

Armarda Group Limited's response to SGX questions of 16 August 2005

We refer to Armarda Group's results announced via the SGXNet on 12 August 2005.

1. Please provide discussion on any significant factors that resulted in the decrease in the turnover for a reasonable understanding of the Group's business.

When compared to the sales revenue of HK\$15.3 million for Q2 of FY2004, the drop of sales revenue to HK\$13.2 million for Q2 FY2005 was primarily due to the slow down in the IT consulting service revenue generated from both the Bank of Communication and the Bank of Construction in this quarter as a result of both banks being predominantly focused in their overseas IPO activities.

The sales revenue for this quarter in fact showed an increase when compared to HK\$11.6 million recorded in Q1 this year.

2. Noting the tremendous increase in staff costs from last year's HK\$3.9m to HK\$7.0M incurred in anticipation of growing demand for service delivery and to exploit business opportunities, please provide details of the plans that the Company has in order to exploit the opportunities and the reasons for anticipation of growing demand for service despite fall in revenue.

As explained in the announcement, the HK\$7.0 million staff costs incurred in Q2 this year has included a one-time organizational restructuring cost of HK\$2.3 million mainly as a result of the discontinuance of our Business Transformation business and the trim down of our non-PRC operations. Therefore, the normal operating staff cost for Q2 this year was HK\$4.7 million and showed a decrease of HK0.6 million when compared to HK\$5.3 million for Q1 this year. We are confident that the one-time organizational restructuring cost being incurred will help lower our normal operating staff cost in the second half of FY2005 and beyond at the current sales and servicing level.

At the normal operating level, the increase of HK\$0.8 million from HK\$3.9 million in Q2 FY2004 to HK\$4.7 million in Q2 FY2005 was primarily the result of the establishment of over 15 ATM service depots in the PRC and the corresponding increase in stationed service engineers since July 2004. We need to establish such reasonably sufficient number of service depots in the PRC in order to fulfill the Wincor Nixdorf service quality requirement as long-term service partner and to achieve an economy of scale benefit in the long run.

3. We also note that operating expenses has been reduced from HK\$3.4million for the second quarter of FY2004 to HK\$2.2million for the same quarter this year. What are the reasons for this reduction? Please provide details and quantify the major items that caused the decrease.

The decrease in other operating expenses of HK\$1.2 million from HK\$3.4 million in Q2 FY2004 to HK\$2.2 million in Q2 this year was primarily the result of a decrease of business traveling expenses of approximately HK\$0.9 million in Q2 this year due to:

- (i) a significant reduction of overseas traveling expenses incurred by the discontinued BT and overseas operation;
- (ii) a reduction in cross provincial business traveling activities as a much broader geographical coverage of service depots has been established this year in the PRC; and
- (iii) the substantial decrease in management's overseas business traveling in Q2 this year when compared to Q2 in FY2004 when very frequent IPO-related traveling activities were made.

4. Sale amounted to HK\$13.2m in 2Q. However, trade receivables amounted to HK\$45m. Any provisions required? Please show aging of the receivables or debtors turnover. Also substantiate the views on collectibility.

Below please find a comparative summary on the trade and other receivables which we hope can help better understand its financial situation:

	<u>As at 31.12.2004</u> HK\$'000	<u>As at 31.03.2005</u> HK\$'000	<u>As at 30.06.2005</u> HK\$'000
Aging of trade receivables and accrued services revenue			
Current to 30days	5,899	4,688	5,563
31 to 60 days	6,320	7,168	7,312
61 to 90 days	4,818	5,277	4,778
90 to 120 days	2,347	5,163	5,035
121 to 180 days	2,022	1,905	1,568
Over 180 days	538	370	0

Total trade receivables and accrued Service revenue	21,944	24,571	24,256
Refundable acquisition deposit	17,000	17,000	17,000
Other prepayments and deposits	4,078	4,378	4,385
Total trade and other receivables	43,022	45,949	45,641

We have been closely monitoring the trade receivables position from time to time through frequent communication, including but not limited to business visits, with our major customers to ensure that they are not in any apparent financial difficulty. As a result we are not aware of any collection problem or doubt and therefore no provision for bad debts is considered necessary by the management.