

ARMARDA GROUP LIMITED

Second Quarter Financial Statement And Dividend Announcement

Financial statements on combined results of the Group for the second quarter of FY2005 ended 30 June 2005. These figures have NOT been audited.

**PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3),
HALF-YEAR AND FULL YEAR RESULTS**

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

**ARMARDA GROUP LIMITED
GROUP INCOME STATEMENT
FOR THE SECOND QUARTER ENDED 30 JUNE 2005
(Expressed in Hong Kong thousand dollars)**

	<u>2nd Quarter FY2005</u>	<u>2nd Quarter FY2004</u>
Operating revenue		
Revenue from provision of services	13,248	15,265
Amortisation of negative goodwill	0	202
Other income	469	0
	<u>13,717</u>	<u>15,467</u>
Less : operating expenses		
Staff costs	(7,033)	(3,894)
Depreciation	(774)	(792)
Other operating expenses	(2,192)	(3,444)
	<u>3,718</u>	<u>7,337</u>
Profit from operations	3,718	7,337
Finance costs	(11)	(61)
	<u>3,707</u>	<u>7,276</u>
Profit from ordinary activities before taxation	3,707	7,276
Taxation	0	0
	<u>3,707</u>	<u>7,276</u>
Profit after taxation for the second quarter	<u>3,707</u>	<u>7,276</u>

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement
as at the end of the immediately preceding financial year**

**ARMARDA GROUP LIMITED
BALANCE SHEET
AS AT 30 JUNE 2005
(Expressed in Hong Kong thousand dollars)**

	<u>The Group</u>		<u>The Company</u>	
	<u>As at 30.06.05</u>	<u>As at 31.12.04</u>	<u>As at 30.06.05</u>	<u>As at 31.12.04</u>
Non-current assets				
Investment in subsidiary	0	0	45,446	45,446
Property, plant and equipment	21,682	21,749	0	0
Other assets	703	748	0	0
Long term loan due from a subsidiary	0	0	59,141	0
	<u>22,385</u>	<u>22,497</u>	<u>104,587</u>	<u>45,446</u>
Negative goodwill	0	(11,343)	0	0
	<u>22,385</u>	<u>11,154</u>	<u>104,587</u>	<u>45,446</u>
Current assets				
Trade and other receivables	45,641	43,022	173	160
Amount due from a subsidiary	0	0	812	59,141
Cash and cash equivalents	74,052	72,956	0	0
	<u>119,693</u>	<u>115,978</u>	<u>985</u>	<u>59,301</u>
Current liabilities				
Secured bank loan	(59)	(59)	0	0
Trade and other payable	(1,562)	(3,801)	(163)	(34)
Obligations under finance lease	(75)	(75)	0	0
Taxation payable	(302)	(187)	0	0
	<u>(1,998)</u>	<u>(4,122)</u>	<u>(163)</u>	<u>(34)</u>
Net current assets	<u>117,695</u>	<u>111,856</u>	<u>822</u>	<u>59,267</u>
Non-current liability				
Secured bank loan	(116)	(140)	0	0
Obligations under finance lease	(259)	(295)	0	0
Deferred tax liabilities	(50)	(50)	0	0

	<u>(425)</u>	<u>(485)</u>	<u>0</u>	<u>0</u>
Net assets	<u>139,655</u>	<u>122,525</u>	<u>105,409</u>	<u>104,713</u>
Representing:				
Capital and reserves				
Share capital	57,446	57,446	57,446	57,446
Reserves	76,422	65,079	47,267	47,267
Net profit (loss) for the period from 1.1.2005 to 30.6.2005	5,787	0	696	0
	<u>139,655</u>	<u>122,525</u>	<u>105,409</u>	<u>104,713</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

<u>As at 30 June 2005</u>		<u>As at 31 December 2004</u>	
In HK\$'000		In HK\$'000	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
134	0	134	0

Amount repayable after one year

<u>As at 30 June 2005</u>		<u>As at 31 December 2004</u>	
In HK\$'000		In HK\$'000	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
375	0	435	0

Details of any collateral

The above bank and hire purchase loans were secured by the Group's motor vehicles.

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

ARMARDA GROUP LIMITED
GROUP CASH FLOW STATEMENT
FOR THE SECOND QUARTER ENDED 30 JUNE 2005
(Expressed in Hong Kong thousand dollars)

	2 nd Quarter FY2005	2 nd Quarter FY2004
Operating activities		
Profit from ordinary activities before taxation	3,707	7,276
Adjustment for:		
Interest expenses	11	61
Interest income	(469)	0
Depreciation	774	792
Amortisation of negative goodwill	0	(202)
Decrease in trade and other receivables	308	2,197
Increase in trade and other payables	59	328
Increase (decrease) in taxation payable	(172)	459
Increase in amount due to directors	0	104
	<hr/>	<hr/>
Cash generated from operations	4,218	11,015
Interest received	469	0
Interest paid	(11)	(61)
	<hr/>	<hr/>
Net cash inflow from operating activities	4,676	10,954
Investing activities		
Addition of fixed assets	(744)	(788)
Addition of other assets	0	(3,453)
	<hr/>	<hr/>
Net cash outflow from investing activities	(744)	(4,241)
Financing activities		
Increase (decrease) in secured bank loan	(30)	232
Issue of shares	0	73,375
Share issue expenses	0	(13,357)
(Decrease) in exchange reserves	0	(435)
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities	(30)	59,815
	<hr/>	<hr/>
Net increase in cash and cash equivalents	3,902	66,528
Cash and cash equivalents at beginning of this quarter	70,150	26,353

Cash and cash equivalents at end of this quarter

74,052 92,881

An analysis of cash and cash equivalents in as follows:

Cash at bank and in hand

74,052 92,881

1(d)(i)A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

<i>The Group</i>	Share Capital	Share Premium	Exchange Reserves	PRC Stat. Reserves	Retained Profits	Profit For period	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>At 1 April 2004</i>	45,446	0	(435)	0	0	3,137	48,148
New shares issued for IPO	12,000	61,357	0	0	0	0	73,375
Shares issue expenses	0	(13,357)	0	0	0	0	(13,357)
Net profit for 2 nd quarter	0	0	0	0	0	7,276	7,276
<i>At 1 July 2004</i>	57,446	48,018	(435)	0	0	10,413	115,442
Net profit for 6 months from 1.7.2004 to 31.12.2004	0	0	0	0	0	6,334	6,334
Appropriation to reserve	0	0	0	2,678	0	(2,678)	0
Transfer to retained profits at yearend date	0	0	0	0	14,069	(14,069)	0
Exchange difference on translation of financial Statements of foreign entities	0	0	749	0	0	0	749
<i>At 31 December 2004</i>	57,446	48,018	314	2,678	14,069	0	122,525
One-time recognition of negative goodwill to retained profits	0	0	0	0	11,343	0	11,343
Net profit for the 1 st quarter	0	0	0	0	0	2,080	2,080
Net profit for the 2 nd quarter	0	0	0	0	0	3,707	3,707
<i>At 30 June 2005</i>	57,446	48,018	314	2,678	25,412	5,787	139,655

<i>The Company</i>	Share Capital	Share Premium	Exchange Reserves	Other Reserves	Accum. (Losses)	(Loss) For Period	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>At 1 April 2004</i>	45,446	0	0	0	0	0	45,446
New shares issued for IPO	12,000	61,375	0	0	0	0	73,375
Share issue expenses	0	(13,357)	0	0	0	0	(13,357)
Net loss for 2 nd quarter	0	0	0	0	0	(104)	(104)
<i>At 1 July 2004</i>	57,446	48,018	0	0	0	(104)	105,360
Net loss for 6 months from 1.7.2004 to 31.12.2004	0	0	0	0	0	(647)	(647)
Transfer to accumulated losses at yearend date	0	0	0	0	(751)	751	0
<i>At 31 December 2004</i>	57,446	48,018	0	0	(751)	0	104,713
Net profit for the 2nd quarter	0	0	0	0	0	696	696
<i>At 30 June 2005</i>	57,446	48,018	0	0	(751)	696	105,409

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

Nil.

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)

These figures have not been audited nor reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

The Group has adopted the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited financial statements for the year ended 31 December 2004 except for (i) the accounting of negative goodwill arising from business acquisition, and (ii) the accounting of interest charge on provision of intra-Group long term loan, as explained in details in section 5 below.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

(i) Accounting of negative goodwill arising from business acquisition as follows :

In January 2004, the Group acquired a 100% equity interest in Armarda Technology (Zhuhai) Limited ("Armarda Zhuhai") at an aggregate cash consideration of RMB20 million (equivalent HK\$18,692,000) from two independent vendors holding 90% and 10% share of Armarda Zhuhai respectively.

The purchase method of accounting has been applied to account for the acquisition of Armarda Zhuhai in the consolidated financial statements of the Group for the year 2004. Such acquisition resulted in a negative goodwill of HK\$19,857,000. Of the total negative goodwill, an amount of HK\$7,704,000, being the amount in excess of the fair value of non-monetary assets acquired, has been recognised as income immediately upon the acquisition in January 2004. With effect from January 2004, the remaining negative goodwill of HK\$12,153,000, being equal to the amount of the fair value of non-monetary assets acquired, is recognised as income on a straight line basis over a period of 15 years, which represents the weighted average useful life of the identifiable acquired depreciable assets. The net book value of the negative goodwill less accumulated amortisation at 31 December 2004 was HK\$11,343,000.

In March 2004, the IASB issued IFRS 3 "Business Combinations". Except for the limited retrospective application as permitted by IFRS, an entity shall apply IFRS 3 to business combinations for which the agreement date is on or after 31 March 2004. For negative goodwill recognised previously in a business combination for which the agreement date was before 31 March 2004, an entity shall apply IFRS 3 prospectively from the beginning of the first annual period beginning on or after 31 March 2004. Consequently, the carrying amount of the negative goodwill at the beginning of the first annual period beginning on or after 31 March 2004 shall be derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained profits. In this respect, the Group has decided to apply IFRS 3 in its annual financial statements for the year ending 31 December 2005. The directors believed that the adoption of IFRS 3 will not have a material adverse effect on the Group's financial position.

As a result of the adoption of IFRS 3 in this year's financial statements, the net book value of the negative goodwill less accumulated amortisation at 31 December 2004 amounting to HK\$11,343,000 have been transferred from the balance sheet to the opening balance of retained earnings on 1 January 2005 which has in fact been reported and reflected in our result announcement for the first quarter of FY2005. In the full year of FY2005, the Group will record a decrease in earnings from annual amortisation of negative goodwill amounting to HK\$810,000 (or quarterly HK\$202,500) when compared to the full year of FY2004.

(ii) Accounting of interest charge on the provision of intra-Group long term loan financing as follows :

On 31 December 2004, Armarda Group Limited ("the Company") provided a net amount of HK\$59,141,000 financing to Armarda Hong Kong Limited ("AHKL" which is the wholly-owned subsidiary of the Company) which mainly represented the net IPO proceeds received by AHKL on behalf of the Company less payment of other relevant operating expenses. No interest charge has been carried on this intra-Group financing as this was made between the Company and its wholly-owned subsidiary having no profit and loss impact on the Group's financial position after consolidation.

From 1 January 2005 the IFRS 39 came into effect in that all intra-Group long term loan financing were required to carry interest charge at reasonable market interest rate. We decided to comply with this IFRS 39 in FY2005 and accordingly we have reclassified the outstanding amount of HK\$59,141,000 due by AHKL to the Company at 31 December 2004 as 'long term loan due from a subsidiary' on 1 January 2005 which is shown under the non-current assets category in the Company's financial statements. This long term loan also carried an interest charge at 5.0% p.a. commencing from 1 January 2005 which we considered as a reasonable prevailing market interest rate for the accounting of this intra-Group loan interest purposes.

As a result of the adoption of IFRS 39 in this year's financial statements, the Company earned an interest income of HK\$1,479,000 (being 5% on HK\$59,141,000 X 6/12) from 1 January 2005 to 30 June 2005 while AHKL incurred a corresponding interest expense for the same period HK\$1,479,000. There was no impact on the Group's consolidated profit and loss account as the related interest income earned by the Company and the interest expense incurred by AHKL were wholly eliminated on Group consolidation.

6. **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

Earnings per ordinary share for the second quarter after deducting any provision for Preference dividends:		
	FY2005 Second Quarter	FY2004 Second Quarter
Based on weighted average number of ordinary shares in issue (please see note below)	1.29 HK cents	3.02 HK cents
On a fully diluted basis (please see note below)	Not Applicable	Not Applicable

Note 6a : Basic earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$3,707,000 (FY2004 of HK\$7,276,000 which included the quarterly amortisation of negative goodwill amounting to HK\$202,500 which did not recur in FY2005) and the weighted average of 287,232,140 ordinary shares in issue during the quarter (weighted average of 240,532,140 ordinary shares in issue for FY2004).

Note 6b : There were no dilutive potential ordinary shares during the period and therefore diluted earnings per share are not presented.

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	At 30.6.2005	At 31.12.2004
Net asset value for the Company per ordinary share based on existing issued share capital as at the end of the second quarter	HK\$ 0.37 per share	HK\$0.36 per share
Net asset value for the Group per ordinary share based on existing issued share capital	HK\$ 0.49 per share	HK\$0.43 per share

as at the end of the second quarter

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Note : Net asset value per share

The calculation of net asset value per share of the Company at 30 June 2005 is based on the Company's net asset value of HK\$105,409,000 (31 December 2004 of HK\$104,713,000) and 287,232,140 ordinary shares in issue at 30 June 2005 (287,232,140 ordinary shares in issue at 31 December 2004).

The calculation of net asset value per share of the Group at 30 June 2005 is based on the Group's net asset value of HK\$139,655,000 (31 December 2004 of HK\$122,525,000) and 287,232,140 ordinary shares in issue at 30 June 2005 (287,232,140 ordinary shares in issue at 31 December 2004).

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

Sales Turnover

The Group's revenue generated from provision of services amounted to HK\$13.2 million for the second quarter of FY2005 compared to HK\$15.3 million for the same quarter of FY2004 and HK\$11.6 million for the first quarter of FY2005.

In terms of geographical segmentation, a predominant 96.8% of our total service revenue was derived from the PRC while the rest came from Hong Kong. We do not expect any significant change in this geographical mix in the Group's major source of revenue in the second half of FY2005.

Net Profit After Taxation

The Group's operating net profit after taxation amounted to HK\$3.7 million for the second quarter of FY2005 compared to HK\$7.3 million for the same quarter of FY2004 and HK\$2.1 million for the first quarter of FY2005.

Apart from the drop of HK\$2.0 million in service revenue, the major factor attributable to the decrease in net operating profit in the second quarter of FY2005 compared to the same quarter of FY2004 was the tremendous increase in staff costs from last year's HK\$3.9 million to this year's HK\$7.0 million, which was the result of more PRC regional service support centres being set up in FY2005 and more qualified service engineers and experienced IT consultants being recruited in anticipation of growing demand for service delivery, both in terms of quantity and quality of such services, and to exploit business opportunities.

Furthermore, the staff costs incurred in the second quarter of FY2005 has in fact included an one-time organisational restructuring costs of approximately HK\$2.3 million and we expect that this one-time organisational restructuring costs will help lower the overall staff costs of the Group in the second half year of FY2005 and beyond.

Our other operating expenses has been reduced from HK\$3.4 million for the second quarter of FY2004 to HK\$2.2 million for the same quarter this year.

Property, Plant and Equipment

The total net book value of HK\$21.7 million standing at 30 June 2005 (HK\$21.7 million at 31 December 2004) mainly comprises of the leasehold properties (HK\$7.1 million), leasehold improvements (HK\$1.7 million), computer application systems (HK\$9.6 million), furniture and equipment (HK\$2.2 million), and motor vehicles (HK\$1.1 million).

Negative Goodwill

The total net book value of HK\$11.3 million negative goodwill as at 31 December 2004 has been carried to the opening balance of FY2005 retained earnings on 1 January 2005 in accordance with the Group's adoption of IFRS 3 in the accounting of negative goodwill arising from business combinations (please see section 5 for details).

Trade and Other Receivables

With respect to the HK\$17.0 million refundable deposit on proposed business acquisition, detailed due diligence works in all aspects have recently been completed and we expect the Board to come to a conclusion on this proposed business acquisition before end of the third quarter of FY2005. A separate announcement will be made upon conclusion.

Share Capital and Reserves

As already explained in more details in clause 5 of this announcement, the increase of HK\$11.3 million in reserves from HK\$65.1 million at 31 December 2004 to HK\$76.4 million at 30 June 2005 solely represents the transfer of the net book value of the negative goodwill less accumulated amortisation at 31 December 2004 from the balance sheet to the opening balance of retained earnings (classified under reserves in the balance sheet) on 1 January 2005.

9. **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results**

Not applicable.

10. **A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months**

As the WTO deadline looms closer and closer the pressure for the PRC banks to prepare themselves for open competitions continues and this should help ensure continued market growth particularly for IT services. However, some PRC tier 1 banks have been heavily engaged in overseas IPO activities in FY2005 and as a result there is some slow down in their respective IT activities where we have been engaged in providing our IT services.

We have ceased our Business Transformation activities in the second quarter this year and have concentrated our focus on IT consulting and support services in the PRC in order to achieve greater market and operating efficiency.

With respect to the recent revaluation of the RMB currency against Hong Kong dollars which is the reporting currency of Armada Group's financial statements, there will be a positive impact on our financial position as most of our assets were denominated in the RMB currency. However, for prudence purposes we'll only take the resulting exchange gain on the conversion of net assets in RMB to Hong Kong dollars to our books at the yearend date when the recent RMB revaluation can be proven as permanent.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect

No dividend is declared/recommendeded for this period.

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

- 13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year**

Not applicable

- 14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments**

Not applicable.

- 15. A breakdown of sales**

Not applicable.

- 16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year**

Not applicable.

BY ORDER OF THE BOARD

12 AUGUST 2005