a financial liability component and an equity component. On initial recognition: (a) fair value of the financial liability component is determined using valuation technique with reference to the present value of future cash flows on redemption and cumulative preferential cash dividend payments; and (b) 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: (i) the financial liability component is derecognised and an equity of the same amount is recognised; and (ii) the original equity component will remain as equity.

SHAREHOLDING STRUCTURE

Based on the information available to the Directors as at the Latest Practicable Date, set out below are the shareholding structures of the Company as at that date and upon Closing of the Share Repurchase.

Shareholding structure before and after the Closing of the Share Repurchase

	As at the Latest Practicable Date and before Closing of the Share Repurchase				After the Closing of the Share Repurchase (assuming no conversion of the Non-Voting Shares)				After the Closing of the Share Repurchase (assuming full conversion of the Non-Voting Shares)			
	Number and class of shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming no conversion of Non-voting Shares but full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights assuming no conversion of Non-voting Shares (approx.) *(Note 3)*	Number and class of shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights (approx.) *(Note 3)*	Number of shares assuming no conversion of Convertible Preferred Shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights (approx.) *(Note 3)*
Legend Holdings Limited	4,179,747,971 Shares	45.32%	4,179,747,971 Shares	44.40%	4,179,747,971 Shares	47.56%	4,179,747,971 Shares	44.40%	4,179,747,971 Shares	47.56%	4,179,747,971 Shares	42.70%
IBM	931,870,515 Shares and 811,000,513 Non-voting Shares	18.90%	931,870,515 Shares and 811,000,513 Non-voting Shares	9.90%	931,870,515 Shares and 375,282,756 Non-voting Shares	14.88%	931,870,515 Shares and 375,282,756 Non-voting Shares	9.90%	1,307,153,271 Shares	14.88%	1,307,153,271 Shares	13.35%
TPG	1,560,000 Convertible Preferred Shares *(Note 1)*	–	572,477,064 Shares	6.08%	1,560,000 Convertible Preferred Shares *(Note 1)*	–	572,477,064 Shares	6.08%	1,560,000 Convertible Preferred Shares *(Note 1)*	–	572,477,064 Shares	5.85%
General Atlantic Group	780,000 Convertible Preferred Shares *(Note 1)*	–	286,238,532 Shares	3.04%	780,000 Convertible Preferred Shares *(Note 1)*	–	286,238,532 Shares	3.04%	780,000 Convertible Preferred Shares *(Note 1)*	–	286,238,532 Shares	2.92%

	As at the Latest Practicable Date and before Closing of the Share Repurchase				After the Closing of the Share Repurchase (assuming no conversion of the Non-Voting Shares)				After the Closing of the Share Repurchase (assuming full conversion of the Non-Voting Shares)			
	Number and class of shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming no conversion of Non-voting Shares but full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights assuming no conversion of Non-voting Shares (approx.) *(Note 3)*	Number and class of shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights (approx.) *(Note 3)*	Number of shares assuming no conversion of Convertible Preferred Shares	Percentage of total issued ordinary share capital excluding Convertible Preferred Shares (approx.) *(Note 2)*	Number of shares assuming full conversion of Convertible Preferred Shares *(Note 1)*	Percentage of voting rights (approx.) *(Note 3)*
Newbridge Capital	390,000 Convertible Preferred Shares *(Note 1)*	–	143,119,266 Shares	1.52%	390,000 Convertible Preferred Shares *(Note 1)*	–	143,119,266 Shares	1.52%	390,000 Convertible Preferred Shares *(Note 1)*	–	143,119,266 Shares	1.46%
Directors	54,980,000 Shares	0.60%	54,980,000 Shares	0.58%	54,980,000 Shares	0.63%	54,980,000 Shares	0.58%	54,980,000 Shares	0.63%	54,980,000 Shares	0.56%
Public	3,245,004,137 Shares	35.18%	3,245,004,137 Shares	34.48%	3,245,004,137 Shares	36.93%	3,245,004,137 Shares	34.48%	3,245,004,137 Shares	36.93%	3,245,004,137 Shares	33.16%
	Total issued ordinary share capital: 9,222,603,136 Total Shares: 8,411,602,623 Total Non-voting Shares: 811,000,513 Total Convertible Preferred Shares: 2,730,000	100%	Total Shares: 9,413,437,485 Total Non-voting Shares: 811,000,513	100%	Total issued ordinary share capital: 8,786,885,379 Total Shares: 8,411,602,623 Total Non-voting Shares: 375,282,756 Total Convertible Preferred Shares: 2,730,000	100%	Total Shares: 9,413,437,485 Total Non-voting Shares: 375,282,756	100%	Total Shares: 8,786,885,379 Total Convertible Preferred Shares: 2,730,000	100%	Total Shares: 9,788,720,241	100%

Notes:

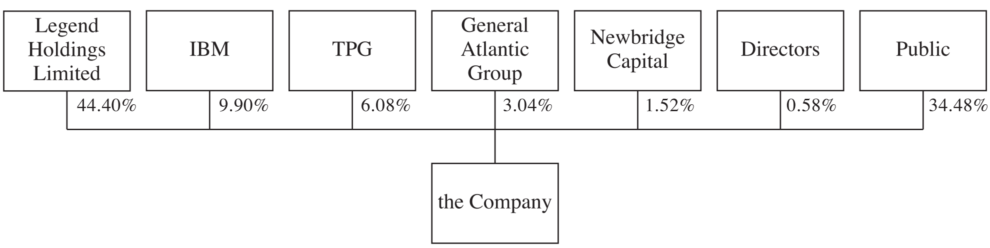
1. Each Convertible Preferred Share may be voted on an "as if" converted basis. Holders of the Convertible Preferred Shares will have the right to one vote for each whole Share into which a Convertible Preferred Share is convertible at the close of business on the record day for any meeting of Shareholders at which such Convertible Preferred Shares will be voted. Each Convertible Preferred Share is convertible into a number of Shares equal to the stated value of the Convertible Preferred Shares of HK$1,000 each divided by HK$2.725, subject to certain anti-dilution adjustments.

2. Total issued ordinary share capital includes Shares and Non-voting Shares but not the Convertible Preferred Shares. The percentage of total issued ordinary share capital would not change due to conversion of the Non-voting Shares.

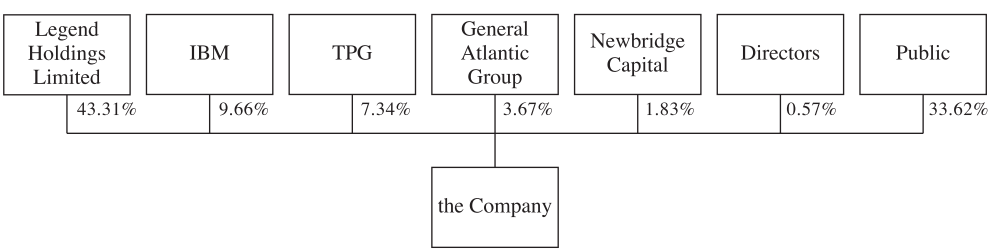
3. As the Convertible Preferred Shares carry voting rights on an "as if" converted basis, these percentages would not change even before the conversion of the Convertible Preferred Shares.

PERCENTAGE OF VOTING RIGHTS

As at the Latest Practicable Date and before Closing of the Share Repurchase

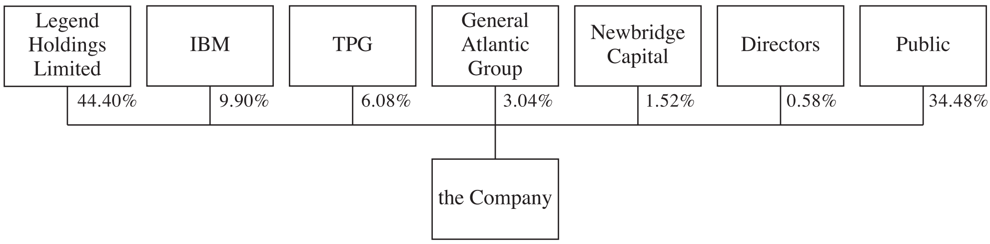


As at the Latest Practicable Date and before Closing of the Share Repurchase and assuming full exercise of Warrants

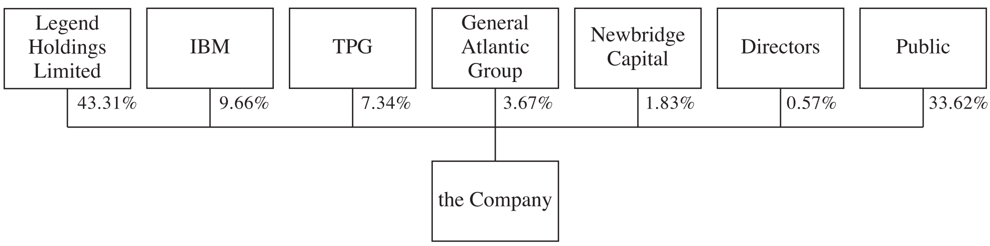


Note: The percentage of voting rights of each of the above shareholders in the respective charts will remain the same upon full conversion of Convertible Preferred Shares as the Convertible Preferred Shares carry voting rights on an "as if" converted basis.

Immediately upon the Share Repurchase (assuming no exercise of Warrants)



Immediately upon the Share Repurchase and full exercise of Warrants



Note: The percentage of voting rights of each of the above shareholders in the respective charts will remain the same upon full conversion of Convertible Preferred Shares as the Convertible Preferred Shares carry voting rights on an "as if" converted basis.

PUBLIC FLOAT REQUIREMENTS

The Company intends to maintain its listing on the Stock Exchange and to continue to meet the public float requirements under Rule 8.08 of the Listing Rules.

CONNECTED TRANSACTION

Following the Initial IBM Closing, IBM is deemed to be a connected person of the Company by the Stock Exchange and consequently the Share Repurchase constitutes a connected transaction under Listing Rules and will be subject to reporting and announcement requirements under the Listing Rules and approval of the Independent Shareholders at the EGM.

The Directors consider that the Share Repurchase has been negotiated and will be conducted on an arm's length basis and on normal commercial terms between the Company and IBM.

FINANCIAL EFFECTS OF THE SHARE REPURCHASE

The following table shows the effect that the Share Repurchase may have on the net assets value per Ordinary Share, liabilities, working capital, current ratio and gearing ratio of the Company based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2005 extracted from Appendix II to this circular. The unaudited pro forma balance sheet is prepared in accordance with Rule 4.29 of the Listing Rules. The pro forma consolidated balance sheet of the Enlarged Group is based on the audited consolidated balance sheet of the Group as at 31 March 2005, and the audited combined statement of financial position of the personal computer division of IBM ("PCD") as at 30 June 2004 (the first column headed "PCD as at 30 June 2004 under HK GAAP after pro forma adjustments" in the unaudited pro forma financial information of the Enlarged Group in Appendix II to this Circular is extracted from the unaudited pro forma financial information of the Enlarged Group under the column headed "The Business as at 30 June 2004 under HK GAAP after pro forma adjustments" as set out on page 202 in Appendix IV to the IBM Circular, which in turn is derived from the audited combined statement of financial position of PCD as at 30 June 2004 after making certain pro forma adjustments).

The unaudited pro forma balance sheet is prepared to provide information about how the Share Repurchase might have affected the relevant financial information of the Group as at 31 March 2005. As it is for illustrative purpose only and because of its nature, it may not give a true picture of the results and financial position of the Enlarged Group for any future financial periods or date.

Financial effects of the Share Repurchase

	Before the Share Repurchase and before the issuance of unlisted Convertible Preferred Shares	Before the Share Repurchase but after the issuance of unlisted Convertible Preferred Shares	After the Share Repurchase and after the issuance of unlisted Convertible Preferred Shares
Net assets value per Ordinary Share (HK$)	1.02	1.03	0.95
Total liabilities (HK$'m)	20,629	23,252	23,252
Working capital (HK$'m) (represented by current assets minus current liabilities)	(3,712)	(1,005)	(2,192)
Current ratio (times) (represented by current assets divided by current liabilities)	0.77	0.94	0.86
Gearing ratio (%) (represented by bank loans divided by Shareholders' equity)	41.35%	40.99%	46.83%
No. of Ordinary Shares issued	9,217,667,136*	9,217,667,136*	8,781,949,379**

* The number of Ordinary Shares issued comprises (i) 7,474,796,108 Ordinary Shares in issue as at 31 March 2005; and (ii) 821,234,569 Shares and 921,636,459 Non-voting Shares allotted and issued by the Company to IBM to satisfy part of the consideration for the IBM Acquisition.

** The number of Ordinary Shares issued comprises (i) 7,474,796,108 Ordinary Shares in issue as at 31 March 2005; (ii) 821,234,569 Shares and 921,636,459 Non-voting Shares allotted and issued by the Company to IBM to satisfy part of the consideration for the IBM Acquisition; and (iii) after deducting 435,717,757 Non-voting Shares to be repurchased under the Share Repurchase.

The Share Repurchase Code also requires the Company to include in this circular information on the effect which the Share Repurchase will have on the Company's earnings per share. As PCD was part of the businesses of IBM and was not a stand-alone entity, IBM did not normally publish audited financial results of PCD. The most recent profit and loss statement in respect of PCD is in relation to the six-month period ended 30 June 2004, which was included in the IBM Circular. As the latest profit and loss statements for the Group and PCD respectively are for different periods, accordingly the Company is not able to perform pro forma profit and loss statement for the Enlarged Group for the year ended 31 March 2005. To use the profit and loss statement of PCD for any previous periods as the basis of the pro forma profit and loss statement of the Enlarged Group would be inappropriate given the length of time elapsed since the date to which such previous statements of PCD were made up.

However, the effect of the Share Repurchase on the earnings/(loss) per Ordinary Share will be primarily attributable to the reduction in the number of Ordinary Shares in issue after the Share Repurchase. The number of Ordinary Shares in issue as at (i) the Latest Practicable Date, and (ii) immediately following the Share Repurchase is and will be as follows:

Number of Ordinary Shares (including Shares and Non-voting Shares) in issue as at the Latest Practicable Date	9,222,603,136
Number of Non-voting Shares to be repurchased	435,717,757
Number of Ordinary Shares (including Shares and Non-voting Shares) in issue immediately after the Share Repurchase	8,786,885,379

Based on the number of the Non-voting Shares to be repurchased, it is expected that the earnings/(loss) per Ordinary Share would increase by approximately 4.96% as a result of the Share Repurchase, which is the percentage calculated by dividing the number of Excess Shares by the number of Shares and Non-voting Shares in issue immediately after the Share Repurchase and assuming no adjustments to the earnings/(loss) as a result of the Share Repurchase.

For the year ended 31 March 2005, the audited consolidated profits of the Company after taxation and minority interests was approximately US$143.61 million (HK$1,120.15 million).

In respect of PCD, based on the audited US combined financial statements of the personal computing division of IBM for the six months ended 30 June 2004 as extracted from Appendix I of the IBM Circular (page 109), the net loss after income taxes, minority interests and changes in accounting principle was US$139 million (approximately HK$1,084.20 million). This half year loss represents approximately 96.79% of the Company's full year audited consolidated profits after taxation and minority interests for the year ended 31 March 2005.

SOURCE OF FUNDING

The funds required for the Share Repurchase, of approximately US$152,221,909 (approximately HK$1,187,330,888), will be financed out of the net proceeds of US$347 million (approximately HK$2,707 million) from the issue of the Convertible Preferred Shares and the Warrants to the Investors. As the Initial IBM Closing occurred prior to the closing of the CPS Subscription, the Company will use a portion of the proceeds raised by the issuance of Convertible Preferred Shares and Warrants to fund the repurchase of the Excess Shares which were issued to IBM in lieu of cash consideration. The Company believes that the financing of the Share Repurchase will not have any adverse impact on the financial position of the Company as only minimal changes are expected as illustrated in the section entitled "Financial Effects of the Share Repurchase" on pages 22 to 24 of this circular. Rothschild has confirmed that the Company has financial resources sufficient to satisfy the consideration payable for the repurchase of the Excess Shares.

INFORMATION ON THE COMPANY

The principal activity of the Company is investment holding. Since the Initial IBM Closing, the principal activity of the Group is provision of desktop and notebook computers in worldwide markets. The Group also provides information technology products including mobile handsets, servers, peripherals and digital entertainment products in the PRC.

INFORMATION ON IBM

IBM is the largest supplier of "hardware", "software" and information technology services, and pioneered the development and implementation of "e-business" solutions. Over the past decade, IBM has been a leader in the information technology market's shift of focus from selling hardware, software, and services, to the creation of solutions to clients' business problems. The common stock of IBM is listed on the New York, Chicago and Pacific Stock Exchanges and on other exchanges in the USA and around the world.

SHARE REPURCHASE CODE IMPLICATIONS

Pursuant to Rule 2 of the Share Repurchase Code, the Share Repurchase must be approved by the Executive. The Share Repurchase is also conditional upon the approval by at least three-fourths of the votes cast on a poll by disinterested Shareholders present in person or by proxy at the EGM. In accordance with the Share Repurchase Code, IBM, its concert parties and associates are required to abstain from voting in respect of the Share Repurchase. All disinterested Shareholders (being Shareholders who and whose concert parties and associates do not have any interest in the Share Repurchase) within the meaning of the Share Repurchase Code are eligible to vote.

The SFC has confirmed that the Major Shareholder is a disinterested shareholder in respect of the Share Repurchase and therefore is eligible to vote on the Share Repurchase resolution at the EGM.

EXTRAORDINARY GENERAL MEETING

The EGM will be convened for the purpose of considering and, if thought fit, approving a resolution for the Share Repurchase. IBM, its concert parties and associates will abstain from voting at the EGM. The Company and the Investors approached the Stock Exchange to determine whether or not the Investors are eligible to vote at the EGM and the Stock Exchange has determined that the Investors' interests in the Share Repurchase are not the same as those of the minority Shareholders and accordingly the Investors and their respective associates should abstain from voting in favour of the proposed resolution at the EGM.

As at the Latest Practicable Date, IBM held 931,870,515 Shares and 811,000,513 Non-voting Shares representing approximately 18.90% of the issued ordinary share capital (including Shares and Non-voting Shares, but excluding Convertible Preferred Shares) and approximately 9.90% of the total voting rights. IBM is deemed to be a connected person of the Company by the Stock Exchange and consequently the Share Repurchase constitutes a connected transaction under the Listing Rules and is thus subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. IBM and its respective concert parties and associates will abstain from voting at the EGM. As at the Latest Practicable Date, as far as the Company is aware, having made all reasonable enquiries:

(a) IBM controlled or was entitled to exercise control over the voting rights in respect of the Shares held by itself;

(b) (i) save for the Holdings Agreement entered into with the Major Shareholder on 7 December 2004, the Investors' Voting Undertakings entered into on 29 April 2005 as described in the section headed "Investors' Voting Undertakings" in this letter from the Board and the Major Shareholder Voting Undertaking entered into on 30 April 2005 as described in the section headed "Major Shareholder Voting Undertaking" in this letter from the Board, there were no voting trusts or other agreements or arrangements or understandings or undertakings (other than an outright sale) entered into by or binding upon IBM; and

(ii) there were no obligations or entitlements of IBM by reference to which disclosure of the shareholding of IBM is made in this circular,

whereby IBM had or might have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to third parties, either generally or on a case-by-case basis; and

(c) there were no discrepancies between the beneficial shareholding interests of IBM in the Company as disclosed in this circular and the number of Shares in respect of which it would control or would be entitled to exercise control over the voting rights at the EGM.

As at the Latest Practicable Date, the Investors held 2,730,000 Convertible Preferred Shares, convertible into 1,001,834,862 Shares, or approximately 10.64% of the total voting rights of the Company and approximately 9.80% of the enlarged issued ordinary share capital assuming full conversion of Convertible Preferred Shares. The Stock Exchange has determined that the Investors' interests in the Share Repurchase are not the same as those of the minority Shareholders and accordingly the Investors and their respective associates should abstain from voting in favour of the proposed resolution at the EGM. As at the Latest Practicable Date, as far as the Company is aware, having made all reasonable enquiries:

(a) the Investors controlled or were entitled to exercise control over the voting rights in respect of the Convertible Preferred Shares held by them;

(b) (i) save for the Investors' Voting Undertakings with IBM entered into on 29 April 2005 as described in the section headed "Investors' Voting Undertakings" in this letter from the Board, there were no voting trusts or other agreements or arrangements or understandings or undertakings (other than an outright sale) entered into by or binding upon the Investors; and

(ii) there were no obligations or entitlements of the Investors by reference to which disclosure of the respective shareholdings of the Investors is made in this circular,

whereby any Investor had or might have temporarily or permanently passed control over the exercise of the voting right in respect of its Convertible Preferred Shares to third parties, either generally or on a case-by-case basis; and

(c) there were no discrepancies between the beneficial shareholding interests of any of the Investors in the Company as disclosed in this circular and the number of Convertible Preferred Shares in respect of which it would control or would be entitled to exercise control over the voting rights at the EGM.

A notice convening the Extraordinary General Meeting is set out on pages 134 to 136 of this circular. The Major Shareholder has entered into voting undertaking agreements with IBM pursuant to which it has, amongst others, agreed to vote in favour of any shareholder resolution that authorizes the Company to repurchase any of the Excess Shares. The Stock Exchange has confirmed that it has no comment on the Major Shareholder voting on the proposed resolution at the EGM.

A form of proxy for use by the Independent Shareholders at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) and in such event, the relevant forms of proxy shall be deemed to be revoked.

Pursuant to Article 73 of the articles of association of the Company, a poll may be demanded by the Chairman or:

(a) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

(b) by any Shareholder present in person or by proxy and representing no less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(c) by any Shareholder present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to and not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(d) as required by the applicable Listing Rules.

According to Rule 14A.52 of the Listing Rules, the votes taken at the Extraordinary General Meeting to seek approval of the Share Repurchase will be taken by poll.

RECOMMENDATIONS

The Share Repurchase constitutes an off-market share repurchase under the Share Repurchase Code and a connected transaction under the Listing Rules. Pursuant to the requirements of the Share Repurchase Code and the Listing Rules, the Independent Board Committee has been formed to advise the Independent Shareholders and Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

The members of the Independent Board Committee were selected after due and careful consideration by the Board.

The text of a letter from the Independent Board Committee is set out on page 29 of this circular and the text of a letter from Rothschild containing its opinion and the principal factors it has taken into account in arriving at its opinion in respect of the Share Repurchase is set out on pages 30 to 47 of this circular.

GENERAL

A copy of the Repurchase Agreement is being sent to Shareholders together with this circular and will be available for inspection at the registered address of the Company during normal business hours from the date of this circular up to and including 22 July 2005.

The terms of the Share Repurchase were negotiated at arm's length between the Company and IBM. The Directors consider that the Share Repurchase is in the best interests of the Company.

Your attention is drawn to the letter from the Independent Board Committee, the letter from Rothschild, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the financial information of the Group, the terms of the Share Repurchase as set out in this circular and other information contained in this circular before considering whether to vote for or against the resolution to be proposed at the EGM for approving the Share Repurchase as set out in the appendices to this circular, all of which are deemed to form part of this circular.

By order of the Board
Yang Yuanqing
Chairman

lenovo联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

6 July 2005

To the Independent Shareholders

PROPOSED OFF-MARKET REPURCHASE OF NON-VOTING SHARES
CONNECTED TRANSACTION

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you as to whether the Share Repurchase is fair and reasonable in so far as the Independent Shareholders are concerned and as to whether the Independent Shareholders should approve or disapprove the resolution on the Share Repurchase to be proposed at the EGM. Details of the Share Repurchase are set out in the letter from the Board contained in the circular to Shareholders dated 6 July 2005 (the "Circular"), of which this letter forms part. Terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

Rothschild has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Repurchase.

Having considered the terms of the Share Repurchase, and the advice of Rothschild in relation thereto as set out on pages 30 to 47 of the Circular, we have come to the view that the terms of the Share Repurchase are fair and reasonable and the Share Repurchase is in the interests of the Company and its Shareholders as a whole, in so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Share Repurchase to be proposed at the EGM.

Yours faithfully,
Independent Board Committee
Wong Wai Ming **Woo Chia-Wei** **Ting Lee Sen**

Set out below is the text of the letter from Rothschild to the Independent Board Committee prepared for inclusion in this circular.

ROTHSCHILD

6 July 2005

To the Independent Board Committee and
the Independent Shareholders of Lenovo Group Limited

Dear Sir/Madam,

PROPOSED OFF-MARKET REPURCHASE OF NON-VOTING SHARES
CONNECTED TRANSACTION

We refer to the Repurchase Agreement, details of which are contained in the circular (the "Circular") of the Company dated 6 July 2005 to the Shareholders of which this letter forms part. Rothschild has been retained as the independent financial adviser by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Share Repurchase are fair and reasonable so far as the Independent Shareholders are concerned, and whether or not the Share Repurchase is in the interests of the Company and the Shareholders as a whole.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Upon the Initial IBM Closing, IBM has been deemed to be a connected person of the Company by the Stock Exchange. Pursuant to the Listing Rules, the Share Repurchase constitutes a connected transaction for the Company. Accordingly, the Share Repurchase is subject to, inter alia, the Independent Shareholders' approval at the EGM to be taken on a poll. IBM and its concert parties and associates will abstain from voting at the EGM. Furthermore, the Share Repurchase constitutes an off-market share repurchase, pursuant to Rule 2 of the Share Repurchase Code, the Share Repurchase is subject to the approval of the Executive. The Executive has indicated such approval will be granted subject to compliance with the Share Repurchase Code by the parties to the Share Repurchase. The Company and the Investors approached the Stock Exchange to determine whether or not the Investors are eligible to vote at the EGM. The Stock Exchange has determined that the Investors' interests in the Share Repurchase are not the same as those of the minority Shareholders and accordingly the Investors and their respective associates should abstain from voting in favor of the proposed resolution at the EGM for the approval of the Share Repurchase. The Major Shareholder has entered into voting undertakings with IBM pursuant to which it has, amongst others, agreed to vote in favour of any shareholder resolution that authorises the Company to repurchase any of

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the Excess Shares. The SFC has confirmed that the Major Shareholder is a disinterested Shareholder for the purpose of the Share Repurchase Code and accordingly the Major Shareholder may vote at the EGM. The Stock Exchange has confirmed that it has no comment on the Major Shareholder voting on the proposed resolution at the EGM.

The Board comprises 11 Directors of whom three are executive Directors, five are non-executive Directors and three are independent non-executive Directors. Further, each of Mr Justin T Chang, Mr Vince Feng and Mr Daniel A Carroll has been appointed as alternate director to Mr James G Coulter, Mr William O Grabe and Mr Shan Weijian respectively. The three executive Directors, namely Mr Yang Yuanqing, Mr Stephen M Ward, Jr and Ms Ma Xuezheng, are salaried employees of the Company, as such, none of them is considered to be independent for the purpose of giving any advice or recommendation on the Share Repurchase to the Independent Shareholders under the Share Repurchase Code. In addition, under Rule 13.39(6)(a) of the Listing Rules, the non-executive Directors, namely Mr Liu Chuanzhi, Mr Zhu Linan, Mr James G Coulter, Mr William O Grabe and Mr Shan Weijian cannot be appointed as members of the Independent Board Committee in relation to the connected transaction. As a result, Mr Wong Wai Ming, Professor Woo Chia-Wei and Mr Ting Lee Sen, who are independent and do not have an interest in the Share Repurchase, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the Share Repurchase.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate, incomplete or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Board. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that, in order to provide a reasonable basis for our advice, we have taken reasonable steps and performed sufficient work in compliance with Rule 13.80 of the Listing Rules (including the notes thereto). We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or the Enlarged Group.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale

(a) IBM Acquisition

As disclosed in the IBM Circular dated 31 December 2004, in relation to the IBM Acquisition, the Company agreed to pay a consideration of US$1.25 billion (equivalent to approximately HK$9.75 billion), subject to certain adjustments (details of which are contained in the IBM Circular). The consideration was satisfied at the Initial IBM Closing, which took place on 30 April 2005, by a cash consideration of US$650 million (equivalent to approximately HK$5,070 million) and the allotment and issuance of 821,234,569 new Shares and 921,636,459 new Non-voting Shares as Consideration Shares, credited as fully paid by the Company to IBM at the Issue Price of HK$2.675. Of the total Consideration Shares, 435,717,757 Non-voting Shares represent the Excess Shares (further details of which are contained in the IBM Circular), accounting for approximately 53.73% of the total issued Non-voting Shares as at the Latest Practicable Date, or approximately 4.72% of the total issued ordinary share capital of the Company as at the Latest Practicable Date.

Immediately following the Initial IBM Closing on 30 April 2005, IBM holds approximately 9.90% of the Company's voting rights (comprising Shares only) and approximately 18.90% of the Company's total enlarged issued ordinary share capital (comprising Shares and Non-voting Shares).

(b) Company Agreement

On 7 December 2004, the Company and IBM also entered into the Company Agreement. Pursuant to it, the Company agreed that until IBM has sold all of the Excess Shares, the Company may not issue any new shares (including securities convertible into Shares) without IBM's consent except for the purpose of repaying the bridge loan arranged by Goldman Sachs Credit Partners L.P. in connection with the IBM Acquisition. Moreover, the Company agreed to use its reasonable best efforts to arrange for the sale of the Excess Shares to one or more third parties or, subject to applicable laws and regulations, to repurchase the Excess Shares at a price per Excess Share not less than the higher of (i) the market price per Share prevailing at the time of the repurchase offer (i.e.

HK$2.425 per Share being the closing price of the Shares as quoted on the Stock Exchange on 29 April 2005, the last day of trading in the Shares on the Stock Exchange before signing of the Repurchase Agreement), and (ii) the Issue Price of HK$2.675 per Share; net of stamp duty, transaction levy and trading fees if any.

On 30 March 2005, the Investors agreed to subscribe for the Convertible Preferred Shares (further details are set out below and in the CPS Subscription Circular), and it was intended that the Initial IBM Closing and the closing of the CPS Subscription would take place concurrently. Therefore, on the same date, the Company and IBM entered into the First Amendment Agreement whereby the Company and IBM agreed that if the closing of the CPS Subscription did not occur concurrently with the Initial IBM Closing, prior approval in relation to a repurchase of the Excess Shares shall have been obtained from the Company's Shareholders before the closing of the CPS Subscription.

Right before the Initial IBM Closing, which took place on 30 April 2005, it became clear that the Initial IBM Closing would occur before the closing of the CPS Subscription. As such, on 29 April 2005, the Company and IBM entered into the Second Amendment Agreement whereby IBM consented to the closing of the CPS Subscription and waived the requirement for obtaining prior approval from the Company's Shareholders in relation to the repurchase of the Excess Shares. In consideration, the Company agreed, among other things, to enter into the Repurchase Agreement.

(c) CPS Subscription

On 17 May 2005, the closing of the CPS Subscription occurred, whereby the Company issued to the Investors 2,730,000 unlisted Convertible Preferred Shares and unlisted Warrants to subscribe for 237,417,474 Shares for an aggregate cash consideration of US$350 million (equivalent to approximately HK$2,730 million).

The Convertible Preferred Shares bear a fixed cumulative preferential cash dividend at the rate of 4.5% per annum to be paid quarterly. Each Convertible Preferred Share is convertible, at the option of the Convertible Preferred Shareholders, into Shares at any time after the closing of the CPS Subscription, at the conversion price of HK$2.725, subject to certain anti-dilution adjustments.

Each Warrant carries the right to subscribe for one Share at the exercise price of HK$2.725, subject to certain anti-dilution adjustments.

As stated in the CPS Subscription Circular, the Directors intend to use approximately US$150 million of the net proceeds from such issue to satisfy part of the consideration payable to IBM for the IBM Acquisition. It is also stated in the CPS Subscription Circular that if the Company paid US$150 million cash to IBM, it would not issue the Excess Shares to IBM. As the Initial IBM Closing and the closing of the CPS Subscription did not take place concurrently, the Company did not pay US$150 million in cash to IBM at the Initial IBM Closing, and the Excess Shares were issued to IBM.

(d) Rationale for the Share Repurchase

As disclosed in the CPS Subscription Circular, if the Company paid US$150 million (equivalent to approximately HK$1,170 million) in cash to IBM to satisfy part of the consideration for the IBM Acquisition, it would not issue the Excess Shares as part of the Consideration Shares to IBM. At the Initial IBM Closing, the Excess Shares were issued to IBM as part of the Consideration Shares in lieu of a cash payment of US$150 million. Furthermore, as disclosed in the IBM Circular, pursuant to the original Company Agreement, the Company agreed not to issue any new shares (including securities convertible into Shares) until IBM has sold all of the Excess Shares. In this connection, the Company has agreed, pursuant to the Company Agreement which was approved by the Shareholders at the extraordinary general meeting of the Company in respect of the IBM Acquisition on 27 January 2005, to use its reasonable best efforts either to arrange for the sale of the Excess Shares to one or more third parties or, subject to applicable laws and regulations, to repurchase the Excess Shares. Based on our discussions with the management of the Company, we understand that the Company considers the Share Repurchase is a better option under the current market conditions as the Shares have been trading at below the Issue Price of the Excess Shares since completion of the IBM Acquisition, and is in the interests of the Company and the Shareholders as a whole. The Share Repurchase will remove this restriction entirely by repurchasing all of the Excess Shares issued to IBM pursuant to the IBM Acquisition and allow the Company the desired flexibility in its future strategic and equity fund-raising plans.

In addition, as noted in the "Letter from the Board" in the Circular, the Company considers the investment in the Company by the Investors to be strategically beneficial from both a financial and operational perspective. As IBM has waived the requirement to obtain the Shareholders' approval in relation to the Share Repurchase as a pre-condition to its consent to the issue of the Convertible Preferred Shares and the Warrants, we concur with the Board that the entering into of the Repurchase Agreement facilitated early closing of the CPS Subscription and provided the Company with certainty with respect to its fund raising activities and its working capital requirements. **Independent**

Shareholders should note that the closing of the CPS Subscription has occurred on 17 May 2005, regardless of whether the Share Repurchase will proceed or not. If the conditions precedent to the Repurchase Agreement cannot be fulfilled by midnight of 29 October 2005, IBM will have the right, by notice in writing to the Company, to rescind the Repurchase Agreement without any liability to the Company. In this connection, the Company may not issue any new shares (including securities convertible into Shares) without IBM's consent except for the purpose of repaying the bridge loan arranged by Goldman Sachs Credit Partners L.P. in connection with the IBM Acquisition pursuant to the Company Agreement.

As disclosed in the CPS Subscription Circular, the Company intends to apply approximately US$150 million (equivalent to approximately HK$1,170 million) of the proceeds of approximately US$350 million (equivalent to approximately HK$2,730 million) from the issue of the Convertible Preferred Shares and the Warrants to pay for the Share Repurchase. After the Share Repurchase and the cancellation of the Excess Shares, the total number of Ordinary Shares (comprising Shares and Non-voting Shares) in issue will be reduced by approximately 4.72% from 9,222,603,136 Ordinary Shares to 8,786,885,379 Ordinary Shares assuming no conversion of the Convertible Preferred Shares, or reduced by approximately 4.26% from 10,224,437,998 Ordinary Shares to 9,788,720,241 Ordinary Shares assuming full conversion of the Convertible Preferred Shares (further details are set out below). Therefore, through the Share Repurchase, the Company should be able to reduce the dilution effect (on an earnings per Ordinary Share basis and assuming no adjustments to the earnings/loss of the Company as a result of the Share Repurchase) resulting from the IBM Acquisition.

On the above basis, we are of the view that the Share Repurchase enables the Company to (i) increase flexibility in future corporate action, such as future equity fund-raising plans, as it releases the Company's restriction on the issuance of any new shares (including securities convertible into Shares) before the sale of the Excess Shares by IBM under the Company Agreement, (ii) improve funding certainty for the CPS Subscription as it removes the need for prior Shareholders' approval for the Share Repurchase, and (iii) reduce the dilution effect (on an earnings per Ordinary Share basis) resulting from the closing of the CPS Subscription and the IBM Acquisition.

2. The Share Repurchase

(a) Non-voting Shares to be acquired

The Company has agreed to purchase, and IBM has agreed to sell, subject to certain conditions, the Excess Shares, representing 435,717,757 Non-voting Shares which were issued to IBM following the Initial IBM Closing to satisfy part of the consideration for the IBM Acquisition. The Excess Shares are Non-voting Shares, accounting for approximately 53.73% of the total issued Non-voting Shares as at the Latest Practicable Date, or approximately 4.72% of the total issued ordinary share capital of the Company as at the Latest Practicable Date.

Following the Closing, the Excess Shares will be cancelled and the number of Non-voting Shares in issue will be reduced from 811,000,513 Non-voting Shares to 375,282,756 Non-voting Shares.

(b) Share Repurchase Price

The Share Repurchase Price is equal to HK$2.725, and the total consideration in cash for the Share Repurchase amounts to approximately US$152,221,909 (equivalent to approximately HK$1,187,330,888).

The Share Repurchase Price of HK$2.725 was negotiated and entered into on an arm's length basis between the Company and IBM, and represents:

(i) a premium of approximately 1.87% over the Issue Price of the Excess Shares of HK$2.675;

(ii) a premium of approximately 1.87% over the closing price of the Shares of HK$2.675 as quoted on the Stock Exchange on 3 December 2004 being the last day of trading in the Shares on the Stock Exchange before release of the announcement in relation to the IBM Acquisition;

(iii) a premium of approximately 12.37% over the closing price of the Shares of HK$2.425 as quoted on the Stock Exchange on 29 April 2005, being the last day of trading in the Shares on the Stock Exchange before signing of the Repurchase Agreement and before release of the Announcement;

(iv) a premium of approximately 12.93% over the 10-day average closing price of the Shares of HK$2.413 as quoted on the Stock Exchange up to and including 29 April 2005;

(v) a premium of approximately 12.79% over the 6-month daily average closing price of the Shares of HK$2.416 as quoted on the Stock Exchange since 1 November 2004 up to and including 29 April 2005;

(vi) a premium of approximately 18.48% over the closing price of the Shares of HK$2.300 as quoted on the Stock Exchange on 30 June 2005, being the Latest Practicable Date;

(vii) a premium of approximately 289.29% over the audited net asset value per Ordinary Share of approximately HK$0.70 as at 31 March 2005 of the Company;

(viii) a premium of approximately 164.56% over the unaudited pro forma net asset value per Ordinary Share of the Enlarged Group as at 31 March 2005 of approximately HK$1.03 assuming the Initial IBM Closing, the Subsequent IBM Closing and the issuance of the Convertible Preferred Shares and the Warrants had taken place on 31 March 2005 (details disclosed in Appendix II to the Circular); and

(ix) a price earnings multiple of approximately 18.18 times the basic earnings per Ordinary Share of the Company of approximately HK$0.1499 for the year ended 31 March 2005.

Independent Shareholders should note that the comparison of the Share Repurchase Price against the net asset value and the price earnings ratio was included as a reference only as we are of the view that the Share Repurchase Price was agreed with reference to the Issue Price of the Excess Shares having regard to the terms of the original Company Agreement after arm's length negotiation between the two parties and hence, it is more relevant to compare the Share Repurchase Price with the price performance of the Shares, the Issue Price and the conversion price of the Convertible Preferred Shares. In this connection, it should be noted that the Shares have been trading at above the net asset value per Ordinary Share for at least the past two years, and the Excess Shares were issued at a premium of approximately 282.14% over the audited net asset value per Ordinary Share of approximately HK$0.70 as at 31 March 2005 of the Company (based on the audited net asset value of the Company of approximately HK$5,204.40 million and

7,474,796,108 Ordinary Shares in issue each as at 31 March 2005) and at a price earnings multiple of approximately 17.85 times the audited basic earnings per Ordinary Share of the Company of approximately HK$0.1499 for the year ended 31 March 2005.

The Share Repurchase Price is equal to the conversion price of the Convertible Preferred Shares, and is HK$0.05 higher than, representing a slight 1.87% premium over, the Issue Price of the Excess Shares. Although the Excess Shares do not have voting rights at all general meetings of the Company whilst the Convertible Preferred Shares have voting rights at all general meetings of the Company, we consider that it is reasonable to compare the issue prices of these two different classes of shares as the Excess Shares can easily be converted into Shares on a one for one basis, subject to any adjustments as a result of any consolidation or sub-division of the Shares. Since the small premium over the Issue Price of the Excess Shares allows timely closing of the CPS Subscription and increases funding certainty in relation to the CPS Subscription and on the basis that we are of the view that the Share Repurchase enables the Company to increase flexibility in future corporate actions as it releases the Company's restriction on the issuance of any new shares (including securities convertible into Shares) before the sale of the Excess Shares by IBM under the Company Agreement, and to reduce the dilution effect (on an earnings per Ordinary Share basis) resulting from the closing of the CPS Subscription and the IBM Acquisition, we consider the Share Repurchase Price to be fair and reasonable.

(c) Financing of the Share Repurchase

Under the Repurchase Agreement, the total consideration of approximately US$152,221,909 (equivalent to approximately HK$1,187,330,888) will be satisfied by part of the net proceeds from the CPS Subscription. The financing of the Share Repurchase through the issue of the Convertible Preferred Shares and the Warrants avoids further depletion of the Company's existing cash resources and preserves cash availability and flexibility to the Company for its future operations. Based on the unaudited pro forma financial information as at 31 March 2005 of the Enlarged Group, it had a balance of cash and cash equivalents of HK$1,849 million before the issuance of the Convertible Preferred Shares and the Warrants.

(d) Conditions of the Share Repurchase

Closing of the Repurchase Agreement is conditional upon fulfilment of various conditions. These conditions include, among other things, the closing of the CPS Subscription, which took place on 17 May 2005, and the approval of the Share

Repurchase by the Executive (which the Executive has indicated will be granted) and by at least three-fourths of the votes cast at the EGM on a poll by the Independent Shareholders.

3. Financial effects of the Share Repurchase on the Company

(a) Earnings per Ordinary Share

As stated in the "Letter from the Board" in the Circular, the Company is unable to compile pro forma earnings per Ordinary Share for the Enlarged Group for the year ended 31 March 2005 because the financial information in respect of PCD is only available for the six-month period ended 30 June 2004. As such, it is not possible to analyse the pro forma financial effects of the Share Repurchase on earnings per Ordinary Share for the year ended 31 March 2005. As disclosed in the "Letter from the Board" in the Circular, the PCD recorded a net loss of approximately US$139 million (equivalent to approximately HK$1,084.20 million) for the six months ended 30 June 2004 which accounted for approximately 96.79% of the consolidated profits after taxation and minority interests of the Company of HK$1,120.15 million for the year ended 31 March 2005.

We note that the Board considers that the Repurchase Agreement reduces the dilution effect (on an earnings per Ordinary Share basis) resulting from the closing of the CPS Subscription and the Initial IBM Closing. After the Share Repurchase and the cancellation of the Excess Shares, the total number of Ordinary Shares in issue as at the Latest Practicable Date will be reduced by 435,717,757 Non-voting Shares from 9,222,603,136 Ordinary Shares to 8,786,885,379 Ordinary Shares. Therefore, by analogy, with a smaller number of Ordinary Shares in issue as the denominator in calculating the earnings per Ordinary Share, the earnings per Ordinary Share would be enhanced by approximately 4.96% assuming no adjustments to the earnings as a result of the Share Repurchase, leading to a reduction of the dilution effect resulting from the closing of the CPS Subscription and the Initial IBM Closing. We concur with this view given that it is not possible to analyse the pro forma earnings effect on an Enlarged Group basis (as discussed in the paragraph above).

(b) Net assets value ("NAV") per Ordinary Share

The table below shows, for illustrative purposes only, the pro forma financial effect of the Share Repurchase on NAV per Ordinary Share as at 31 March 2005, under the assumption that there is no conversion of the Convertible Preferred Shares.

(in HK$ million unless otherwise specified)	**Pro forma Enlarged Group after IBM Acquisition (A)** *(note 1)*	**Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants but before Share Repurchase (B)** *(note 1)*	**Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants and Share Repurchase (C)** *(note 1)*
Pro forma NAV *(note 2)*	9,431		
Pro forma NAV after issuance of the Convertible Preferred Shares *(note 2)*		9,515	
Pro forma NAV after issuance of the Convertible Preferred Shares and the Share Repurchase *(note 2)*			8,328
Pro forma NAV per Ordinary Share (HK$) *(note 2)*	1.02	1.03	0.95
Dilution:			
– Compared with before the Share Repurchase and before the issuance of the Convertible Preferred Shares (= (C)/(A)-1)			6.86%
– Compared with before the Share Repurchase but after the issuance of the Convertible Preferred Shares (= (C)/(B)-1)			7.77%

Notes:

1. Figures are based on the unaudited pro forma financial information of the Enlarged Group as disclosed in Appendix II to the Circular. The Initial IBM Closing, the Subsequent IBM Closing, the issuance of the Convertible Preferred Shares and the Warrants, and the closing of the Share Repurchase are assumed to have taken place on 31 March 2005.

2. Based on the unaudited pro forma financial information of the Enlarged Group as disclosed in Appendix II to the Circular.

As shown in the table above, the Share Repurchase would result in a dilution in the NAV per Ordinary Share by approximately 7.77% from approximately HK$1.03 per Ordinary Share before the Share Repurchase but after the issuance of the Convertible Preferred Shares and the Warrants to approximately HK$0.95 per Ordinary Share after the Share Repurchase and after the issuance of the Convertible Preferred Shares and the Warrants. The dilution effect is primarily due to the application of part of the cash proceeds from the CPS Subscription for the Share Repurchase at a premium over the underlying NAV per Ordinary Share, which results in a reduced pro forma NAV and NAV per Ordinary Share.

Independent Shareholders should note that the issue of the Convertible Preferred Shares and the Warrants resulted in a marginal enhancement in the pro forma NAV per Ordinary Share from approximately HK$1.02 per Ordinary Share to approximately HK$1.03 per Ordinary Share. This is largely due to the accounting treatment on the Convertible Preferred Shares being recognised as a compound of both a financial liability component and an equity component before they are fully converted under the Hong Kong Financial Reporting Standards (please refer to the paragraph headed “Accounting treatment” in the “Letter from the Board” in the Circular for details).

Despite the above analysis, we generally regard net asset valuation as only a secondary valuation methodology as the Company is largely valued on earnings related criteria because its business is not of capital-intensive nature and we consider the dilution effect on the NAV per Ordinary Shares to be acceptable given all the strategic considerations of the Share Repurchase.

(c) Gearing

The table below shows, for illustrative purposes only, the pro forma financial effect of the Share Repurchase as at 31 March 2005 on gearing, under the assumption that there is no conversion of the Convertible Preferred Shares.

(in HK$ million unless otherwise specified)	**Pro forma Enlarged Group after IBM Acquisition** *(note 1)*	**Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants but before Share Repurchase** *(note 1)*	**Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants and Share Repurchase** *(note 1)*
Total debt *(note 2)*	3,900	3,900	3,900
Cash and cash equivalents	1,849	4,556	3,369
Net debt/(cash) *(note 3)*	2,051	(656)	531
Shareholders' funds *(note 4)*	9,431	9,515	8,328
Gross gearing (= Total debt/Shareholders' funds)	41.35%	40.99%	46.83%
Net gearing (= Net debt/Shareholders' funds)	21.75%	(6.89%)	6.38%

Notes:

1. Figures are based on the unaudited pro forma financial information of the Enlarged Group as disclosed in Appendix II to the Circular. The Initial IBM Closing, the Subsequent IBM Closing, the issuance of the Convertible Preferred Shares and the Warrants, and the closing of the Share Repurchase are assumed to have taken place on 31 March 2005.

2. Total debt is equal to long-term bank loan based on the unaudited pro forma financial information of the Enlarged Group as disclosed in Appendix II to the Circular. As the Convertible Preferred Shares and its current portion of the long-term liability are not interest-bearing, they have not been included in the total debt calculation.

3. Net debt is calculated by deducting cash and cash equivalents from long-term bank loan.

4. Adjustments made to calculate the Shareholders' funds are the same as made to pro forma NAV as displayed in the table in section 3(b) above.

As shown in the table above, assuming no conversion of the Convertible Preferred Shares, the Share Repurchase would result in an increase in the gross gearing from approximately 40.99% before the Share Repurchase but after the issuance of the Convertible Preferred Shares and the Warrants to approximately 46.83% after the Share Repurchase and after the issuance of the Convertible Preferred Shares and the Warrants, and an increase in the net gearing from a net cash position before the Share Repurchase but after the issuance of the Convertible Preferred Shares and the Warrants to approximately 6.38% after the Share Repurchase and after the issuance of the Convertible Preferred Shares and the Warrants, respectively. The increase in both gross and net gearing is due to the fact that part of the proceeds from the CPS Subscription would be used for the Share Repurchase, thus leading to a reduction in Shareholders' funds.

We are of the view that gearing is one of a number of factors to be assessed by the Independent Shareholders in respect of the Share Repurchase. Given all the strategic considerations of the Share Repurchase, the changes in gearing as a result of the Share Repurchase are acceptable.

(d) Shareholding

Following the Closing, the Excess Shares will be cancelled, reducing the number of Non-voting Shares. The following tables set out the shareholding structure (comprising Shares and Non-voting Shares) of the Company as at the Latest Practicable Date and under scenarios assuming both no conversion and full conversion of the Convertible Preferred Shares.

Prior to the Share Repurchase and including Non-voting Shares held by IBM

	No. of Ordinary Shares assuming no conversion of Convertible Preferred Shares	**% of Ordinary Shares assuming no conversion of Convertible Preferred Shares**	**No. of Ordinary Shares assuming full conversion of Convertible Preferred Shares**	**% of Ordinary Shares assuming full conversion of Convertible Preferred Shares**
Legend Holdings Limited	4,179,747,971	45.32%	4,179,747,971	40.88%
IBM	1,742,871,028	18.90%	1,742,871,028	17.05%
TPG	–	–	572,477,064	5.60%
General Atlantic Group	–	–	286,238,532	2.80%
Newbridge Capital	–	–	143,119,266	1.40%
Directors	54,980,000	0.60%	54,980,000	0.54%
Public	3,245,004,137	35.18%	3,245,004,137	31.73%
Total	9,222,603,136	100.00%	10,224,437,998	100.00%

After the Share Repurchase and including Non-voting Shares held by IBM

	No. of Ordinary Shares assuming no conversion of Convertible Preferred Shares	% of Ordinary Shares assuming no conversion of Convertible Preferred Shares	No. of Ordinary Shares assuming full conversion of Convertible Preferred Shares	% of Ordinary Shares assuming full conversion of Convertible Preferred Shares
Legend Holdings Limited	4,179,747,971	47.56%	4,179,747,971	42.70%
IBM	1,307,153,271	14.88%	1,307,153,271	13.35%
TPG	–	–	572,477,064	5.85%
General Atlantic Group	–	–	286,238,532	2.92%
Newbridge Capital	–	–	143,119,266	1.46%
Directors	54,980,000	0.63%	54,980,000	0.56%
Public	3,245,004,137	36.93%	3,245,004,137	33.16%
Total	8,786,885,379	100.00%	9,788,720,241	100.00%

As shown in the above tables, as a result of the Share Repurchase, the total number of Ordinary Shares (comprising Shares and Non-voting Shares) in issue as at the Latest Practicable Date will be reduced from 9,222,603,136 Ordinary Shares to 8,786,885,379 Ordinary Shares assuming no conversion of the Convertible Preferred Shares, or reduced from 10,224,437,998 Ordinary Shares to 9,788,720,241 Ordinary Shares assuming full conversion of the Convertible Preferred Shares.

Accordingly, as a result of the Share Repurchase, the interest of the Major Shareholder in the Company's total issued ordinary share capital will increase from approximately 45.32% to approximately 47.56% assuming no conversion of the Convertible Preferred Shares, or increase from approximately 40.88% to approximately 42.70% assuming full conversion of the Convertible Preferred Shares.

As a result of the Share Repurchase, the interest of public in the Company's total issued ordinary share capital will increase from approximately 35.18% to approximately 36.93% assuming no conversion of the Convertible Preferred Shares, or increase from approximately 31.73% to approximately 33.16% assuming full conversion of the Convertible Preferred Shares. As such, the Independent Shareholders who wish to retain their shareholdings in the Company will benefit from the increase in their proportionate shareholding in the Company after the Closing.

4. Stamp duty

All costs and expenses incurred in connection with the Repurchase Agreement and the transactions contemplated therein shall be paid by the party incurring such costs and expenses, save that all stamp duty in respect of the Share Repurchase will be borne by the Company.

Under the current arrangement, the total amount of stamp duty payable by the Company is 0.2% of the higher of (a) the aggregate consideration paid by the Company for the Excess Shares; and (b) the assessed value of the Excess Shares as determined by the Stamp Office of the Hong Kong Inland Revenue Department. As such, based on the Share Repurchase Price of HK$2.725, being the higher of the Share Repurchase Price and the closing price of the Shares as at the Latest Practicable Date (i.e. HK$2.300), the stamp duty payable by the Company for the Excess Shares would be approximately US$304,444 (equivalent to approximately HK$2.375 million). Based on our discussion with the management of the Company, we understand that it was discussed and agreed at the time when the Company Agreement was entered into that the Company would bear all the stamp duty payable for the Excess Shares. Such agreement was reflected in the Company Agreement and approved by the Shareholders at the extraordinary general meeting of the Company held on 27 January 2005. As far as we are aware, there are usually two common practices in the marketplace for the settlement of the stamp duty for off-market share dealings, the stamp duty is either paid entirely by the purchaser of the shares or split as to half and half by the purchaser and the seller and the final arrangement is subject to commercial negotiations. We are of the view that the current arrangement (a) is a result of commercial negotiation between the parties concerned, (b) represents a fairly small amount of incremental cost to the Company, and (c) is in line with market practice and accordingly, we consider it to be in the interest of the Independent Shareholders on the whole in the context of the Share Repurchase and is fair and reasonable.

SUMMARY

Having considered the above principal factors and reasons, we would draw your attention to the following key factors in arriving at our conclusion:

(a) the Excess Shares were issued to IBM in lieu of a cash payment of US$150 million upon the Initial IBM Closing, and pursuant to the Company Agreement which was approved by the Shareholders at the extraordinary general meeting of the Company in respect of the IBM Acquisition, the Company agreed to use its reasonable best efforts to arrange for the sale of the Excess Shares to one or more third parties or, subject to applicable laws and regulations, to repurchase the Excess Shares after they were issued;

(b) the Share Repurchase enables the Company to (i) increase flexibility in future corporate actions, such as future equity fund-raising plans, as it releases the

Company's restriction on the issuance of any new shares (including securities convertible into Shares) before the sale of the Excess Shares by IBM under the Company Agreement, (ii) improve funding certainty for the CPS Subscription as it removes the need for prior Shareholders' approval for the Share Repurchase, and (iii) reduce the dilution effect (on an earnings per Ordinary Share basis) resulting from the closing of the CPS Subscription and the IBM Acquisition;

(c) the 435,717,757 Excess Shares to be repurchased are Non-voting Shares, representing approximately 4.72% of the issued ordinary share capital of the Company as at the Latest Practicable Date, and will be cancelled. As a result of the Share Repurchase, the interest of public in the Company's total issued ordinary share capital will increase from approximately 35.18% to approximately 36.93% assuming no conversion of the Convertible Preferred Shares, or increase from approximately 31.73% to approximately 33.16% assuming full conversion of the Convertible Preferred Shares;

(d) the Share Repurchase Price of HK$2.725 per Excess Share was negotiated on an arm's length basis. It is equal to the conversion price of the Convertible Preferred Shares, and is HK$0.05 higher than, representing a slight 1.87% premium over, the Issue Price of the Excess Shares;

(e) the total cash consideration for the Share Repurchase amounts to approximately US$152,221,909 (equivalent to approximately HK$1,187,330,888) and will be satisfied by part of the net proceeds from the issue of the Convertible Preferred Shares and the Warrants. The financing mechanism preserves cash availability and flexibility to the Company for its future operations; and

(f) as the Share Repurchase will provide the Company with a number of strategic benefits as summarised in (b) above, we believe the pro forma financial effects of the Share Repurchase should be considered in the context of the strategic considerations. More specifically, assuming no conversion of the Convertible Preferred Shares:

    (i) as at 31 March 2005, the Share Repurchase would have resulted in a dilution of approximately 7.77% to NAV per Ordinary Share;

    (ii) as at 31 March 2005, the Share Repurchase would have increased gross gearing from approximately 40.99% to approximately 46.83%, and increased net gearing to 6.38% from a net cash position,

    we are of the view that the pro forma financial effects of the Share Repurchase on NAV per Ordinary Share and gearing are acceptable given the strategic considerations of the Share Repurchase.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Repurchase Agreement to be fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the special resolution to approve the Share Repurchase, as detailed in the notice of the Extraordinary General Meeting set out at the end of the Circular.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited
Kelvin Chau
Director

SHARE CAPITAL

The following tables show the authorised and issued ordinary share capital of the Company (i) as at the Latest Practicable Date and (ii) the Closing.

As at the Latest Practicable Date (which is after the Initial IBM Closing and the completion of the CPS Subscription and before Closing of the Share Repurchase)

	Number of Shares	*HK$*
Authorised:		
Ordinary Shares	20,000,000,000	500,000,000
Convertible Preferred Shares	3,000,000	27,525,000
Issued and fully paid:		
Shares	8,411,602,623	210,290,066
Non-voting Shares	811,000,513	20,275,013
Convertible Preferred Shares	2,730,000	25,047,750

Following the Closing

	Number of Shares	*HK$*
Authorised:		
Ordinary Shares	20,000,000,000	500,000,000
Convertible Preferred Shares	3,000,000	27,525,000
Issued and fully paid:		
Shares	8,411,602,623	210,290,066
Non-voting Shares	375,282,756	9,382,069
Convertible Preferred Shares	2,730,000	25,047,750

All Shares are fully paid up and holders of Shares are entitled to (i) one vote per Share; and (ii) dividends when, as and if declared by the Company.

Non-voting Shares are fully paid up and rank *pari passu* in all respects with the Shares, save that Non-voting Shares do not carry any voting rights until they are converted into Shares and are convertible into Shares on a one-for-one basis.

Convertible Preferred Shares are fully paid up and holders of the Convertible Preferred Shares are entitled to (i) rights to vote on an "as if" converted basis (see next paragraph for conversion rate); (ii) quarterly dividend at a rate of 4.5% subject to additional dividends if such dividend is not paid when due; and (iii) rank senior to the Shares in terms of dividend and upon return of capital.

On 17 May 2005, Convertible Preferred Shares were issued to the Investors and each Convertible Preferred Share is convertible into such number of Shares equal to the quotient of the stated value of each Convertible Preferred Share divided by HK$2.725, subject to certain anti-dilution adjustments[1]. Warrants were issued in conjunction with the Convertible Preferred Shares which carry the right to subscribe for the same number of new Shares at the price of HK$2.725, subject to certain anti-dilution adjustments. Further details of the Convertible Preferred Shares and the Warrants are contained in the CPS Subscription Circular.

The Company purchased its own Shares on the Stock Exchange as follows:

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the past 12 months immediately preceding the date of this circular and there has been no re-organisation of its capital for the two years ended 31 March 2005.

The Company issued the following Ordinary Shares, Convertible Preferred Shares and Warrants:

Movement in the issued ordinary share capital since 31 March 2005, being the end of the last financial year

Month/Year	Number of Ordinary Shares issued	Number of Non-voting Shares issued/ (converted)	Number of Convertible Preferred Shares issued	Number of Warrants issued	Number of Shares and Non-voting Shares in issue	Number of Convertible Preferred Shares in issue	Number of Warrants in issue
April 2005	823,882,569	921,636,459	–	–	9,220,315,136	–	–
May 2005	112,775,946	(110,635,946)	2,730,000	237,417,474	9,222,455,136 *(Note 1)*	2,730,000	237,417,474
As at the Latest Practicable Date	148,000	–	–	–	9,222,603,136 *(Note 2)*	2,730,000	237,417,474

Note 1: 811,000,513 are Non-voting Shares and 8,411,454,623 are Shares.

Note 2: 811,000,513 are Non-voting Shares and 8,411,602,623 are Shares.

[1] *The details of these adjustments are described in Note A on page 18 of the CPS Subscription Circular.*

In addition, following closing of the CPS Subscription, IBM converted 110,635,946 Non-voting Shares into Shares.

Save as disclosed above, as at the Latest Practicable Date, the Company has not issued any other Shares, warrants securities, convertibles since 31 March 2005, being the end of the last financial year.

No dividends have been paid by the Company to IBM in respect of the Non-voting Shares proposed to be repurchased since they were issued. On 8 June 2005, the Directors recommended the payment of a final dividend of HK$0.028 per Ordinary Share to the Shareholders whose names appear on the register of members of Ordinary Shares of the Company on 9 August 2005. Such dividend is subject to Shareholders' approval at the forthcoming annual general meeting and the Company has sufficient distributable reserves to pay such dividends. The Company does not have any published dividend policy. Any future dividends will be paid out of distributable reserves of the Company.

The following is a summary of the audited financial information of the Lenovo Group for the four financial years ended 31 March 2005. The audited consolidated accounts of the Lenovo Group have been prepared in accordance with Hong Kong GAAP and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The following text on the financial information of the Lenovo Group, except for Note (1) below, is taken from the annual reports of the Company for the years ended 31 March 2002, 2003 and 2004 respectively and the preliminary announcement of the audited accounts of the Company for the year ended 31 March 2005 dated 8 June 2005.

FOUR YEARS SUMMARY

Consolidated profit and loss accounts

	Year ended 31 March			
	2005	**2004**	**2003**	**2002**
	(audited) *(Note 1)*	**(audited)**	**(audited)**	**(audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	22,554,678	23,175,944	20,233,290	20,853,254
Earnings before interest, taxation, depreciation and amortization expenses	1,173,616	1,125,129	1,174,720	1,008,938
Depreciation expenses	(184,490)	(211,161)	(160,304)	(143,048)
Amortization of intangible assets	(58,078)	(34,999)	(15,246)	–
Impairment of assets	(51,364)	–	–	–
Gains/(losses) on disposal of investments	156,958	47,558	(26,802)	164,240
Finance income	105,677	93,368	77,233	67,360
Profit from operation	1,142,319	1,019,895	1,049,601	1,097,490
Finance costs	(6,667)	(2,881)	(20)	(11,785)
	1,135,652	1,017,014	1,049,581	1,085,705
Share of (losses)/profits of jointly controlled entities	(12,327)	(39,053)	(34,756)	8,468
Share of profits/(losses) of associated companies	4,182	16,891	13,826	(12,979)
Profit before taxation	1,127,507	994,852	1,028,651	1,081,194
Taxation	(35,184)	20,150	(26,018)	(23,092)
Profit after taxation	1,192,323	1,015,002	1,002,633	1,058,102
Minority interests	27,823	37,883	14,519	(13,202)
Profit attributable to shareholders	1,120,146	1,052,885	1,017,152	1,044,900
Dividends	388,806	373,704	747,412	383,088

	Year ended 31 March			
	2005	**2004**	**2003**	**2002**
	(audited) *(Note 1)*	**(audited)**	**(audited)**	**(audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interim dividend per Share (HK$)	0.024	0.020	0.018	0.015
Proposed final dividend per Share (HK$)	0.028	0.030	0.030	0.036
Special dividend per Share (HK$)	–	–	0.052	–
	0.052	0.050	0.100	0.051
Earnings per share				
– Basic (HK cents)	14.99	14.09	13.55	13.86
– Fully diluted (HK cents)	14.97	13.99	13.54	13.79

There were no extraordinary or exceptional items during the relevant financial periods.

Note:

(1) The financial positions for the financial year ended on 31 March 2005 are based on the annual results announcement of the Company dated 8 June 2005, an extract of which is set out on pages 96 to 112 of the Appendix I to this circular.

Consolidated balance sheets

	As at 31 March			
	2005	**2004**	**2003**	**2002**
	(audited)	**(audited)**	**(audited)**	**(audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	2,578,112	2,242,141	1,514,546	1,337,182
Current assets	6,453,842	6,099,900	5,241,050	4,354,555
Current liabilities	(3,472,813)	(3,297,440)	(2,507,004)	(2,002,323)
Non-current liabilities	(331,134)	(526,547)	(330)	(330)
Minority interests	(23,609)	(29,330)	(59,741)	(7,050)
Net assets	5,204,398	4,488,724	4,188,521	3,682,034

AUDITED ACCOUNTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2004 REPRODUCED FROM THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2004

Consolidated profit and loss account

For the year ended 31 March 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	3	23,175,944	20,233,290
Earnings before interest, taxation, depreciation and amortization expenses		1,125,129	1,174,720
Depreciation expenses		(211,161)	(160,304)
Amortization of intangible assets		(34,999)	(15,246)
Gains/(losses) on disposal of investments		47,558	(26,802)
Finance income		93,368	77,233
Profit from operations	4	1,019,895	1,049,601
Finance costs	6	(2,881)	(20)
		1,017,014	1,049,581
Share of losses of jointly controlled entities		(39,053)	(34,756)
Share of profits of associated companies		16,891	13,826
Profit before taxation	5	994,852	1,028,651
Taxation	7	20,150	(26,018)
Profit after taxation		1,015,002	1,002,633
Minority interests		37,883	14,519
Profit attributable to shareholders	10	1,052,885	1,017,152
Dividends	11	373,704	747,412
Earnings per share			
– Basic	12	14.09 HK cents	13.55 HK cents
– Fully diluted	12	13.99 HK cents	13.54 HK cents

Balance sheets
As at 31 March 2004

		Group		Company	
		2004	**2003**	**2004**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Intangible assets	*13*	646,986	120,621	–	–
Tangible fixed assets	*14*	987,272	845,976	32,115	41,000
Construction-in-progress	*15*	260,377	174,138	–	–
Investments in subsidiaries	*16(a)*	–	–	2,327,875	2,327,875
Investment in a jointly controlled entity	*17*	124,124	198,549	–	–
Investments in associated companies	*18*	112,682	101,613	–	–
Investment securities	*19*	75,982	73,649	–	37,890
Deferred tax assets	*20*	34,718	–	–	–
		2,242,141	1,514,546	2,359,990	2,406,765
Current assets					
Inventories	*21*	1,393,018	1,269,051	–	–
Amounts due from subsidiaries	*16(b)*	–	–	3,218,602	2,188,544
Trade receivables	*22(a)*	1,230,944	553,516	–	–
Notes receivable	*22(b)*	520,321	383,412	–	–
Deposits, prepayments and other receivables		301,513	226,748	81,548	89,737
Tax recoverable		4,033	–	–	–
Cash and cash equivalents	*23*	2,650,071	2,808,323	1,107,976	1,813,751
		6,099,900	5,241,050	4,408,126	4,092,032
Current liabilities					
Amounts due to subsidiaries	*16(b)*	–	–	115,511	87,431
Trade payables	*24(a)*	2,155,057	1,588,632	–	–
Notes payable	*24(b)*	356,531	279,381	–	–
Accruals and other payables		616,897	630,779	15,189	15,427
Amount due to a jointly controlled entity	*17*	108,471	–	–	–
Tax payable		5,031	8,212	–	–
Current portion of long term liabilities	*25*	55,453	–	–	–
		3,297,440	2,507,004	130,700	102,858
Net current assets		2,802,460	2,734,046	4,277,426	3,989,174
Total assets less current liabilities		5,044,601	4,248,592	6,637,416	6,395,939
Financed by:					
Share capital	*26*	186,890	186,934	186,890	186,934
Reserves	*28*	4,301,834	4,001,587	6,450,526	6,208,701
Shareholders' funds		4,488,724	4,188,521	6,637,416	6,395,635
Minority interests		29,330	59,741	–	–
Deferred tax liabilities	*20*	–	330	–	304
Long-term liabilities	*25*	526,547	–	–	–
		5,044,601	4,248,592	6,637,416	6,395,939

Consolidated cash flow statement
For the year ended 31 March 2004

	Note	2004 HK$'000	2003 HK$'000
Operating activities			
Net cash inflow generated from operations	33	748,993	1,150,075
Finance income		93,368	77,233
Finance costs		(2,881)	(20)
Tax paid		(21,696)	(17,410)
Net cash inflow from operating activities		817,784	1,209,878
Investing activities			
Purchase of tangible fixed assets		(96,218)	(125,708)
Sale of tangible fixed assets		8,059	29,727
Payment for construction-in-progress		(268,135)	(169,000)
Payment for patent acquired		(4,912)	(42,453)
Purchase of investment securities		(43,552)	(200,237)
Sale of investment securities		79,845	140,517
Net cash inflow in respect of acquisition of subsidiaries	36	5,449	4,847
Proceeds from partial disposal of a subsidiary		11,792	–
Payment for acquisition of business		–	(54,613)
Investment in an associated company		–	(2,670)
Investment in jointly controlled entities		–	(24,289)
Repayment of advance from an associated company		–	50,034
Proceeds from disposal of an associated company		5,660	27,286
Dividend received from associated companies		5,490	6,892
Net cash outflow from investing activities		(296,522)	(359,667)
Net cash inflow before financing		521,262	850,211
Financing activities	34		
Exercise of share options and issue of new shares		28,736	1,887
Repurchase of shares		(28,394)	(79,399)
Capital injection from minority shareholders		11,604	–
Dividends paid		(761,814)	(405,276)
Dividend paid to minority shareholders		(4,594)	–
Loan from a minority shareholder		75,000	–
Net cash outflow from financing		(679,462)	(482,788)
(Decrease)/Increase in cash and cash equivalents		(158,200)	367,423
Cash and cash equivalents at the beginning of the year		2,808,323	2,441,169
Effect of foreign exchange rate changes		(52)	(269)
Cash and cash equivalents at the end of the year		2,650,071	2,808,323

Consolidated statement of changes in equity
For the year ended 31 March 2004

	Note	2004 HK$'000	2003 HK$'000
Total equity at the beginning of the year		4,188,521	3,682,034
Surplus/(deficit) in fair market value of investment securities	28	20,144	(20,891)
Exchange differences arising from translation of subsidiaries, associated companies and a jointly controlled entity	28	270	156
Net gains/(losses) not recognised in the consolidated profit and loss account		20,414	(20,735)
Profit for the year		1,052,885	1,017,152
Reserves realised upon disposal of investment securities	28	(11,624)	(7,120)
Total recognised gains		1,061,675	989,297
Goodwill written off arising from disposal of subsidiaries	28	–	(22)
Exercise of share options	28	28,736	1,887
Repurchase of shares	28	(28,394)	(79,399)
Dividends paid	28	(761,814)	(405,276)
Total equity at the end of the year		4,488,724	4,188,521

Notes to the Accounts

1. BASIS OF PREPARATION

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment securities are stated at fair value.

In the current year, the Group adopted SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill or negative goodwill taken to reserve and which was not previously charged or recognized in the consolidated profit and loss account and any related accumulated exchange reserve.

(ii) All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(iii) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(iv) In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Joint ventures

(i) A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

(ii) The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortization) on acquisition.

(iii) In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

(i) An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

(ii) The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortization) on acquisition.

(iii) Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(v) In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(e) Tangible fixed assets

(i) Land use rights, leasehold land and buildings/improvements

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

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

Amortization of leasehold land is calculated to write off its cost to its estimated residual value over the unexpired period of the lease 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%.

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

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 rate used for this purpose is 10% to 20%.

(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 20% to 33%.

(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 recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(iv) Gain or loss on disposal of tangible fixed assets

Gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(v) Cost of restoring and improving tangible fixed assets

Major costs incurred in restoring tangible fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(f) Construction-in-progress

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

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the date of acquisition.

Goodwill on acquisition occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years. For all other acquisitions goodwill is generally amortised over 3 to 10 years.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the consolidated profit and loss account.

In accordance with the provisions of interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the consolidated profit and loss account.

(ii) Patents and marketing rights

Expenditure on acquired patents and marketing rights is capitalised and amortised on a systematic basis over their useful lives, but not exceeding 20 years. Patents and marketing rights are not revalued as there is no active market for these assets.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(h) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

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

(i) Inventories

Inventories are valued at the lower of cost and net realisable 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 realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks and highly liquid investment which are subject to an insignificant risk of changes in value.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. The provision is calculated based on past history of the level of repairs and replacements.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised 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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The effect of this change is not significant to the accounts of prior years.

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(p) Revenue

Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of shipment. Revenue from provision of systems integration service is recognized when services are rendered. Revenue from provision of information technology technical service is recognized when services are rendered. Interest income is accrued on a time proportion basis on the principal amounts outstanding and at the rates applicable. Dividend income is recognised when the right to receive payment is established.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave, sick leave and maternity leave are not recognized until the time of leave.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme for qualified Hong Kong employees are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In addition, the Group's contributions to a local municipal government retirement scheme in Chinese mainland are expensed as incurred while the local municipal government in Chinese mainland undertakes to assume the retirement benefit obligations of the qualified employees in Chinese mainland.

(iii) Share options

No employee benefits cost is recognized when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets of geographical segments consist primarily of tangible fixed assets, construction-in-progress, inventories, trade receivables and notes receivable, and mainly exclude intangible assets, investments in jointly controlled entities, investments in associated companies, investment securities, deferred tax assets, other receivables, tax recoverable and cash and cash equivalents. Segment liabilities comprise operating liabilities and exclude tax payable and liabilities payable for acquisition of intangible assets. Capital expenditure mainly comprises additions to tangible fixed assets (Note 14) and construction-in-progress (Note 15).

In presenting information on the basis of business segments, intangible assets, tangible fixed assets and construction-in-progress are excluded from segment assets.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004	2003
	HK$'000	*HK$'000*
Corporate IT business	11,925,240	10,803,311
Consumer IT business	7,760,668	6,822,633
Handheld device business	2,050,164	1,440,328
IT service business	547,780	183,800
Contract manufacturing business	892,092	983,218
	23,175,944	20,233,290

Primary reporting format – geographical segments

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in four major geographical regions – the People's Republic of China, including Chinese mainland and Hong Kong (the "PRC"), Asia Pacific (excluding PRC), North America and Europe. The later three regions are grouped as "others" for presentation purpose.

There are no material sales or other transactions among the geographical segments.

In presenting information on the basis of geographical segments, segment turnover and segment operating results are based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The segment turnover and segment operating results, if based on geographical location of assets, are all categorised under PRC operations.

Secondary reporting format – business segments

The Group is categorised into five main business segments:

Corporate IT business
Consumer IT business
Handheld device business
IT service business
Contract manufacturing business

There are no material sales or other transactions among the business segments.

(a) Primary reporting format – geographical segments

	PRC 2004 HK$'000	Others 2004 HK$'000	Total 2004 HK$'000
Profit and loss account			
Turnover	22,878,303	297,641	23,175,944
Segment operating results	947,125	(33,157)	913,968
Gains on disposal of investments	47,558	–	47,558
Amortization of intangible assets	(34,999)	–	(34,999)
Finance income			93,368
Finance costs			(2,881)
Contribution to operating profit			1,017,014
Share of losses of jointly controlled entities	(39,053)	–	(39,053)
Share of profits of associated companies	16,891	–	16,891
Profit before taxation			994,852
Taxation			20,150
Profit after taxation			1,015,002
Minority interests			37,883
Profit attributable to shareholders			1,052,885
Balance sheet			
Segment assets	4,347,982	43,950	4,391,932
Investment in a jointly controlled entity	124,124	–	124,124
Investments in associated companies	112,682	–	112,682
Investment securities	75,982	–	75,982
Unallocated assets			3,637,321
Consolidated total assets			8,342,041
Segment liabilities	3,300,576	11,380	3,311,956
Unallocated liabilities			512,031
Consolidated total liabilities			3,823,987
Capital expenditure	364,353	–	364,353
Depreciation	209,520	1,641	211,161

	PRC 2003 HK$'000	Others 2003 HK$'000	Total 2003 HK$'000
Profit and loss account			
Turnover	19,738,075	495,215	20,233,290
Segment operating results	1,011,204	3,212	1,014,416
Losses on disposal of investments	(26,802)	–	(26,802)
Amortization of intangible assets	(15,246)	–	(15,246)
Finance income			77,233
Finance costs			(20)
Contribution to operating profit			1,049,581
Share of losses of jointly controlled entities	(34,756)	–	(34,756)
Share of profits of associated companies	13,826	–	13,826
Profit before taxation			1,028,651
Taxation			(26,018)
Profit after taxation			1,002,633
Minority interests			14,519
Profit attributable to shareholders			1,017,152
Balance sheet			
Segment assets	3,184,037	42,056	3,226,093
Investments in jointly controlled entities	198,549	–	198,549
Investments in associated companies	101,613	–	101,613
Investment securities	71,392	2,257	73,649
Unallocated assets			3,155,692
Consolidated total assets			6,755,596
Segment liabilities	2,492,220	6,572	2,498,792
Tax liabilities			8,542
Consolidated total liabilities			2,507,334
Capital expenditure	337,161	–	337,161
Depreciation	158,985	1,319	160,304

(b) Secondary reporting format – business segments

	Turnover 2004 HK$'000	Contribution to operating profit 2004 HK$'000	Consolidated total assets 2004 HK$'000
Corporate IT business	11,925,240	777,698	1,560,895
Consumer IT business	7,760,668	466,814	753,854
Handheld device business	2,050,164	(74,565)	431,377
IT service business	547,780	(58,009)	241,564
Contract manufacturing business	892,092	(95,208)	156,593
Amortization of goodwill	–	(25,274)	–
Gains on disposal of investments	–	47,558	–
Others	–	(22,000)	–
Investment in a jointly controlled entity	–	–	124,124
Investments in associated companies	–	–	112,682
Investment securities	–	–	75,982
Unallocated assets	–	–	4,884,970
	23,175,944	1,017,014	8,342,041

	Turnover 2003 HK$'000	Contribution to operating profit 2003 HK$'000	Consolidated total assets 2003 HK$'000
Corporate IT business	10,803,311	744,153	1,270,124
Consumer IT business	6,822,633	363,527	384,831
Handheld device business	1,440,328	29,017	316,471
IT service business	183,800	(61,405)	78,111
Contract manufacturing business	983,218	8,554	156,442
Amortization of goodwill	–	(7,463)	–
Losses on disposal of investments	–	(26,802)	–
Investments in jointly controlled entities	–	–	198,549
Investments in associated companies	–	–	101,613
Investment securities	–	–	73,649
Unallocated assets	–	–	4,175,806
	20,233,290	1,049,581	6,755,596

4. PROFIT FROM OPERATION

(a)

	2004	2003
	HK$'000	*HK$'000*
Turnover	23,175,944	20,233,290
Cost of sales	(19,787,944)	(17,234,746)
Gross profit	3,388,000	2,998,544
Finance income	93,368	77,233
Gains/(losses) on disposal of investments	47,558	(26,802)
	3,528,926	3,048,975
Distribution expenses	(1,686,932)	(1,393,990)
Administrative expenses	(343,306)	(328,736)
Other operating expenses	(443,794)	(261,402)
Amortization of intangible assets	(34,999)	(15,246)
Total operating expenses *(Note (b))*	(2,509,031)	(1,999,374)
Profit from operations	1,019,895	1,049,601

(b) Analysis of total operating expenses by nature:

	2004	2003
Selling expenses	(558,124)	(379,842)
Promotional and advertising expenses	(395,905)	(425,143)
Staff costs (including directors' emoluments) *(Note 8)*	(851,476)	(688,519)
Other expenses	(668,527)	(490,624)
Amortization of intangible assets	(34,999)	(15,246)
Total operating expenses	(2,509,031)	(1,999,374)

5. PROFIT BEFORE TAXATION

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation is stated after (crediting)/charging the following:		
Auditors' remuneration	2,689	2,698
Depreciation of owned tangible fixed assets	211,161	160,304
Amortization of intangible assets	34,999	15,246
Cost of inventories sold	19,604,591	16,965,244
Rental expenses under operating leases	67,023	67,900
Research and development expenses	499,572	314,182
Loss on disposal of tangible fixed assets	2,308	3,110
Net exchange (gain)/loss	(7,379)	13,346

6. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest payable on bank loans and overdrafts	2,365	20
Other interest	516	–
Total finance cost	2,881	20

7. TAXATION

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

	2004	2003
	HK$'000	*HK$'000*
Current taxation:		
– Taxation outside Hong Kong	14,482	23,730
– Overprovision in prior years	–	(339)
Deferred taxation relating to the origination and reversal of temporary differences	(35,048)	–
	(20,566)	23,391
Share of taxation attributable to:		
Jointly controlled entities	84	1,416
Associated companies	332	1,211
Taxation (credit)/charge	(20,150)	26,018

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:

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	994,852	1,028,651
Calculated at a taxation rate of 17.5% (2003: 16%)	174,099	164,584
Effect of different taxation rates in other countries	(117,494)	(121,286)
Income not subject to taxation	(103,801)	(27,351)
Expenses not deductible for taxation purposes	14,240	14,762
Utilisation of previously unrecognised tax losses	–	(3,269)
Recognition of deferred taxes previously not recognised	(29,067)	–
Tax credit for capital expenditure	(1,271)	(6,526)
Overprovision in prior years	–	(339)
Net deferred tax assets not recognised	43,144	5,443
Taxation (credit)/charge	(20,150)	26,018

No provision for Hong Kong profits tax has been made in the accounts as the Company and its subsidiaries have no estimated assessable profits for the year (2003: Nil). In 2003, the Government of Hong Kong Special Administrative Region enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/04.

Taxation outside Hong Kong represents tax charges on the assessable profits of subsidiaries, operating outside Hong Kong including the Chinese mainland, calculated at rates applicable in the respective jurisdictions.

Pursuant to various approval documents issued by the Chinese mainland tax authority, certain Chinese mainland subsidiaries of the Group are entitled to preferential Chinese mainland income tax treatments.

Lenovo (Beijing) Limited was entitled to preferential Chinese mainland income tax rate of 7.5% for the three years ended 31 December 2003. From 1 January 2004 onwards, it is subject to income tax rate of 10% up to 31 December 2006.

Lenovo Mobile Communication Co., Ltd., Shanghai Lenovo Electronic Co., Ltd. and Lenovo Computer System and Technology Service Co., Ltd. are exempted from Chinese mainland income tax for two years commencing 1 January 2002 and a 50% Chinese mainland tax reduction for the following three years.

Other major Chinese mainland subsidiaries of the Group in Shenzhen, Beijing and Huiyang are exempted from Chinese mainland income tax for two to three years commencing 1 January 2001 and a 50% Chinese mainland income tax reduction for the following three years.

8. STAFF COSTS

	2004	**2003**
	HK$'000	*HK$'000*
Wages, salaries and bonuses	672,562	581,465
Social security costs	72,892	42,858
Pension costs *(Note (b))*	58,797	41,216
Others	125,776	89,898
	930,027	755,437

(a) Included in the above balance are staff costs of HK$851,476,000 (2003: HK$688,519,000) which are included in operating expenses (Note 4(b)).

(b) The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in Chinese mainland. Contributions to these schemes are calculated with reference to the employees' salaries, bonuses and monthly average salaries as set out by the local municipal government.

Prior to 1 December 2000, the Group provided all qualified Hong Kong employees with a defined contribution retirement scheme. Commencing 1 December 2000, the Group's Hong Kong employees are required to contribute 5% of their basic salary plus cash allowances (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation) whereas the employer's contribution is at 7.5% and 10% respectively after completion of five and ten years of service. The Group's contributions to the scheme were reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK$812,638 (2003: HK$352,811) were utilised during the year leaving no amount available at the year end to reduce further contributions. The assets of the defined contribution scheme are held separately from those of the Group in an independently administered fund.

The retirement benefit scheme cost charged to the consolidated profit and loss account represents contributions payable by the Group to the schemes.

9. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Directors		Independent non-executive directors	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	540	375
Other emoluments:				
Basic salaries, allowances and benefits-in-kind	26,037	20,667	–	–
Retirement benefit costs	352	339	–	–
	26,389	21,006	540	375

Certain directors of the Company have been granted options to acquire shares of the Company.

The emoluments of the directors disclosed above do not include the benefits derived or to be derived from the options granted under the Company's share option schemes.

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

	Directors		Independent non-executive directors	
HK$	**2004**	**2003**	**2004**	**2003**
From 0 to 1,000,000	–	–	3	3
From 2,000,001 to 2,500,000	–	1	–	–
From 2,500,001 to 3,000,000	1	–	–	–
From 4,000,001 to 4,500,000	–	1	–	–
From 4,500,001 to 5,000,000	1	–	–	–
From 5,500,001 to 6,000,000	–	1	–	–
From 6,000,001 to 6,500,000	1	–	–	–
From 8,000,001 to 8,500,000	–	1	–	–
From 12,000,001 to 12,500,000	1	–	–	–
	4	4	3	3

(c) Among the five highest paid employees, three (2003: four) are directors whose remunerations are included in the directors' emoluments above. The emoluments payable to the remaining two (2003: one) individuals during the year are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits-in-kind	6,458	2,079
Retirement benefit costs	25	158
	6,483	2,237

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

HK$	**2004**	**2003**
From 2,000,001 to 2,500,000	–	1
From 3,000,001 to 3,500,000	2	–
	2	1

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit of HK$1,052,885,000 (2003: HK$1,017,152,000) attributable to shareholders of the Company is the profit of HK$1,001,070,000 (2003: HK$1,095,610,000), which is dealt with in the Company's own accounts.

11. DIVIDENDS

	2004	**2003**
	HK$'000	*HK$'000*
Interim dividend of 2.0 HK cents per share (2003: 1.8 HK cents)	149,436	135,034
Proposed final dividend of 3.0 HK cents per share (2003: 3.0 HK cents)	224,268	224,040
Special dividend of 5.2 HK cents per share for 2003	–	388,338
	373,704	747,412

At a board meeting held on 2 June 2004, the directors recommended a final dividend of 3.0 HK cents per share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2005.

12. EARNINGS PER SHARE

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

	2004	**2003**
Earnings for the purposes of basic and diluted earnings per share *(HK$'000)*	1,052,885	1,017,152
Weighted average number of Shares for the purposes of basic earnings per share	7,471,766,157	7,504,340,579
Effect of potential dilutive Shares	53,541,036	9,827,387
Weighted average number of Shares for the purposes of diluted earnings per share	7,525,307,193	7,514,167,966

13. INTANGIBLE ASSETS

	Group			
	Goodwill	Patent	Marketing right	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2004				
Opening net book amount	85,951	34,670	–	120,621
Additions	–	4,912	507,000	511,912
Acquisition of a subsidiary	49,452	–	–	49,452
Amortization charge	(25,274)	(9,725)	–	(34,999)
Closing net book amount	110,129	29,857	507,000	646,986
As at 31 March 2004				
Cost	142,866	47,365	507,000	697,231
Accumulated amortization	(32,737)	(17,508)	–	(50,245)
Net book amount	110,129	29,857	507,000	646,986
As at 31 March 2003				
Cost	93,414	42,453	–	135,867
Accumulated amortization	(7,463)	(7,783)	–	(15,246)
Net book amount	85,951	34,670	–	120,621

14. TANGIBLE FIXED ASSETS

	Group						
	Land use rights, leasehold land and buildings *(Note (a))*	**Leasehold improvements**	**Plant and machinery**	**Furniture and fixtures**	**Office equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Costs							
At 1 April 2003	469,557	138,065	90,676	17,109	474,120	24,824	1,214,351
Exchange adjustment	–	–	–	466	218	199	883
Additions	–	8,369	10,590	4,256	71,203	1,800	96,218
Acquisition of subsidiaries	–	3,513	61,990	225	18,330	330	84,388
Transfer from construction-in-progress	80,669	44,611	16,989	–	39,627	–	181,896
Disposals	–	(1,954)	(4,849)	(981)	(21,710)	(1,521)	(31,015)
At 31 March 2004	550,226	192,604	175,396	21,075	581,788	25,632	1,546,721
Accumulated depreciation							
At 1 April 2003	68,397	41,152	29,868	8,445	205,971	14,542	368,375
Exchange adjustment	–	–	–	339	152	70	561
Charge for the year	20,252	43,588	21,318	4,404	118,799	2,800	211,161
Disposals	–	(1,750)	(2,459)	(603)	(14,675)	(1,161)	(20,648)
At 31 March 2004	88,649	82,990	48,727	12,585	310,247	16,251	559,449
Net book value							
At 31 March 2004	461,577	109,614	126,669	8,490	271,541	9,381	987,272
At 31 March 2003	401,160	96,913	60,808	8,664	268,149	10,282	845,976

	Leasehold improvements	Furniture and fixtures	Company Office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Costs					
At 1 April 2003	2,325	658	39,778	1,562	44,323
Additions	27	23	5,017	1,280	6,347
Disposals	–	–	(38)	–	(38)
At 31 March 2004	2,352	681	44,757	2,842	50,632
Accumulated depreciation					
At 1 April 2003	319	315	2,403	286	3,323
Charge for the year	832	150	13,837	404	15,223
Disposals	–	–	(29)	–	(29)
At 31 March 2004	1,151	465	16,211	690	18,517
Net book value					
At 31 March 2004	1,201	216	28,546	2,152	32,115
At 31 March 2003	2,006	343	37,375	1,276	41,000

(a) The net book value of land use rights, leasehold land and buildings comprises:

	Group					
	2004			2003		
	Hong Kong	Chinese mainland	Total	Hong Kong	Chinese mainland	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Medium leases (less than 50 years but not less than 10 years)	–	461,577	461,577	–	401,160	401,160

15. CONSTRUCTION-IN-PROGRESS

Construction-in-progress comprises:

	Group					
	Buildings under development		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year	130,107	24,453	44,031	19,413	174,138	43,866
Additions	180,611	123,226	87,524	45,774	268,135	169,000
Transfer to tangible fixed assets	(109,720)	(17,572)	(72,176)	(21,156)	(181,896)	(38,728)
At the end of the year	200,998	130,107	59,379	44,031	260,377	174,138

No interest expenses were capitalised in construction-in-progress at the balance sheet date.

16. SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2004	Company 2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	2,327,875	2,327,875

The following includes the principal subsidiaries of the Company which were directly and indirectly held by the Company and, in the opinion of the directors, significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	Effective percentage holding 2003	Principal activities
Held directly:					
Lenovo (Beijing) Limited*	Chinese mainland	HK$78,000,000	100%	100%	Manufacturing and distribution of IT products and provision of IT services
Lenovo (Shanghai) Co., Ltd.*	Chinese mainland	HK$10,000,000	100%	100%	Distribution of IT products and provision of IT services
Held indirectly:					
Beijing Lenovo Software Limited*	Chinese mainland	HK$5,000,000	100%	100%	Provision of IT services and distribution of IT products
Han Consulting (China) Limited*	Chinese mainland	US$6,000,000	51%	51%	Provision of IT services and distribution of IT products
Huiyang Lenovo Industry Property Limited*	Chinese mainland	US$2,045,500	100%	100%	Property holding and property management
Lenovo Al Computer Technology Co., Ltd.*	Chinese mainland	RMB10,000,000	70%	70%	Provision of IT services
Lenovo (Chengdu) Limited*	Chinese mainland	RMB12,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo Chinaweal System & Service Co., Ltd.*	Chinese mainland	US$6,024,000	95.1%	95.1%	Provision of IT services and distribution of IT products

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	2003	Principal activities
Lenovo Computer Limited	Hong Kong	HK$2	100%	100%	Procurement agent and distribution of IT products
Lenovo Computer System and Technology Service Co., Ltd.*	Chinese mainland	RMB50,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Huiyang) Electronic Industrial Co., Ltd.*	Chinese mainland	HK$16,000,000	100%	100%	Manufacturing of IT products
Lenovo Industrial Development Co., (Daya Bay) Ltd.*	Chinese mainland	US$10,000,000	100%	100%	Property holding and property management
Lenovo Mobile Communication Co., Ltd.*	Chinese mainland	RMB187,500,000	80.8%	80.8%	Manufacturing and distribution of mobile handsets
Lenovo Networks (Shenzhen) Limited*	Chinese mainland	HK$20,000,000	80%	–	Provision of IT services
Lenovo (Shenyang) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Shenzhen) Electronic Co., Ltd.*	Chinese mainland	RMB10,000,000	100%	100%	Distribution of IT products
Lenovo (Wuhan) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Xian) Limited*	Chinese mainland	RMB10,000,000	100%	100%	Provision of IT services and distribution of IT products
Shanghai Lenovo Electronic Co., Ltd.*	Chinese mainland	RMB20,000,000	100%	100%	Manufacturing of IT products
QDI Europe B.V.	The Netherlands	EUR18,151	50%	100%	Distribution of IT products
QDI Technology (HK) Limited	Hong Kong	HK$2	50%	–	Procurement agent and distribution of IT products
QDI Technology (Huizhou) Limited*	Chinese mainland	HK$50,000,000	50%	50%	Manufacturing of IT products
QDI Technology (Shenzhen) Limited*	Chinese mainland	HK$8,300,000	50%	–	Distribution of IT products

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Effective percentage holding 2004	2003	Principal activities
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
Sunny Information Technology Service (Beijing) Co., Ltd.*	Chinese mainland	RMB20,000,000	100%	100%	Provision of repair services for computer hardware and software systems

Notes:

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

(ii) All the Chinese mainland subsidiaries are limited liability companies. They have adopted 31 December as their financial year end date for statutory reporting purposes. For preparation of the consolidated accounts, accounts of these subsidiaries for the 12 months ended 31 March 2003 and 2004 have been used.

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

(b) Amounts due from/(to) subsidiaries

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

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group 2004	2003
	HK$'000	*HK$'000*
Share of net assets	124,124	198,549
Amount due to a jointly controlled entity (Note)	(108,471)	–
	15,653	198,549

Note: The amount due to a jointly controlled entity is interest-free, unsecured and have no fixed terms of repayment.

The details of the jointly controlled entity at 31 March 2004 are as follows:

Company name	Place of incorporation/ establishment	Interest held indirectly 2004	2003	Principal activity
Leby Technology Company Limited	British Virgin Islands	50%	50%	Dormant

18. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Share of net assets	110,882	99,813
Unsecured loan repayable on demand *(Note)*	1,800	1,800
	112,682	101,613

Note: The loan to an associated company is interest-free.

The following is a list of the principal associated companies at 31 March 2004:

Company name	Place of incorporation/ establishment	Interest held indirectly 2004	Interest held indirectly 2003	Principal activities
Beijing CA – Legend Software Co., Ltd.*	Chinese mainland	20%	20%	Software development
Legend Kingsoft Holdings Limited	British Virgin Islands	30%	30%	Distribution and development of software
Techwise Circuits Company Limited	Hong Kong	30.5%	30.5%	Manufacturing and distribution of printed circuit boards

Notes:

(i) The associated companies operate principally in their respective places of incorporation or establishment, except for Legend Kingsoft Holdings Limited which operates principally in the PRC.

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

19. INVESTMENT SECURITIES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities, at fair value				
Listed in Hong Kong	12,239	52,172	–	37,890
Listed outside Hong Kong	48,716	2,257	–	–
	60,955	54,429	–	37,890
Unlisted	15,027	19,220	–	–
	75,982	73,649	–	37,890

20. DEFERRED TAXATION

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

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
At the beginning of the year	(330)	(330)
Deferred taxation credited to consolidated profit and loss account *(Note 7)*	35,048	–
At the end of the year	34,718	(330)

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$140,356,107 (2003: HK$5,229,967) to carry forward against future taxable income. These tax losses will expire up to fiscal year 2008/09.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	Provisions		Tax depreciation allowance		Total	
	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year	–	–	–	–	–	–
Credited to consolidated profit and loss account	34,171	–	547	–	34,718	–
At the end of the year	34,171	–	547	–	34,718	–

Deferred tax liabilities

	Tax depreciation allowance		Total	
	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year	330	330	330	330
Credited to consolidated profit and loss account	(330)	–	(330)	–
At the end of the year	–	330	–	330

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	2003
	HK$'000	*HK$'000*
Deferred tax assets	34,718	–
Deferred tax liabilities	–	(330)
	34,718	(330)

21. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	896,177	873,090
Work-in-progress	13,369	26,975
Finished goods	483,472	368,986
	1,393,018	1,269,051

At 31 March 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK$136,066,000 (2003: HK$79,785,000).

22. ACCOUNTS RECEIVABLE

(a) Trade receivables

At 31 March 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0-30 days	944,212	490,851
31-60 days	84,481	27,213
61-90 days	20,862	10,680
Over 90 days	181,389	24,772
	1,230,944	553,516

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

(b) Notes receivable are bills of exchange mainly with maturity dates of within six months.

23. CASH AND CASH EQUIVALENTS – GROUP

Included in the cash and cash equivalents of the Group are Renminbi cash and cash equivalents in the Chinese mainland of approximately HK$1,335,636,000 (2003: HK$802,124,000).

24. ACCOUNTS PAYABLE

(a) Trade payables

At 31 March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
0-30 days	1,791,869	1,339,852
31-60 days	210,993	149,535
61-90 days	27,554	20,870
Over 90 days	124,641	78,375
	2,155,057	1,588,632

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

25. LONG-TERM LIABILITIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Loan from a minority shareholder of a subsidiary *(Note (a))*	75,000	–
Amount payable for marketing right *(Note (b))*	507,000	–
Current portion payable within one year	(55,453)	–
	451,547	–
	526,547	–

Notes:

(a) The loan from a minority shareholder of a subsidiary is unsecured and not repayable within next 12 months. Included in the balance is an amount of HK$52,879,000 which is bearing interest at the rate of LIBOR + 1.5% per annum. The remaining balance of HK$22,121,000 is interest free.

(b) On 5 February 2004, the Group has entered into an agreement with the International Olympic Committee and the United States Olympic Committee regarding participation in The Olympic Partner Programme. Pursuant to which, the Group will pay a total amount of US$65,000,000 (equivalent to 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 1 January 2005 to 31 December 2008. The amount is payable in installments up to 10 November 2008.

26. SHARE CAPITAL

	2004 Number of Shares	2004 HK$'000	2003 Number of Shares	2003 HK$'000
Authorized:				
At the beginning and the end of the year	20,000,000,000	500,000	20,000,000,000	500,000
Issued and fully paid:				
At the beginning of the year	7,477,364,108	186,934	7,508,038,108	187,701
Exercise of share options *(Note 27)*	10,580,000	265	656,000	16
Repurchase of Shares *(Note)*	(12,350,000)	(309)	(31,330,000)	(783)
At the end of the year	7,475,594,108	186,890	7,477,364,108	186,934

Note: During the year, the Company repurchased 12,350,000 Shares of HK$0.025 each on the Stock Exchange of Hong Kong at an aggregate consideration of HK$28,394,000.

27. SHARE OPTIONS

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

	2004 Number of Shares	2003 Number of Shares
At the beginning of the year	345,142,000	292,992,000
Granted during the year *(Note (a))*	136,572,000	52,806,000
Exercised during the year *(Note (b))*	(10,580,000)	(656,000)
Lapsed during the year *(Note (c))*	(1,656,000)	–
At the end of the year *(Note (d))*	469,478,000	345,142,000

(a) Share options granted during the year:

Exercise period	Exercise price *HK$*	2004 *Number of Shares*	2003 *Number of Shares*
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	–	52,806,000
26.04.2003 to 25.04.2013	2.245	136,572,000	–
		136,572,000	52,806,000

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

(i) Year 2004

Exercise date	Exercise price *HK$*	Market value per share at exercise date *HK$*	Number of Shares	Proceeds received *HK$*
28.08.2003	2.876	3.08	20,000	57,520
10.09.2003 to 24.09.2003	2.876	3.15-3.43	1,676,000	4,820,176
02.10.2003 to 21.10.2003	2.876	3.05-3.80	342,000	983,592
03.11.2003 to 25.11.2003	2.876	3.13-3.18	520,000	1,495,520
01.12.2003 to 25.12.2003	2.876	3.15-3.40	2,666,000	7,667,416
02.01.2004 to 16.01.2004	2.876	3.40-3.70	1,640,000	4,716,640
19.02.2004 to 21.02.2004	2.876	3.35-3.43	66,000	189,816
23.07.2003 to 31.07.2003	2.245	2.88-3.05	46,000	103,270
11.08.2003 to 18.08.2003	2.245	3.00-3.23	46,000	103,270
23.09.2003	2.245	3.23	66,000	148,170
17.10.2003	2.245	3.45	110,000	246,950
08.12.2003 to 17.12.2003	2.245	3.18-3.40	122,000	273,890
08.01.2004	2.245	3.63	6,000	13,470
01.03.2004 to 09.03.2004	2.245	3.20-3.28	34,000	76,330
17.06.2003 to 25.06.2003	2.435	2.60-2.86	16,000	38,960
08.07.2003 to 31.07.2003	2.435	2.88-3.05	122,000	297,070
06.08.2003 to 23.08.2003	2.435	2.88-3.03	68,000	165,580
10.09.2003 to 24.09.2003	2.435	3.14-3.43	588,000	1,431,780
02.10.2003 to 24.10.2003	2.435	3.05-3.73	664,000	1,616,840
03.11.2003 to 24.11.2003	2.435	3.10-3.75	282,000	686,670
01.12.2003 to 26.12.2003	2.435	3.18-3.40	348,000	847,380
02.01.2004 to 15.01.2004	2.435	3.48-3.70	384,000	935,040
02.02.2004 to 24.02.2004	2.435	3.25-3.75	698,000	1,699,630
01.03.2004 to 09.03.2004	2.435	3.20-3.30	50,000	121,750
			10,580,000	28,736,730

(ii) Year 2003

Exercise date	Exercise price *HK$*	Market value per share at exercise date *HK$*	Number of Shares	Proceeds received *HK$*
02.04.2002	2.876	3.33	88,000	253,088
08.05.2002	2.876	3.35	270,000	776,520
10.06.2002	2.876	3.20	298,000	857,048
			656,000	1,886,656

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

Exercise period	Exercise price *HK$*	2004 *Number of Shares*	2003 *Number of Shares*
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	1,656,000	–

(d) Details of share options at the balance sheet date were as follows:

Exercise period	Exercise price *HK$*	2004 *Number of Shares*	2003 *Number of Shares*
Old Option Scheme			
28.01.2000 to 27.01.2010	4.038	7,712,000	7,712,000
15.01.2001 to 14.01.2011	4.312	127,162,000	127,162,000
16.04.2001 to 15.04.2011	4.072	35,550,000	35,550,000
29.08.2001 to 28.08.2011	2.904	832,000	832,000
31.08.2001 to 30.08.2011	2.876	114,150,000	121,080,000
		285,406,000	292,336,000
New Option Scheme			
10.10.2002 to 09.10.2012	2.435	47,930,000	52,806,000
26.04.2003 to 25.04.2013	2.245	136,142,000	–
		184,072,000	52,806,000

28. SHARE CAPITAL AND RESERVES

	Group							
	Share capital	**Share premium**	**Surplus arising on consolidation**	**Exchange reserve**	**Investment revaluation reserve**	**Share redemption reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Surplus in fair market value of investment securities	–	–	–	–	20,144	–	–	20,144
Exchange differences	–	–	–	270	–	–	–	270
Reserves realized upon disposal of investment securities	–	–	–	–	(11,624)	–	–	(11,624)
Profit for the year	–	–	–	–	–	–	1,052,885	1,052,885
Exercise of share options	265	28,471	–	–	–	–	–	28,736
Repurchase of Shares	(309)	–	–	–	–	309	(28,394)	(28,394)
Dividends paid	–	–	–	–	–	–	(761,814)	(761,814)
As at 31 March 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Representing:								
2004 final dividend proposed							224,268	
Others							(714,334)	
Accumulated losses as at 31 March 2004							(490,066)	
Company and subsidiaries	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(549,378)	4,429,412
Jointly controlled entities	–	–	–	–	–	–	7,236	7,236
Associated companies	–	–	–	–	–	–	52,076	52,076
As at 31 March 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724

	Group							
	Share capital	**Share premium**	**Surplus arising on consolidation**	**Exchange reserve**	**Investment revaluation reserve**	**Share redemption reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2002	187,701	4,732,184	27,893	4,155	13,515	1,806	(1,285,220)	3,682,034
Deficit in fair market value of investment securities	–	–	–	–	(20,891)	–	–	(20,891)
Exchange differences	–	–	–	156	–	–	–	156
Reserves realized upon disposal of investment securities	–	–	–	–	(7,120)	–	–	(7,120)
Goodwill written off arising from disposal of subsidiaries	–	–	(22)	–	–	–	–	(22)
Profit for the year	–	–	–	–	–	–	1,017,152	1,017,152
Exercise of share options	16	1,871	–	–	–	–	–	1,887
Repurchase of Shares	(783)	–	–	–	–	783	(79,399)	(79,399)
Dividends paid	–	–	–	–	–	–	(405,276)	(405,276)
As at 31 March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Representing:								
2003 final dividend proposed							224,040	
2003 special dividend proposed							388,337	
Others							(1,365,120)	
Accumulated losses as at 31 March 2003							(752,743)	
Company and subsidiaries	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(719,921)	4,221,343
Jointly controlled entities	–	–	–	–	–	–	(27,704)	(27,704)
Associated companies	–	–	–	–	–	–	(5,118)	(5,118)
As at 31 March 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521

	Company					
	Share capital	**Share premium**	**Investment revaluation reserve**	**Share redemption reserve**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2003	186,934	4,734,055	(2,183)	2,589	1,474,240	6,395,635
Reserves realised upon disposal of investment securities	–	–	2,183	–	–	2,183
Profit for the year	–	–	–	–	1,001,070	1,001,070
Exercise of share options	265	28,471	–	–	–	28,736
Repurchase of Shares	(309)	–	–	309	(28,394)	(28,394)
Dividends paid	–	–	–	–	(761,814)	(761,814)
As at 31 March 2004	186,890	4,762,526	–	2,898	1,685,102	6,637,416
Representing:						
2004 final dividend proposed					224,268	
Others					1,460,834	
Retained earnings as at 31 March 2004					1,685,102	
As at 1 April 2002	187,701	4,732,184	–	1,806	863,305	5,784,996
Deficit in fair market value of investment securities	–	–	(2,183)	–	–	(2,183)
Profit for the year	–	–	–	–	1,095,610	1,095,610
Exercise of share options	16	1,871	–	–	–	1,887
Repurchase of Shares	(783)	–	–	783	(79,399)	(79,399)
Dividends paid	–	–	–	–	(405,276)	(405,276)
As at 31 March 2003	186,934	4,734,055	(2,183)	2,589	1,474,240	6,395,635
Representing:						
2003 final dividend proposed					224,040	
2003 special dividend proposed					388,337	
Others					861,863	
Retained earnings as at 31 March 2003					1,474,240	

29. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere[2] in this set of accounts, the Group had the following material related party transactions in the normal course of business during the year:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Beijing Legend FM Science and Technology Company Limited (a subsidiary of the ultimate holding company):		
Account access fees	–	43,879
Digital China and its subsidiaries (associated companies of the ultimate holding company):		
Rental and management fee	740	2,163
Purchase of goods	27,992	5,414
Sales of goods	–	1,132
Leby Technology Company Limited (a jointly controlled entity):		
Purchase of computers products	178,907	134,262
Manufacturing fee	–	58,284
Sale of computer products	5,149	31,094
Lenovo (Beijing) Technology Co., Ltd. (a former jointly controlled entity):		
Technical consultancy fees	–	2,260
QDI Technology (Huizhou) Limited (a subsidiary of a former jointly controlled entity):		
Rental and management fee	3,126	8,239
Ramaxel Technology Limited (a holding company of a minority shareholder of a subsidiary):		
Purchase of goods	180,541	–
Sale of goods	215,333	–
Right Lane Limited (a substantial shareholder):		
Rental and management fee	960	960
Shenzhen Legend Science Park Company Limited (a subsidiary of the ultimate holding company):		
Rental expenses	10,373	14,822
Shenzhen Zhiqin International Freight Forwarding Co., Ltd. (an associated company of the ultimate holding company):		
Logistic services fee	1,064	–
Techwise Circuits Company Limited and its subsidiaries (associated companies):		
Purchase of goods	34,800	51,232
Rental and management fee	10,836	21,903
Xiamen Overseas Chinese Electronics Co., Ltd. (a minority shareholder of a subsidiary):		
Rental expenses	1,144	1,144
Purchase of goods	701	32,368

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

[2] *Related party transactions for the financial years ended 31 March 2003 and 2004 are also disclosed in the Directors' Report for the year ended 31 March 2004, an extract of which is set out at pages 91 to 95 of this circular.*

30. BANKING FACILITIES

At 31 March 2004, total banking facilities granted to the Group amounted to approximately HK$3,783,000,000 which were secured by one or more of the following:

(a) Cross guarantees provided by certain subsidiaries; and

(b) Guarantees provided by the Company.

At 31 March 2004, the amount of facilities utilised by the Group amounted to approximately HK$1,139,000,000 (2003: HK$460,000,000).

31. COMMITMENTS

(a) Capital commitments

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Contracted but not provided for property, plant and equipment	58,911	120,156

(b) Commitments under operating leases

At 31 March 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Not later than one year	36,377	58,255
Later than one year but not later than five years	75,262	78,281
Later than five years	43,146	52,058
	154,785	188,594

(c) Other commitments

(i) On 17 December 2002, two subsidiaries of the Company, China Weal Technology Holding Limited ("CWT") and the shareholders of CWT entered into an agreement in which the Company's subsidiaries have committed to acquire certain business and assets from CWT and its subsidiaries (the "CWT Group"). The business and assets acquired were injected into a newly incorporated Chinese mainland subsidiary of the Company.

Pursuant to the agreement, the Group is required to pay an initial consideration of approximately HK$61,000,000 and an additional consideration which is dependent on, among other things, proper completion of certain recognisation procedures, and the operating results of the above-mentioned new subsidiary of the Company up to 31 March 2008. The maximum amount of additional consideration, if required, of approximately HK$156,000,000 will be settled in phases before 31 October 2008.

(ii) As at 31 March 2004, the Group had outstanding foreign currency forward contracts and options amounted to approximately HK$468,000,000 (2003: HK$46,000,000).

32. CONTINGENT LIABILITIES

(a) The Company has executed guarantees with respect to banking facilities made available to its subsidiaries. As at 31 March 2004, such facilities granted and utilised amounted to approximately HK$2,381,000,000 and HK$552,000,000 respectively (2003: HK$2,620,000,000 and HK$460,000,000).

(b) The Company has issued letters of guarantee to the suppliers and vendors of its subsidiaries. As at 31 March 2004, the guarantee granted and utilised amounted to approximately HK$1,031,160,000 and HK$626,000,000 respectively (2003: HK$941,460,000 and HK$570,000,000).

33. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATIONS

	2004 *HK$'000*	2003 *HK$'000*
Profit before taxation	994,852	1,028,651
Share of profits of associated companies	(16,891)	(13,826)
Share of losses of jointly controlled entities	39,053	34,756
Finance income	(93,368)	(77,233)
Finance costs	2,881	20
Depreciation of tangible fixed assets	211,161	160,304
Amortization of intangible assets	34,999	15,246
Loss on disposal of tangible fixed assets	2,308	3,110
(Gains)/losses on disposal of investments	(47,558)	26,802
Operating profit before working capital changes	1,127,437	1,177,830
Increase in inventories	(117,942)	(411,997)
Decrease in amounts due from jointly controlled entities	–	194,132
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(858,109)	(287,263)
Increase in trade payables, notes payable, accruals and other payables	597,607	477,373
Net cash inflow from operations	748,993	1,150,075

34. ANALYSIS OF CHANGES IN FINANCING

	2004			2003		
	Share capital (including premium) *HK$'000*	Minority interests *HK$'000*	Loan from a minority shareholder of a subsidiary *HK$'000*	Share capital (including premium) *HK$'000*	Minority interests *HK$'000*	Loan from a minority shareholder of a subsidiary *HK$'000*
Balance at the beginning of the year	4,920,989	59,741	–	4,919,885	7,050	–
Minority interests' share of losses	–	(37,883)	–	–	(14,519)	–
Increase in loan from a minority shareholder	–	–	75,000	–	–	–
Acquisition of subsidiaries	–	462	–	–	67,210	–
Issue of new Shares	28,736	11,604	–	1,887	–	–
Consideration for the repurchase of Shares	(28,394)	–	–	(79,399)	–	–
Repurchase of Shares	28,085	–	–	78,616	–	–
Dividend paid to minority shareholders	–	(4,594)	–	–	–	–
Balance at the end of the year	4,949,416	29,330	75,000	4,920,989	59,741	–

35. ACQUISITION OF SUBSIDIARIES

	2004	2003
	HK$'000	*HK$'000*
Net assets acquired:		
Tangible fixed assets	84,388	27,027
Inventories	6,025	1,535
Investments	–	3,649
Accounts and notes receivable	29,476	7,788
Deposits, prepayments and other receivables	1,517	25,730
Cash and cash equivalents	56,749	204,788
Accounts payable	(12,202)	(789)
Accruals and other payables	(19,884)	(20,538)
Minority interest	(462)	(67,210)
	145,607	181,980
Goodwill arising from acquisition	49,452	38,801
	195,059	220,781
Satisfied by:		
Cash and cash equivalents	51,300	199,941
Amount payable to a jointly controlled entity	108,471	20,840
Investment in a jointly controlled entity	35,288	–
	195,059	220,781

36. ANALYSIS OF THE NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES

	2004	2003
	HK$'000	*HK$'000*
Cash consideration	(51,300)	(199,941)
Cash and cash equivalents acquired	56,749	204,788
Net inflow of cash and cash equivalents in respect of acquisition of subsidiaries	5,449	4,847

37. ULTIMATE HOLDING COMPANY

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

38. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 2 June 2004.

EXTRACT OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004 REPRODUCED FROM THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2004

Further to Note 29 of the audited financial information of the Lenovo Group for the year ended 31 March 2004, this text is extracted from the Directors' Report set out on pages 43 to 45 in the annual report of the Company for the year ended 31 March 2004.

For the year ended 31 March 2004, the following transactions constitute connected transactions of the Company and require disclosure in the annual report pursuant to Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") in force prior to 31 March 2004.

1. Pursuant to a tenancy agreement dated 16 January 2002, a subsidiary of the Company has leased from Shenzhen Legend Science Park Company Limited, a subsidiary of the Company's controlling shareholder, certain office premises and car parking spaces situated at Legend Research and Development Building, Hi-Tech Industrial Park, Shenzhen, China. The tenancy is for a term of 46 months expiring on 15 November 2005. The rental was determined based on confirmation of an independent firm of professional property valuers of their assessment of its market rental when the tenancy agreement was entered into. For the year ended 31 March 2004, such rental expenses amounted to HK$10,373,000.

2. Subsequent to the spin off of Digital China Holdings Limited ("DCHL") and its subsidiaries (collectively, "DCHL Group") from the Group for separate listing in June 2001, DCHL became an associate of the Company's controlling shareholder. DCHL is deemed as a connected person in relation to the Company for the purpose of the Listing Rules.

   (a) Pursuant to a tenancy agreement dated 27 March 2000 between a subsidiary of the Company and a subsidiary of DCHL, the Group has sub-leased to DCHL Group certain office space situated at Lian Xiang Building, Southeastern Corner of 1 Tai Yi Road, Belin District, Xian, China. The tenancy is for a term of 5 years commencing from 1 October 1999. The rental was agreed upon based on the market value for premises of similar type as certified by an independent firm of professional property valuers when the tenancy agreement was entered into. For the year ended 31 March 2004, such rental fee amounted to HK$740,000.

   (b) The Group purchased information technology products from DCHL Group. For the year ended 31 March 2004, such purchases amounted to HK$27,992,000.

   (c) The Group sold Legend/lenovo brand computers and related products to DCHL Group on an irregular basis. For the year ended 31 March 2004, no such sales were made.

The transactions stated in paragraphs 2(b) and 2(c) above have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions (where appropriate) were:

(i) conducted in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(iii) entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties;

(iv) in respect of transaction stated in paragraph 2(b) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK$46.3 million, in the financial year; and

(v) in respect of transaction stated in paragraph 2(c) above, not excessive of the higher of 1% of the audited consolidated turnover of the Group or HK$14.2 million, in the financial year.

The Company has received from the auditors a letter stating that the connected transactions stated in paragraph 2(b) above:

(i) have been approved by the board of directors of the Company;

(ii) were conducted in accordance with the pricing policy of the Company;

(iii) were entered into in accordance with the terms of relevant agreements or on terms no less favourable than terms available to or from independent third parties; and

(iv) have not exceeded the cap.

The Company has entered into master agreements with DCHL to govern such continuing connected transactions for a term of three years ending on 31 March 2007. Details have been disclosed in the announcement of the Company dated 2 June 2004.

3. Subsequent to the setting up of Lenovo Mobile Communication Co. Ltd. (formerly Legend Mobile Communication Co. Ltd., the “JV”), a joint venture company between a wholly-owned subsidiary of the Company and Xiamen Overseas Chinese Electronic Co., Ltd. (“Xoceco”), Xoceco being a substantial shareholder of the JV became a connected person in relation to the Company for the purpose of the Listing Rules.

   (a) Pursuant to a tenancy agreement dated 19 June 2002 between the JV and Xoceco, the JV has leased from Xoceco certain factory and office space situated at Xiamen Overseas Chinese Electronics Science Park, Huoju High Technology Development Zone, Xiamen, China for the period of 5 years expiring on 5 April 2007. The rental was determined with reference to the prevailing market rents when the tenancy agreement was entered into. For the year ended 31 March 2004, such rental expenses amounted to HK$1,144,000.

   (b) The JV made purchases from Xoceco and/or its associates such as raw materials, semi-finished products, moulds and module for production and business operations of mobile handsets. For the year ended 31 March 2004, such purchases amounted to HK$701,000.

   The transactions stated in paragraph 3(b) above have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

   (i) entered into in the ordinary and usual course of the Group’s business;

   (ii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;

   (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

   (iv) not excessive of RMB38 million.

4. Pursuant to a Services Agreement dated 27 October 2003 between Lenovo (Beijing) Limited (formerly, Legend (Beijing) Limited), a subsidiary of the Company, and Shenzhen Zhiqin International Freight Forwarding Co., Ltd, an associate of the Company’s controlling shareholder, Shenzhen Zhiqin International Freight Forwarding Co., Ltd together with its group companies would provide logistics services to the Group for a term of two years commencing from 27 October 2003. For the year ended 31 March 2004, such service charges amounted to HK$1,064,000.

   These transactions have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

   (i) in the financial year, not excessive of the higher of HK$10 million or 3% of the consolidated net tangible assets of the Company;

(ii) entered into in the ordinary and usual course of the Group's business;

(iii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(iv) entered into in accordance with the terms of the relevant agreements.

The Company has received from the auditors a letter stating that the above connected transactions:

(i) have been approved by the board of directors of the Company;

(ii) were entered into in the ordinary and usual course of the Group's business;

(iii) were conducted on normal commercial terms or on terms no less favourable than terms available to or from independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(iv) have not exceeded the cap.

5. Subsequent to the disposal of 50% equity interest in QDI Holdings Limited to Swift Glory Limited pursuant to a sale and purchase agreement dated 1 November 2003, QDI Holdings Limited became a 50%-owned subsidiary of the Company. As a result, the following transactions entered into by the Group after completion of the disposal would be regarded as connected transactions:

(a) purchase of information technology products from Ramaxel Technology Limited ("Type 1 Purchase Arrangement"), which amounted to HK$180,541,000;

(b) sale of information technology products to Ramaxel Technology Limited ("Type 1 Sales Arrangement"), which amounted to HK$215,333,000;

(c) purchase of information technology products from QDI Holdings Limited and its subsidiaries ("Type 2 Purchase Arrangement"), which amounted to HK$72,164,000; and

(d) sale of information technology products to QDI Holdings Limited and its subsidiaries ("Type 2 Sales Arrangement"), which amounted to HK$29,587,000.

These transactions have been granted a waiver from the Stock Exchange of Hong Kong and reviewed by independent non-executive directors of the Company who have confirmed that these transactions were:

(i) entered into in the ordinary and usual course of the Group's business;

(ii) conducted either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(iii) entered into in accordance with the terms of the relevant agreements or on terms no less favourable than terms available to or from independent third parties;

(iv) in respect of the Type 1 Purchase Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK$1,300 million in the financial year, whichever is higher;

(v) in respect of the Type 1 Sales Arrangement, not excessive of the cap amount of 5% of the audited consolidated turnover of the Group or HK$1,300 million in the financial year, whichever is higher;

(vi) in respect of the Type 2 Purchase Arrangement, not excessive of the cap amount of 4% of the audited consolidated turnover of the Group or HK$860 million in the financial year, whichever is higher; and

(vii) in respect of the Type 2 Sales Arrangement, not excessive of the cap amount of 1.5% of the audited consolidated turnover of the Group or HK$260 million in the financial year, whichever is higher.

6. On 18 May 2004, Lenovo Pioneer Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional master agreement with Peak Champion Investment Limited, a direct wholly-owned subsidiary of the substantial shareholder of the Company, pursuant to which, among other things, Peak Champion Investment Limited has agreed to acquire, directly or indirectly, 25% of the entire interest in Lenovo Networks (Shenzhen) Limited from Lenovo Pioneer Limited at a cash consideration of RMB17,550,000. As at the date of this report, the conditions precedent to completion of the master agreement have not been satisfied.

Related party transactions for the year are also set out in Note 29 to the accounts.

The following is an extract of the 2004/05 annual results announcement of the Company dated 8 June 2005.

AUDITED CONSOLIDATED RESULTS

The board of directors (the "Directors") of Lenovo Group Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005, together with comparative figures for last year, are as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**2005** *HK$'000*	**2004** *HK$'000*
Turnover	*2*	22,554,678	23,175,944
Earnings before interest, taxation, depreciation and amortization expenses		1,173,616	1,125,129
Depreciation expenses		(184,490)	(211,161)
Amortization of intangible assets		(58,078)	(34,999)
Impairment of assets		(51,364)	–
Gains on disposal of investments		156,958	47,558
Finance income		105,677	93,368
Profit from operations	*3*	1,142,319	1,019,895
Finance costs		(6,667)	(2,881)
		1,135,652	1,017,014
Share of losses of jointly controlled entities		(12,327)	(39,053)
Share of profits of associated companies		4,182	16,891
Profit before taxation		1,127,507	994,852
Taxation	*4*	(35,184)	20,150
Profit after taxation		1,092,323	1,015,002
Minority interests		27,823	37,883
Profit attributable to shareholders		1,120,146	1,052,885
Dividends	*5*	388,806	373,628
Earnings per share			
– Basic	*6*	14.99 HK cents	14.09 HK cents
– Fully diluted	*6*	14.97 HK cents	13.99 HK cents

CONSOLIDATED BALANCE SHEET

	Note	As at 31 March 2005 HK$'000	As at 31 March 2004 HK$'000
Non-current assets			
Intangible assets		513,078	646,986
Tangible fixed assets		878,144	987,272
Construction-in-progress		257,159	260,377
Investments in jointly controlled entities		191,523	124,124
Investments in associated companies		52,067	112,682
Investment securities		62,970	75,982
Deferred tax assets		53,498	34,718
Other non-current assets		569,673	–
		2,578,112	2,242,141
Current assets			
Inventories		878,900	1,393,018
Trade receivables	7	851,337	1,230,944
Notes receivable		1,137,174	520,321
Deposits, prepayments and other receivables		567,046	301,513
Tax recoverable		–	4,033
Cash and cash equivalents		3,019,385	2,650,071
		6,453,842	6,099,900
Current liabilities			
Trade payables	7	2,276,070	2,155,057
Notes payable		195,032	356,531
Accruals and other payables		716,906	616,897
Amounts due to jointly controlled entities		108,446	108,471
Tax payable		493	5,031
Current portion of long term liabilities		175,866	55,453
		3,472,813	3,297,440
Net current assets		2,981,029	2,802,460
Total assets less current liabilities		5,559,141	5,044,601
Financed by:			
Share capital		186,870	186,890
Reserves		5,017,528	4,301,834
Shareholders' funds		5,204,398	4,488,724
Minority interests		23,609	29,330
Long-term liabilities		331,134	526,547
		5,559,141	5,044,601

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	2005 *HK$'000*	**2004** *HK$'000*
Net cash inflow from operating activities	1,259,545	817,784
Net cash outflow from investing activities	(485,782)	(296,522)
Net cash outflow from financing activities	(404,430)	(679,462)
Increase/(decrease) in cash and cash equivalents	369,333	(158,200)
Effect of foreign exchange rate changes	(19)	(52)
Cash and cash equivalents at the beginning of the period	2,650,071	2,808,323
Cash and cash equivalents at the end of the period	3,019,385	2,650,071

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Surplus arising on consolidation	Exchange reserve	Investment revaluation reserve	Share redemption reserve	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 April 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724
Losses in fair market value of investment securities	–	–	–	–	(4,247)	–	–	(4,247)
Exchange differences	–	–	–	(111)	–	–	–	(111)
Net gains and losses not recognized in the consolidated profit and loss account	–	–	–	(111)	(4,247)	–	–	(4,358)
Profit for the year	–	–	–	–	–	–	1,120,146	1,120,146
Reserves written off on disposal of subsidiaries	–	–	–	(2,377)	–	–	–	(2,377)
Reserves realized on disposal of investment securities	–	–	–	–	(12,908)	–	–	(12,908)
Impairment of investments	–	–	–	–	19,601	–	–	19,601
Exercise of share options	168	15,065	–	–	–	–	–	15,233
Repurchase of Shares	(188)	(16,093)	–	–	–	188	–	(16,093)
Dividends paid	–	–	–	–	–	–	(403,570)	(403,570)
As at 31 March 2005	186,870	4,761,498	27,871	2,093	(3,530)	3,086	226,510	5,204,398

	Share capital *HK$'000*	Share premium *HK$'000*	Surplus arising on consolidation *HK$'000*	Exchange reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Share redemption reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Balance as at 1 April 2003	186,934	4,734,055	27,871	4,311	(14,496)	2,589	(752,743)	4,188,521
Surplus in fair market value of investment securities	–	–	–	–	20,144	–	–	20,144
Exchange differences	–	–	–	270	–	–	–	270
Net gains and losses not recognized in the consolidated profit and loss account	–	–	–	270	20,144	–	–	20,414
Profit for the year	–	–	–	–	–	–	1,052,885	1,052,885
Reserves realized on disposal of investment securities	–	–	–	–	(11,624)	–	–	(11,624)
Exercise of share options	265	28,471	–	–	–	–	–	28,736
Repurchase of Shares	(309)	–	–	–	–	309	(28,394)	(28,394)
Dividends paid	–	–	–	–	–	–	(761,814)	(761,814)
As at 31 March 2004	186,890	4,762,526	27,871	4,581	(5,976)	2,898	(490,066)	4,488,724

NOTES TO THE ACCOUNTS

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that investment securities are stated at fair value.

2. Turnover, revenue and segment information

(a) Primary reporting format – business segments

(i) For the year ended 31 March 2005:

	Corporate IT business *HK$'000*	Consumer IT business *HK$'000*	Handheld device business *HK$'000*	Other business *HK$'000*	Total *HK$'000*
Profit and loss account					
Turnover	12,225,923	7,768,024	2,202,929	357,802	22,554,678
Segment operating results	658,034	463,459	(54,462)	(87,378)	979,653
Amortization of goodwill and marketing right					(48,605)
Impairment of assets					(51,364)
Gains on disposal of investments					156,958
Finance income					105,677
Finance costs					(6,667)
Contribution to operating profit					1,135,652
Share of losses of jointly controlled entities					(12,327)
Share of profits of associated companies					4,182
Profit before taxation					1,127,507
Taxation					(35,184)
Profit after taxation					1,092,323
Minority interest					27,823
Profit attributable to shareholders					1,120,146

(ii) For the year ended 31 March 2004:

	Corporate IT business *HK$'000*	Consumer IT business *HK$'000*	Handheld device business *HK$'000*	Other business *HK$'000*	Total *HK$'000*
Profit and loss account					
Turnover	11,925,240	7,760,668	2,050,164	1,439,872	23,175,944
Segment operating results	724,886	432,225	(76,910)	(153,958)	926,243
Amortization of goodwill					(25,274)
Gains on disposal of investments					47,558
Others					(22,000)
Finance income					93,368
Finance costs					(2,881)
Contribution to operating profit					1,017,014
Share of losses of jointly controlled entities					(39,053)
Share of profits of associated companies					16,891
Profit before taxation					994,852
Taxation					20,150
Profit after taxation					1,015,002
Minority interest					37,883
Profit attributable to shareholders					1,052,885

(b) Secondary reporting format – geographical segments

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

3. Profit from operations

		2005	2004
		HK$'000	*HK$'000*
(a)	Turnover	22,554,678	23,175,944
	Cost of sales	(19,227,770)	(19,787,944)
	Gross profit	3,326,908	3,388,000
	Finance income	105,677	93,368
	Gains on disposal of investments	156,958	47,558
	Impairment of assets	(51,364)	–
	Distribution expenses	(1,614,398)	(1,686,932)
	Administrative expenses	(354,188)	(343,306)
	Other operating expenses	(369,196)	(443,794)
	Amortization of intangible assets	(58,078)	(34,999)
	Total operating expenses *(See (b))*	(2,395,860)	(2,509,031)
	Profit from operations	1,142,319	1,019,895

(b) Analysis of total operating expenses by nature:

	2005	2004
Selling expenses	(573,017)	(558,124)
Promotional and advertising expenses	(354,540)	(395,905)
Staff costs	(875,433)	(851,476)
Other expenses	(534,792)	(668,527)
Amortization of intangible assets	(58,078)	(34,999)
Total operating expenses	(2,395,860)	(2,509,031)

4. Taxation

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

	2005	2004
	HK$'000	*HK$'000*
Current taxation outside Hong Kong	53,183	14,482
Deferred taxation	(18,780)	(35,048)
	34,403	(20,566)
Share of taxation attributable to:		
Jointly controlled entities	190	84
Associated companies	591	332
Taxation charged/(credited)	35,184	(20,150)

5. Dividends

	2005	2004
	HK$'000	*HK$'000*
Interim dividend of 2.4 HK cents per ordinary share (2003/04: 2.0 HK cents)	179,378	149,436
Proposed final dividend of 2.8 HK cents per ordinary share (Final dividend paid, 2003/04: 3.0 HK cents)	209,428	224,192
	388,806	373,628

At a board meeting held on 8 June 2005, the Directors recommended a final dividend of 2.8 HK cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31 March 2006.

6. Earnings per share

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

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

7. Ageing

Ageing analysis of the trade receivables at 31 March 2005 was as follows:

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

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

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

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

8. Condensed balance sheet of the Company

	As at 31 March 2005	As at 31 March 2004
	HK$'000	*HK$'000*
Tangible fixed assets	25,130	32,115
Investments	2,332,288	2,327,875
Other non-current assets	565,340	–
Current assets	4,387,158	4,408,126
Current liabilities	279,137	130,700
Net current assets	4,108,021	4,277,426
Total assets less current liabilities	7,030,779	6,637,416
Share capital	186,870	186,890
Retained earnings	2,082,203	1,685,102
Reserves	4,761,706	4,765,424
	7,030,779	6,637,416

BUSINESS REVIEW

The 2004/05 fiscal year was a remarkable one for the Group. Through implementing strategic initiatives set in the beginning of the year, the Group successfully strengthened its leadership position in the China PC market. The Group was also able to pre-empt irrational competitive pricing tactics of second-tier domestic PC vendors and intensified competition from foreign brands. However, as a result of its divestiture of non-core business and the expansion into emerging segment in township market, the Group's consolidated turnover for the 2004/05 fiscal year recorded a slight decrease of 2.7% while its PC shipment grew in line with the market average. The Group maintained its overall gross margin at approximately 14.75% and achieved a 6.4% increase in net profit on lower operating expenses.

Implementation of Strategic Initiatives

The rapid growth and structural changes in the Chinese economy, along with the proliferation of foreign competitors and increasing strength of domestic private enterprises, has led to changes in customer demands and the competitive landscape in China's PC market. To address these changes, Lenovo implemented strategic initiatives at the beginning of the last fiscal year.

- **Business Focus** – Since the beginning of the fiscal year, Lenovo set its priorities to ensure that resources and efforts were more effectively allocated to the core PC and related products business and strengthened the competitiveness of its mobile handset business. This has increased the Group's overall competitiveness and drastically improved its operations during the review period while building a strong foundation for its efforts to globalize the PC business.

- **Customer-oriented Sales Model** – The Group's efforts to build a customer-oriented sales model and organizational structure also met with success during the past year. The Group was able to better meet customer needs and improve the control of its customer information through building a network comprising 110 sales zones spanning 18 regions in China and a direct-to-customer model to serve large customer accounts. Sales to these types of customers increased steadily, accounting for approximately 7.1% of core business turnover.

- **Improved Efficiency** – The Group has also embarked on a series of projects to improve operational efficiencies. During the review period, these efforts helped streamline and reduce the Group's cash cycle to 5.1 days.

Performance of Business Segments

During the 2004/05 fiscal year, the Group's overall business achieved a steady growth rate, due to the successful implementation of its strategic initiatives and favorable macroeconomic conditions in China. Moreover, the government's macroeconomic control measures to cool the economy did not impact the growth of China's PC market which achieved a 19% year-on-year increase in unit shipment during the year ended March 2005.

Corporate IT Business

- Continued IT investments from the government and education sectors and the rapid growth of small- and medium-sized enterprises (SMEs) drove the growth of China's corporate PC market. At the same time, the notebook computer market enjoyed significant growth due to increasing demand for mobile computing.

- As a result of redesigning the Lenovo sales model and introducing tailor-made innovative products, the Group's commercial desktop market share increased over the review period.

- The Group streamlined its notebook product line, reflecting the growing importance of notebook computers in the China PC market. The Group's three distinctive notebook series – Soleil, Tianyi and Xuri – set trends in the market with innovative features. The Group's outstanding R&D and marketing capabilities have strengthened its leadership position in China's notebook computer market.

Consumer IT Business

- The consumer desktop market in China enjoyed better growth in the past year, bolstered by vendors' efforts to penetrate township markets, and the rising demand for large-screen LCD monitors, resulting from declining prices and fashionable designs.

- With a good understanding of customer needs in township markets, Lenovo captured its growth potential by launching Yuanmeng, a desktop computer series emphasizing performance at affordable prices.

- The Group introduced new computer models targeting other segments. For the high-end consumer market, the Group introduced the Tianjiao broadband collaborating desktops, which allows for better utilization of broadband technology such as videophone modules.

Handheld Device Business

- During the year, the mobile handset market in China maintained a steady unit shipment growth of about 16%. The Group's ongoing persistence in developing proprietary products has placed it among the few domestic vendors that enjoyed market share gain during the year.

- During the year under review, the Group began to reap the benefits of its efforts over the past two years of building its sales channels and enhancing its R&D capabilities. Lenovo's mobile handset unit shipment jumped 63% year-over-year, ranking as one of the top five domestic brand names in China in 2004. The Group also saw its gross profit margin for the handset device business rise to 23.8%, leveraging its enhanced product development capability.

FINANCIAL REVIEW

Results highlights

Comparing with the last year's results, the Group's turnover slightly decreased by 2.7% to HK$22,555 million in the 2004/05 fiscal year. However, EBITDA increased by 4.3% to HK$1,174 million. Profit attributable to shareholders for the year increased by 6.4% to HK$1,120 million. The basic earnings per share and fully diluted earnings per share were 14.99 HK cents and 14.97 HK cents representing increases of 6.4% and 7.0% respectively.

Segment results

Total turnover of corporate IT business grew by 2.5% to HK$12,226 million and segment operating profit decreased by 9.2% to HK$658 million. The turnover of consumer IT business kept in line with last year and reached HK$7,768 million, while the segment operating profit was HK$463 million. Turnover of handheld device business increased by 7.5% to HK$2,203 million for the year while the loss of the business was HK$54 million. During the year, turnover of other business (IT service and contract manufacturing business) dropped by 75.2% to HK$358 million and loss of HK$87 million for the year was recorded.

Gains on disposal of investments

The Group recorded net gains of HK$157 million on disposal of investments during the year ended 31 March 2005. The gains were mainly from the disposal of subsidiaries and associated companies in relation to IT services business and printed circuit board business.

Amortization of marketing right

Marketing right for the Olympic partner program is amortized on a straight-line basis from 1 January 2005 to 31 December 2008. During the year ended 31 March 2005, amortization of HK$32 million was charged to the consolidated profit and loss account.

Impairment of assets

During the year, impairment losses of HK$20 million and HK$31 million for investment securities and goodwill arising from business combination were charged to the consolidated profit and loss account respectively.

Capital expenditure

The Group incurred capital expenditures of HK$177 million for the year ended 31 March 2005, mainly for acquisition of fixed assets, injection into construction-in-progress and optimization of the Group's information technology systems.

Liquidity and financial resources

As at 31 March 2005, total assets of the Group amounted to HK$9,032 million which were financed by shareholders' fund of HK$5,204 million, minority interests of HK$24 million, long-term and current liabilities of HK$3,804 million. The current ratio of the Group was 1.9.

The Group had a solid financial position and maintained a strong and steady cash inflow from its operation activities. As at 31 March 2005, cash and cash equivalents of the Group totaled at HK$3,019 million. The balance consisted of about 0.8% in Hong Kong dollars, 42.0% in US dollars and 57.2% in Renminbi.

Although the Group has consistently been in a very liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31 March 2005, the Group's total available credit facilities amounted to HK$3,275 million, of which HK$1,473 million was in trade line, HK$740 million in short term and revolving money market facilities and HK$1,062 million in foreign exchange contract. As at 31 March 2005, the facility drawn down was HK$342 million and HK$94 million for the foreign currency options was utilized.

There was no outstanding bank loan as at 31 March 2005.

There were no assets held under finance lease during the year and as at the year end.

The Group consistently adopted a hedging policy for business transactions to minimize the risk of fluctuations from exchange rates on daily operations. As at 31 March 2005, the Group had outstanding foreign currency options amounting to HK$94 million.

Contingent liabilities

The Group has no material contingent liabilities as at 31 March 2005.

Employees

As at 31 March 2005, the Group had a total of 9,682 employees, 9,625 of whom were employed in Chinese mainland and 57 in Hong Kong and overseas.

The Group implements remuneration policy, bonus and share options schemes with reference 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

As the Group became more focused on the PC business, management saw a clear opportunity for Lenovo to accelerate its growth and improve its competitive position by expanding into the global market. Globalization of operations will allow Lenovo to drive costs down and maximize efficiencies. The Group will also maximize the benefits of its innovative technologies which help differentiate its products from competitors, and enhance its premium brand status.

Acquisition of IBM's Personal Computing Division

In May 2005, Lenovo completed its acquisition of IBM's PC business. The Group paid US$1.25 billion to acquire IBM's desktop and notebook computer businesses, as well as its PC-related R&D centers, manufacturing plants, global marketing networks and service centers.

As part of the transaction, Lenovo and IBM entered a broad-based, strategic alliance in which IBM became the preferred services and customer financing provider to Lenovo. Lenovo would be the preferred supplier of PCs to IBM, enabling IBM to offer a full range of personal computing solutions to its enterprise and small and medium business clients.

In association with the acquisition, Lenovo received a US$350 million strategic investment in May 2005 by three of the world's leading private equity firms: Texas Pacific Group, General Atlantic LLC and Newbridge Capital LLC. Lenovo issued unlisted Series A cumulative convertible preferred shares and unlisted warrants to the strategic investors. This investment represented a strong vote of confidence in Lenovo's future.

Personal Computer Business

In 2005 and 2006, demand for notebook computers as well as strength in emerging PC markets is expected to drive growth in the worldwide PC market. Increased adoption in emerging markets for both desktops and notebook computers will present significant growth opportunities as will the trend toward increased notebook adoption in more developed PC markets. These trends, supported by replacement cycles for older systems, are expected to drive worldwide PC growth through the next five years.

In the PC business, the new Lenovo is well situated in terms of product lines and geographic presence to take advantage of the growth opportunities presented in both emerging markets as well as by the ongoing shift in demand to notebook computers.

Globally, the Group's ThinkPad line of notebook computers provides a strong offering to meet the growing demand for mobile computing. In China, Lenovo's notebook offerings also include the Soleil, Tianyi and Xuri. Together, the company has a powerful product line for consumers as well as enterprises, with a range of price points and features.

Lenovo's family of desktops – led by brands such as the Tianjiao, Fengxing, Kaitian, Yangtian – provides a strong competitive base in China and potentially globally, especially when combined with the ThinkCentre line of desktops.

Lenovo has strong products and favorable geographic positioning. Lenovo's business model that addresses the future of the PC business: a company that best balances leading-edge technology and efficiency, offering PC users innovative products and a choice in how they purchase computers.

In addition to being well-positioned to take advantage of key market trends and to sell through multiple worldwide channels, Lenovo will continue to successfully integrate the IBM Personal Computing Division, in order to gain the benefits of near-term cost-savings as well as lay the foundation for the longer-term synergies.

Mobile Handset Business

The mobile handset market in China is expected to continue its steady growth in 2005 and 2006. Lenovo anticipates that competition will remain intense due to the large number of domestic and international brands in the market.

Lenovo believes the way to compete and further advance its position in the China mobile handset market is to focus on improving the value chain as well as to respond promptly to market needs. In the coming year, the Group will enhance its capability to develop and introduce proprietary products emphasizing faster time-to-market and closer ties with suppliers. Lenovo will also further develop its chain-store distribution channel and implement aggressive marketing strategies.

PROPOSED DIVIDEND

The Directors recommended the payment of a final dividend of 2.8 HK cents per ordinary share (2003/04: 3.0 HK cents). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Tuesday, 16 August 2005 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Tuesday, 9 August 2005.

CLOSURE OF REGISTER OF MEMBERS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company purchased 7,500,000 Ordinary Shares of HK$0.025 each in the capital of the Company at prices ranging from HK$2.025 to HK$2.175 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Such purchases involved a total cash outlay of approximately HK$16 million and were for the purpose of enhancing returns on equity.

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

The repurchased Shares were cancelled and accordingly, the issued share capital was reduced by the nominal value thereof. The premium payable on repurchase was charged against the retained earnings of the Company.

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

REVIEW BY AUDIT COMMITTEE

The Audit Committee has been established since 1999 with responsibility of assisting the Board in providing an independent review of the accounts and internal control system. It acts in accordance with its Term of Reference which clearly deal with its membership, authority, duties and frequency of meetings. The current Committee members are Mr Wai Ming Wong (Chairman), Professor Chia-Wei Woo, Mr Lee Sen Ting and Mr Weijian Shan. The majority of the Committee members are independent non-executive directors.

During the 2004/05 fiscal year, the Audit Committee met four times a year and met regularly with the management, the external auditors and the internal audit personnel to review accounting principles and practices adopted by the Group, and to discuss internal control and financial reporting matters including the quarterly, interim and this annual results before recommending them to the Board for approval.

CODE OF BEST PRACTICE

Apart from the fact that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting in accordance with the Company's Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange in force prior to 1 January 2005 throughout the year.

(A) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

Set out below is an illustrative and unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2005 which has been prepared for the purpose of illustration as if the following had taken place on 31 March 2005:

– Initial IBM Closing and Subsequent IBM Closings described in the IBM Circular;

– issuance of Convertible Preferred Shares and Warrants described in the CPS Subscription Circular; and

– Closing pursuant to the Repurchase Agreement.

The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 March 2005, and the audited combined statement of financial position of the personal computing division of IBM ("PCD") as at 30 June 2004 as extracted from Appendix I to the IBM Circular, after making pro forma adjustments that are necessary (the first column headed "PCD as at 30 June 2004 under HK GAAP after pro forma adjustments" in the unaudited pro forma financial information of the Enlarged Group in Appendix II to this Circular is extracted from the unaudited pro forma financial information of the Enlarged Group under the column headed "The Business as at 30 June 2004 under HK GAAP after pro forma adjustments" as set out on page 202 in Appendix IV to the IBM Circular, which in turn is derived from the audited combined statement of financial position of PCD as at 30 June 2004 after making pro forma adjustments that are necessary).

PCD is a division of IBM rather than a stand-alone entity. The audited combined statement of financial position of PCD is derived from the accounting records of IBM using the historical bases of assets and liabilities of PCD and the preparation of which is a separate exercise and for special purposes. In preparation of this unaudited pro forma consolidated balance sheet of the Enlarged Group, the Directors have made adjustments to the consolidated balance sheet of the Group as at 31 March 2005 on the basis of the audited combined financial statements of PCD for the six months ended 30 June 2004, which are the most recently published financial information of PCD. The Directors have considered seasonal factors affecting PCD's business and observed that there were no significant seasonal variations or obvious seasonal trend during the period between 30 June 2004 and 31 March 2005. Accordingly, the Directors considered that seasonal variations would not make the financial position of PCD at 30 June 2004 significantly different at 31 March 2005.

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of the Initial IBM Closing, Subsequent IBM Closings, issuance of Convertible Preferred Shares and Warrants and the Share Repurchase. To illustrate the effect of the Share Repurchase, it is necessary to take into account also the Initial IBM Closing, Subsequent IBM Closings and the issue of the Convertible Preferred Shares and Warrants because the Excess Shares being repurchased were issued at Initial IBM Closing as part of the consideration for the IBM Acquisition; and the Share Repurchase will be financed by the proceeds from the issue of the Convertible Preferred Shares and the Warrants. As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2005 and at any future date.

	PCD as at 30 June 2004 under HK GAAP after pro forma adjustments HK$'m (Note 1)	Lenovo Group as at 31 March 2005 (based on the audited balance sheet of the Group as at 31 March 2005) HK$'m	Pro forma consolidation adjustments HK$'m (Note 2)	Note	Pro forma Enlarged Group HK$'m	Issuance of Convertible Preferred Shares and Warrants HK$'m (Note 4)	Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants but before Share Repurchase HK$'m	Share Repurchase HK$'m (Note 5)	Pro forma Enlarged Group after issuance of Convertible Preferred Shares and Warrants and Share Repurchase HK$'m
Non-current assets									
Intangible assets	–	513	14,413	3(c)	14,926	–	14,926	–	14,926
Tangible fixed assets	523	878	195	3(d)	1,596	–	1,596	–	1,596
Construction-in-progress	–	257	–		257	–	257	–	257
Investment in a jointly controlled entity	–	192	–		192	–	192	–	192
Investments in associated companies	–	52	–		52	–	52	–	52
Investment securities	–	63	–		63	–	63	–	63
Deferred tax assets	–	54	–		54	–	54	–	54
Other non-current assets	–	570	–		570	–	570	–	570
	523	2,579	14,608		17,710	–	17,710	–	17,710
Current assets									
Inventories	2,082	879	–		2,961	–	2,961	–	2,961
Trade receivables	3,994	851	–		4,845	–	4,845	–	4,845
Notes receivable	–	1,137	–		1,137	–	1,137	–	1,137
Deposits, prepayments and other receivables	991	567	–		1,558	–	1,558	–	1,558
Cash and cash equivalents	–	3,019	(1,170)	3(f)	1,849	2,707	4,556	(1,187)	3,369
	7,067	6,453	(1,170)		12,350	2,707	15,057	(1,187)	13,870
Current liabilities									
Amount due to a jointly controlled entity	–	108	–		108	–	108	–	108
Trade payables	10,834	2,276	–		13,110	–	13,110	–	13,110
Notes payable	–	195	–		195	–	195	–	195
Accruals and other payables	1,755	717	–		2,472	–	2,472	–	2,472
Tax payable	–	1	–		1	–	1	–	1
Current portion of other long-term liabilities	–	176	–		176	–	176	–	176
	12,589	3,473	–		16,062	–	16,062	–	16,062
Net current assets/(liabilities)	(5,522)	2,980	(1,170)		(3,712)	2,707	(1,005)	(1,187)	(2,192)
Total assets less current liabilities	(4,999)	5,559	13,438		13,998	2,707	16,705	(1,187)	15,518
Non-current liabilities									
Long-term bank loan	–	–	3,900	3(e)	3,900	–	3,900	–	3,900
Other long-term liabilities	312	331	–		643	2,623	3,266	–	3,266
Minority interests	–	24	–		24	–	24	–	24
Net assets/(liabilities)	(5,311)	5,204	9,538		9,431	84	9,515	(1,187)	8,328
Financed by/(represented by)									
Share capital	–	187	44	3(a)	231	–	231	(11)	220
Reserves	–	5,017	4,183	3(a)	9,200	84	9,284	(1,176)	8,108
IBM's net investment	(5,288)	–	5,288	3(b)	–	–	–	–	–
Accumulated other comprehensive loss	(23)	–	23	3(b)	–	–	–	–	–
	(5,311)	5,204	9,538		9,431	84	9,515	(1,187)	8,328

Notes to unaudited pro forma consolidated balance sheet:

1. The balances are extracted from the unaudited pro forma financial information of the Enlarged Group under the column headed "The Business as at 30 June 2004 under HK GAAP after pro forma adjustments" as set out on page 202 in Appendix IV to the IBM Circular.

2. Under Hong Kong GAAP, the Group will apply the purchase method to account for the acquisition of PCD pursuant to the terms of the IBM Acquisition in the consolidated accounts of the Enlarged Group. In applying the purchase method, the identifiable assets and liabilities of PCD will be recorded on the balance sheet of the Enlarged Group at their fair values at the date of Initial IBM Closing and Subsequent IBM Closings (as the case may be), and IBM's interests in PCD upon the Initial IBM Closing and Subsequent IBM Closings (as the case may be) will be eliminated as the pre-acquisition reserves of the Enlarged Group. Any goodwill or negative goodwill arising on the acquisition will be determined as the excess or deficit of the purchase consideration deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets and liabilities of PCD at the date of the Initial IBM Closing and Subsequent IBM Closings (as the case may be).

   For the purpose of preparing the unaudited pro forma consolidated balance sheet of the Enlarged Group, the net fair value of the identifiable assets and liabilities of PCD as at 30 June 2004 and the fair value of the Consideration Shares based on the closing market price of the Company's Shares as at 29 April 2005, the last trading date before the Initial IBM Closing, are applied in the calculation of the estimated goodwill arising from the acquisition. Since the fair values of the assets and liabilities of PCD at the date of the Initial IBM Closing or the Subsequent IBM Closings (as the case may be) may be substantially different from their fair values used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual goodwill arising from the acquisition of PCD may be different from the estimated goodwill shown in this unaudited pro forma consolidated balance sheet.

3. The pro forma consolidation adjustments reflect the following:

   (a) issuance of the Consideration Shares, valued at HK$4,227 million on 29 April 2005, by the Company as part of the acquisition consideration;

   (b) the elimination of IBM's interests in PCD as at the date of acquisition on consolidation;

   (c) recognition of goodwill arising from the acquisition of PCD based on the net fair value of the identifiable assets and liabilities of PCD as at 30 June 2004 determined according to the method described in note 2 above;

   (d) fair value adjustments on plant and equipment of PCD of HK$195 million as at 30 June 2004 determined according to the method described in note 2 above;

   (e) a term loan of US$500 million (or HK$3,900 million) raised for financing the acquisition consideration; and

   (f) payment of cash and cash equivalents on hand of the Group of HK$1,170 million as part of the acquisition consideration.

4. The pro forma adjustment relates to the issuance of 2,730,000 unlisted Convertible Preferred Shares and 237,417,474 unlisted Warrants for the net proceeds of US$347 million (approximately HK$2,707 million).

5. The pro forma adjustment relates to the repurchase of 435,717,757 Non-voting Shares, which are issued to IBM to satisfy part of the acquisition consideration, at HK$2.725 per share for a total consideration of HK$1,187 million pursuant to the Repurchase Agreement.

6. The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 March 2005 or for the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the unaudited pro forma consolidated balance sheet of the Enlarged Group.

(B) UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET ASSETS OF THE ENLARGED GROUP BEFORE AND AFTER THE ISSUANCE OF UNLISTED CONVERTIBLE PREFERRED SHARES AND WARRANTS AND THE SHARE REPURCHASE

Set out below is an illustrative and unaudited pro forma statement of consolidated net assets of the Enlarged Group before and after the issuance of unlisted Convertible Preferred Shares and Warrants and the Share Repurchase, based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2005 as set out in Section (A) headed "Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group" of this Appendix:

	Before the issuance of unlisted Convertible Preferred Shares and Warrants and before the Share Repurchase *(Note 1)* *HK$'m*	**After the issuance of unlisted Convertible Preferred Shares and Warrants but before the Share Repurchase** *(Note 1)* *HK$'m*	**After the issuance of unlisted Convertible Preferred Shares and Warrants and after the Share Repurchase** *(Note 2)* *HK$'m*
Unaudited pro forma consolidated net assets of the Enlarged Group	9,431	9,515	8,328
Unaudited pro forma consolidated net assets of the Enlarged Group attributable to each Ordinary Share of the Company	HK$1.02	HK$1.03	HK$0.95

Notes to the unaudited pro forma statement of consolidated net assets of the Enlarged Group before and after the issuance of unlisted Convertible Preferred Shares and Warrants and the Share Repurchase:

1. The unaudited pro forma consolidated net assets of the Enlarged Group attributable to each Ordinary Share of the Company is calculated on the assumption that 9,217,667,136 Ordinary Shares were in issue comprising (i) 7,474,796,108 Ordinary Shares in issue as at 31 March 2005; and (ii) 821,234,569 Shares and 921,636,459 Non-voting Shares allotted and issued by the Company to IBM to satisfy part of the consideration for the IBM Acquisition.

2. The unaudited pro forma consolidated net assets of the Enlarged Group attributable to each Ordinary Share of the Company is calculated on the assumption that 8,781,949,379 Ordinary Shares were in issue comprising (i) 7,474,796,108 Ordinary Shares in issue as at 31 March 2005; (ii) 821,234,569 Shares and 921,636,459 Non-voting Shares allotted and issued by the Company to IBM to satisfy part of the consideration for the IBM Acquisition; and (iii) after deducting 435,717,757 Non-voting Shares to be repurchased under the Share Repurchase.

(C) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the Company's auditors, PricewaterhouseCoopers Hong Kong, Certified Public Accountants, for inclusion in this circular. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the Statements of Investment Circular Reporting Standards and Bullerin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

6 July 2005

The Directors
Lenovo Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information ("Pro Forma Financial Information") which comprise unaudited pro forma consolidated balance sheet and unaudited pro forma statement of consolidated net assets of Lenovo Group Limited ("the Company") and its subsidiaries (collectively "the Group") and the personal computing division of International Business Machines Corporation ("IBM") ("PCD") (hereinafter referred to as the "Enlarged Group") set out on pages 113 to 117 under the heading of "Unaudited pro forma financial information of the Enlarged Group" in Appendix II of the Company's circular dated 6 July 2005 in connection with the proposed off-market repurchase of non-voting shares ("Share Repurchase") and connected transaction of the Company. The unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed Share Repurchase might have affected the relevant financial information of the Group as at 31 March 2005.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited Pro Forma Financial Information.

The unaudited Pro Forma Financial Information has been prepared on the bases set out on pages 113 to 117 for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Enlarged Group at any future date.

Opinion

In our opinion:

(a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Share Repurchase Code for the purpose of providing information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the end of each of the six calendar months immediately preceding the date of the Announcement; (ii) 29 April 2005, being the last day of trading in Shares on the Stock Exchange before release of the Announcement; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
30 November 2004	2.700
31 December 2004	2.325
31 January 2005	2.100
28 February 2005	2.225
31 March 2005	2.650
29 April 2005, also being the last day of trading in Shares on the Stock Exchange before release of the Announcement	2.425
Latest Practicable Date	2.300

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK$3.125 and HK$2.025 on 15 November 2004 and 21 January 2005 respectively.

The Non-voting Shares are not listed, and there is therefore no closing price in respect thereof. The Non-voting Shares rank *pari passu* in all respects with the Shares, and are also convertible into Shares on a one-for-one basis. The closing prices of the Shares on the Stock Exchange set out above serve as an appropriate reference to the market price of the Non-voting Shares.

DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules were as follows:

(a) Interests in the Ordinary Shares and underlying Shares of the Company

			Capacity and number of Shares/underlying Shares held				
Name of Director	**Long/Short position**	**Interests in Shares/ underlying Shares**	**Personal interests**	**Family interests**	**Trust**	**Aggregate interests**	**% of the total issued Ordinary Shares as at the Latest Practicable Date**
Mr Yang Yuanqing	Long position	Shares	10,200,000	–	–	10,200,000	0.11
	Long position	Share options	11,250,000	–	–	11,250,000	
						21,450,000	
Mr Stephen M Ward, Jr	Long position	Shares	1,000,000	–	–	1,000,000	0.01
Ms Ma Xuezheng	Long position	Shares	15,834,000	–	7,240,000	23,074,000	0.25
	Long position	Share options	6,120,000	–		6,120,000	
						29,194,000	
Mr Liu Chuanzhi	Long position	Shares	16,010,000	976,000	–	16,986,000	0.18
	Long position	Share options	5,250,000	–	–	5,250,000	
						22,236,000	
Mr Zhu Linan	Long position	Shares	3,720,000	–	–	3,720,000	0.04

Note: The above-mentioned share options are options granted by the Company pursuant to its share option schemes.

(b) Details of the share options granted to Directors which remained outstanding as at the Latest Practicable Date were as follows:

Directors	Grant date	Exercise price per Share *HK$*	Number of Shares issuable under share options as at the Latest Practicable Date	Option exercise period
Mr Yang Yuanqing	16 April 2001	4.072	6,000,000	16 April 2001 to 15 April 2011
	31 August 2001	2.876	2,250,000	31 August 2001 to 30 August 2011
	26 April 2003	2.245	3,000,000	26 April 2003 to 25 April 2013
Ms Ma Xuezheng	16 April 2001	4.072	2,920,000	16 April 2001 to 15 April 2011
	31 August 2001	2.876	1,600,000	31 August 2001 to 30 August 2011
	26 April 2003	2.245	1,600,000	26 April 2003 to 25 April 2013
Mr Liu Chuanzhi	31 August 2001	2.876	2,250,000	31 August 2001 to 30 August 2011
	26 April 2003	2.245	3,000,000	26 April 2003 to 25 April 2013

Note: The above-mentioned share options are options granted by the Company pursuant to its share option schemes.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective concert parties or their associates had any interests or short positions in the Ordinary Shares, underlying Shares, Convertible Preferred Shares, debentures, convertible securities, warrants, options and derivatives in respect of the Ordinary Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Substantial Shareholders

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10% or more of the nominal value of the issued ordinary share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(a) Interests in the Ordinary Shares and underlying Shares of the Company

As at the Latest Practicable Date and post closing of the CPS Subscription

(i) Ordinary Shares

Name	Nature of interest in long position	Capacity and number of Ordinary Shares/underlying Shares held: Beneficial owner	Corporate interests	Aggregate long/short position	% of the total issued Ordinary Shares as at the Latest Practicable Date
Legend Holdings Limited *(Note 1)*	Shares	2,710,436,724	1,469,311,247 *(Note 2)*	4,179,747,971	45.32
Employees' Shareholding Society of Legend Holdings Limited *(Note 3)*	Shares	–	4,179,747,971	4,179,747,971	45.32
International Business Machines Corporation *(Note 4)*	Shares and Non-voting Shares	1,742,871,028	–	1,742,871,028	18.90
TPG Advisors IV, Inc	underlying Shares	–	439,217,834	439,217,834	4.76
TPG GenPar IV, L.P.	underlying Shares	–	439,217,834	439,217,834	4.76
TPG Partners IV, L.P.	underlying Shares	–	439,217,834	439,217,834	4.76
TPG IV Acquisition Company LLC *(Note 5)*	underlying Shares	439,217,834	–	439,217,834	4.76
Mr. David Bonderman *(Note 6)*	underlying Shares	–	885,180,238	885,180,238	9.60

(ii) Convertible Preferred Shares

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held: Beneficial owner	Corporate interests	Aggregate long/short position	% of the total Convertible Preferred Shares as at the Latest Practicable Date
GAP (Bermuda) Ltd	Convertible Preferred Shares	–	655,114	655,114	23.99
General Atlantic Partners (Bermuda), L.P. *(Note 7)*	Convertible Preferred Shares	655,114	–	655,114	23.99
GAP Coinvestments III, LLC	Convertible Preferred Shares	42,566	–	42,566	1.56
GAP Coinvestments IV, LLC	Convertible Preferred Shares	11,100	–	11,100	0.41
General Atlantic LLC	Convertible Preferred Shares	–	70,001	70,001	2.56
GAPSTAR, LLC *(Note 8)*	Convertible Preferred Shares	9,750	–	9,750	0.36
General Atlantic Partners 81, L.P. *(Note 9)*	Convertible Preferred Shares	60,251	–	60,251	2.21
GAPCO Management GmBH	Convertible Preferred Shares	–	1,219	1,219	0.04
GAPCO GmBH & Co. KG *(Note 10)*	Convertible Preferred Shares	1,219	–	1,219	0.04
Tarrant Advisors, Inc.	Convertible Preferred Shares	–	390,000	390,000	14.29
Newbridge Asia Advisors III, Inc.	Convertible Preferred Shares	–	390,000	390,000	14.29
Newbridge Asia GenPar III, L.P.	Convertible Preferred Shares	–	390,000	390,000	14.29

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held: Beneficial owner	Corporate interests	Aggregate long/short position	% of the total Convertible Preferred Shares as at the Latest Practicable Date
Newbridge Asia III, L.P.	Convertible Preferred Shares	–	390,000	390,000	14.29
Newbridge Asia Acquisition Company LLC *(Note 11)*	Convertible Preferred Shares	390,000	–	390,000	14.29
TPG Advisors III, Inc	Convertible Preferred Shares	–	312,000	312,000	11.43
TPG GenPar III, L.P.	Convertible Preferred Shares	–	312,000	312,000	11.43
TPG Partners III, L.P.	Convertible Preferred Shares	–	312,000	312,000	11.43
TPG III Acquisition Company, LLC *(Note 12)*	Convertible Preferred Shares	312,000	–	312,000	11.43
T^3 Advisors II, Inc.	Convertible Preferred Shares	–	280,429	280,429	10.27
T^3 GenPar II, L.P.	Convertible Preferred Shares	–	280,429	280,429	10.27
T^3 Partners II, L.P.	Convertible Preferred Shares	–	280,429	280,429	10.27
T^3 II Acquisition Company, LLC *(Note 13)*	Convertible Preferred Shares	280,429	–	280,429	10.27
TPG Advisors IV, Inc.	Convertible Preferred Shares	–	967,571	967,571	35.44
TPG GenPar IV, L.P.	Convertible Preferred Shares	–	967,571	967,571	35.44
TPG Partners IV, L.P.	Convertible Preferred Shares	–	967,571	967,571	35.44

Name	Nature of interest in long position	Capacity and number of Convertible Preferred Shares held: Beneficial owner	Corporate interests	Aggregate long/short position	% of the total Convertible Preferred Shares as at the Latest Practicable Date
TPG IV Acquisition Company LLC	Convertible Preferred Shares	967,571	–	967,571	35.44
Mr David Bonderman *(Note 6)*	Convertible Preferred Shares	–	1,950,000	1,950,000	71.43

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, or has short positions, in any Shares in which they are interested or have short positions.

4. As at the Latest Practicable Date, IBM had an interest in an aggregate of 1,742,871,028 Shares and Non-voting Shares, comprising 931,870,515 Shares and 811,000,513 Non-voting Shares. IBM was issued 821,234,569 Shares and 921,636,459 Non-voting Shares on 30 April 2005. On 1 May 2005, IBM entered into the Repurchase Agreement with the Company for the sale of 435,717,757 Non-voting Shares. On 17 May 2005, IBM converted 110,635,946 Non-voting Shares into an equal number of Shares. Save as disclosed above, IBM has not dealt in any Shares since 30 April 2005.

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

6. Mr David Bonderman had 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. GAP (Bermuda) Ltd is the general partner of General Atlantic Partners (Bermuda), L.P..

8. GAPSTAR, LLC is directly wholly owned by General Atlantic LLC.

9. General Atlantic Partners 81, L.P. is directly wholly owned by General Atlantic LLC.

10. GAPCO GmBH & Co. KG is directly wholly owned by GAPCO Management GmBH.

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

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

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

(b) Interests in shares of subsidiaries of the Company

Name of subsidiary	Name of substantial shareholder	Percentage of holding
Shenzhen Legend Computer Co., Ltd.	Legend Holdings Limited	20%
	Shenzhen Science and Industry Park Corporation	10%
Legend Creat Holdings Limited	Nanchang Creat Group Co., Ltd.	45%
Lenovo Mobile Communication Co., Ltd.	Xiamen Overseas Chinese Electronic Co., Ltd.	19.2%
Lenovo AI Computer Technology Co., Ltd.	A.I. Software Co., Ltd.	30%

Save as disclosed above, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued ordinary share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or any options in respect of such capital.

INDEBTEDNESS

As at the close of business on 29 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had outstanding borrowings in the amount of approximately HK$4,998 million comprising secured short term bank loan of approximately HK$780 million, 5-year term loan of approximately HK$3,900 million and utilised secured banking facilities in the form of bank's letters of credit and letters of guarantee of approximately HK$318 million.

Save as referred to above and apart from intra-group liabilities, the Group did not have, as at the close of business on 29 April 2005, any outstanding bank overdrafts, loans or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

MATERIAL CHANGES

The Directors confirmed that there has been no material change in the financial, trading position or prospects of the Company for the period from 31 March 2004 to 31 March 2005 inclusively.

Since 31 March 2005, the following events, which the Directors consider may result in or have a material effect to the financial, trading position or prospects of the Company, have occurred:

(a) Acquisition of the personal computer business of IBM

At Initial IBM Closing on 30 April 2005, the Company acquired the personal computing business of IBM and paid IBM cash consideration of US$650 million (equivalent to approximately HK$5.07 billion). The Company also allotted and issued to IBM 821,234,569 Shares and 921,636,459 Non-voting Shares credited as fully paid up at an issue price of HK$2.675 per share. Immediately following the Initial IBM Closing, IBM held approximately 18.90% of the total issued ordinary share capital of the Company (including voting Shares and Non-voting Shares) and approximately 9.90% of the total voting rights of the Company. The personal computing business would be consolidated in the financial accounts of the Company from Initial IBM Closing. As the IBM Acquisition has only been recently completed, the financial and trading impact on the Company cannot be reasonably ascertained.

(b) Raising of term loan

In connection with the IBM Acquisition, the Company secured a loan facility on 26 April 2005 with certain banks for a term loan of US$500 million (equivalent to approximately HK$3,900 million) partly for the settlement of the cash consideration at the Initial IBM Closing.

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

(c) Issue of the Convertible Preferred Shares and Warrants

Pursuant to the terms of the CPS Subscription which are described in the CPS Subscription Circular, upon the satisfaction of certain conditions and the resolutions passed at the extraordinary general meeting of the Company held on 13 May 2005, the Company issued 2,730,000 Convertible Preferred Shares at an issue price of HK$1,000 ("Stated Value") per Share, together with Warrants to subscribe for an aggregate of 237,417,474 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 (equivalent to approximately HK$2,730 million) on 17 May 2005.

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

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

Each Warrant carries the right to subscribe for one Share at the initial exercise price of HK$2.725, subject to certain anti-dilution adjustments, at any time during the five years from 17 May 2005.

The Directors confirmed that there has been no material change in the financial, trading position or prospects of the Company since 31 March 2005 up to the Latest Practicable Date other than those changes arising from the events described above including the impact arising from combining the personal computing business of IBM into the Group.

INTEREST IN CONTRACTS OR ARRANGEMENT AND COMPETING BUSINESS

(a) As at the Latest Practicable Date, none of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31 March 2004 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) As at the Latest Practicable Date, none of the Directors or their associates was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

(c) As at the Latest Practicable Date, none of the Directors or their associates has interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DEALINGS

Save as disclosed below, during the Relevant Period, none of the Directors had any dealings in any Ordinary Shares, Convertible Preferred Shares, convertible securities, warrants, options and derivatives in respect of such Shares (the "relevant securities"). As at the Latest Practicable Date, there are no dealings in the relevant securities by any persons acting in concert with the Directors during the Relevant Period.

On 20 June 2005, Mr Stephen M Ward, Jr acquired 1,000,000 Shares and the details of the acquisitions are set out below:

Transaction date	No. of Shares acquired	Price per Share
20 June 2005	700,000	US$0.30 (approximately HK$2.34)
20 June 2005	300,000	US$0.31 (approximately HK$2.42)

Save as disclosed in the paragraph headed "Disclosure of Interests" of this Appendix, none of IBM and any person acting in concert with IBM has dealt in the relevant securities during the Relevant Period.

DIRECTORS' SERVICE CONTRACTS

As disclosed in the announcement of the Company dated 23 June 2005, on 30 April 2005, Mr Stephen M Ward, Jr ("Mr Ward"), an Executive Director, the President and Chief Executive Officer of the Company entered into a service contract with the Company for a term of three years pursuant to which upon termination of the service contract by the Company without cause or by Mr Ward for good reasons, Mr Ward may be entitled to compensation and other payments equivalent to more than one year of his emoluments depending on, among other things, his length of service. Under the service contract, Mr Ward is entitled to an annual base salary of US$600,000 (approximately HK$4,680,000) and an annual target bonus of US$1,000,000 (approximately HK$7,800,000) provided that the performance targets set for the relevant financial year are met. Further, the service contract contains a restrictive covenant which generally restricts Mr Ward from engaging in the business of the development, manufacture or sale of general purpose personal computers in the territories where the Group engages in such business as at the date of termination of the service contract following termination of the service contract for a period of up to 18 months. Mr Ward's service contract requires approval of the independent Shareholders at a general meeting of the Company pursuant to Rule 13.68 of the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors had any existing or proposed service agreement with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

EXPERTS

The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

Name	Qualification	Date of opinion	Nature of opinion or advice
N M Rothschild & Sons (Hong Kong) Limited	Licenced by the Securities and Futures Commission to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance	6 July 2005	Letter of advice to the Independent Board Committee and the Independent Shareholders
PricewaterhouseCoopers, Hong Kong	Certified Public Accountants	6 July 2005	Report on the unaudited pro forma financial information of the Enlarged Group

Each of the above experts have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their opinion or advice above-mentioned and reference to their names, in the form and context in which they appear.

None of the above experts have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of the above experts have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2004, being the date up to which the latest published audited consolidated financial statements of the Group were made up.

LITIGATION

There is no litigation or claim of material importance pending or threatened against the Company, or any of its subsidiaries or the business conducted by the Group.

MISCELLANEOUS

(a) The registered office of the Company is at 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(b) The secretary of the Company is Ms Look Pui Fan who is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(c) The qualified accountant of the Company is Mr Wong Wai Kwong who is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.

(d) The share registrar of the Company is Abacus Share Registrars Limited, situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(e) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company from the date of this circular up to and including 22 July 2005:

(a) the memorandum and articles of association of the Company;

(b) the Repurchase Agreement;

(c) the letter from the Independent Board Committee, the text of which is set out on page 29 of this circular;

(d) the letter from Rothschild, the text of which is set out on pages 30 to 47 of this circular;

(e) the written consents referred to in the sub-section headed "Experts" in this Appendix;

(f) the Company Agreement, First Amendment Agreement and Second Amendment Agreement;

(g) the Investors' Voting Undertakings;

(h) the Major Shareholder Voting Undertaking;

(i) the Holdings Agreement;

(j) the IBM Circular;

(k) the CPS Subscription Circular;

(l) the annual reports of the Company for the years ended 31 March 2003 and 31 March 2004;

(m) the unaudited pro forma financial information of the Enlarged Group and the report of PricewaterhouseCoopers thereon as set out in Appendix II to this circular;

(n) the preliminary announcement of audited accounts of the Company for the year ended 31 March 2005 announced on 8 June 2005; and

(o) the service contract entered into between Mr Stephen M Ward, Jr and the Company referred to in the sub-section headed “Directors’ Service Contracts” in this Appendix.

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lenovo Group Limited (the "Company") will be held at 9:30 a.m. on Monday, 1 August 2005 at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing with or without modification the following resolution:

SPECIAL RESOLUTION

"**THAT** the share repurchase agreement dated 1 May 2005 entered into between the Company and International Business Machines Corporation ("**IBM**") (a copy of which is produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) (the "**Repurchase Agreement**") pursuant to which IBM agreed to sell and the Company agreed to purchase the Excess Shares, representing 435,717,757 Non-voting Shares of HK$0.025 each in the share capital of the Company at the total purchase price of approximately US$152,221,909 (approximately HK$1,187,330,888) which is equivalent to HK$2.725 per Non-voting Share and the transactions contemplated under the Repurchase Agreement ("**Share Repurchase**") be and are hereby approved, confirmed and ratified and any director of the Company ("**Director**") be and is hereby authorized to take such action, to do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing or giving effect to any of the matters relating to, or incidental to, the Repurchase Agreement or the Share Repurchase.

For the purposes of this resolution:

"Excess Shares"	means 435,717,757 Non-voting Shares, issued to IBM to satisfy part of the consideration for the IBM Acquisition
"IBM Acquisition"	means the Company's acquisition of IBM's global desktop computer and notebook computer business
"Non-voting Shares"	means unlisted ordinary shares of par value HK$0.025 each in the share capital of the Company, which have the same rights as the Shares save that the Non-voting Shares do not carry any voting rights until they are converted into Shares

"Shares"	means ordinary shares of nominal value of HK$0.025 each in the share capital of the Company which carry voting rights"

By order of the Board
Lenovo Group Limited
Yang Yuanqing
Chairman

Hong Kong, 6 July 2005

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

Executive Directors:
Mr Yang Yuanqing
Mr Stephen M Ward, Jr
Ms Ma Xuezheng

Non-executive Directors:
Mr Liu Chuanzhi
Mr Zhu Linan
Mr James G Coulter
Mr William O Grabe
Mr Shan Weijian

Independent Non-executive Directors:
Mr Wong Wai Ming
Professor Woo Chia-Wei
Mr Ting Lee Sen

Alternate Directors:
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)*

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting convened by this notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be effective, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be completed and lodged at the share registrar of the Company, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time for holding the Extraordinary General Meeting or any adjournment thereof.

3. A form of proxy for use at the meeting is enclosed. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

4. Where there are joint registered holders of any share of the Company carrying voting rights, any one of such persons may vote at the Extraordinary General Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint registered holders be present at the Extraordinary General Meeting personally or by proxy, then the registered holder so present whose name stands first on the register of members of the Company in respect of such share will alone be entitled to vote in respect thereof.

5. The translation into Chinese language of the notice (including the Special Resolution) is for reference only. In case of any discrepancies, the English version shall prevail.

6. The vote to be taken in the Extraordinary General Meeting will be taken by way of poll.