ARMARDA GROUP Annual Report 2006

CONTENTS


7am-Midnight
午七時至午夜十二時
下午七時
KFC

OUR VISION

To become a leading IT and professional services company to the financial services industry in Asia.

CORPORATE PROFILE

Background

Incorporated in 2003, Armarda Group Limited is an IT and professional services provider focused on serving the People's Republic of China ("PRC") banking and financial services industry. The Group provides an integrated suite of IT professional services that address the needs of PRC banks as they transform and enhance their systems to prepare themselves for increasing foreign competition.

Under the Group's IT Consulting Services business, Armarda provides IT strategy review and formulation, IT infrastructure architecture and technology integration to banks and financial institutions. To perform such services, Armarda is backed by a strong team of IT professionals who hail from internationally renowned technology firms. Their depth of understanding and first-hand experience of the PRC's banking sector, coupled with knowledge of the advanced banking systems in developed countries, provide us with a distinct competitive edge to capitalize on the modernization of domestic financial institutions. Presently, some of our major customers include two of the first tier banks in the PRC such as the Bank of Communications and China Construction Bank, and second tier bank, Shenzhen Commercial Bank, Chongqing Commercial Bank and the Rural Cooperation Credit Bureau of Zhejiang.

The Group has forged close ties with leading technology vendors such as IBM, Electronic Data System, Oracle and Sybase. Armarda has also been certified with the ISO 9000 and the Third Tier of Computer System Integration qualifications for its excellency in quality control.

Armarda has established operations in Beijing and Zhuhai, as well as a wide network of service depots throughout China for its IT Consulting business. Leveraging on our extensive experience in the PRC banking sector and partnerships with leading technology vendors, we believe Armarda is poised to address the huge business potential in the PRC banking and financial services sector.

MESSAGE FROM CHAIRMAN

Dear shareholders,

On behalf of the Board of Directors, it is my great pleasure to present the Armarda Group's annual report for the financial year ending December 31, 2006. It was a year which I would consider difficult yet rewarding.

Throughout the year, Armarda faced many challenges in maintaining strong market position providing IT consulting services to major 1st tier banks in the PRC. A number of international IT consulting firms entered the PRC banking market and created keen competition for us, decreasing our revenue and reducing our profit margins as compared to the year before. Our financial results were further weakened by the slowdown in IT-related investment spending by these 1st tier banks, as they had diverted many resources to public fund-raising activities.

However, the year's revenue also reflected our success in capturing new business opportunities from 2nd and 3rd tier banks in the PRC in the areas of core banking consultancy and Oracle Financials consulting and implementation. Noteworthy clients in this area include the Chongqing Commercial Bank, the 2008 Olympic Games' financial systems sponsored by the Bank of China, and the Rural Cooperation Credit Bureau of Zhejiang.

During the year, Armarda achieved two significant milestones which will contribute to the continuing, strong financial growth of our company. Firstly, we acquired a 25% shareholding in Brilliant Time Limited ("BTL"), which provides us with access to rural co-operative banks in the PRC, one of the fastest-growing sectors in the PRC banking industry. This allows us to continue to offer IT products and consulting services to these banks as their IT needs evolve. Secondly, Armarda had the great honor of forming a joint venture company with the FESCO Group in the PRC to engage in the business of providing IT support services to the market as well as the FESCO Group itself. This provides us with an excellent opportunity to enter into the human resource-related services arena in the PRC. The FESCO Group is a 100% state-owned enterprise which offers a wide range of human resource solutions to foreign multi-nationals in the PRC and has an annual turnover in excess of RMB 7.5 billion.

We foresee that the IT consulting market in the PRC will remain highly competitive. Nevertheless, with our extensive technical experience and close relationships with banks, we are confident that Armarda will maintain business from existing customers while developing new opportunities from 2nd and 3rd tier banks as well as rural co-operative banks in the consultancy areas mentioned above. We also expect our financial performance to be strengthened in the coming year by the new business initiative with FESCO Group.

Lastly, I would like to extend my warmest appreciation to our management team and staff for their hard work and dedication throughout the year. I also wish to thank our shareholders, customers, suppliers, and business partners, in particular our business affiliates at FESCO Group and BTL, for their continuing support.

Dr Chou Tao-Hsiung, Joseph

Chairman

28 February 2007

MESSAGE FROM CEO

I am glad to have the opportunity to share with you the Armarda's business performance and achievements for FY2006. Undoubtedly, we had encountered difficulty in maintaining the high growth rate of our core IT consulting and servicing businesses, due to the fact that many 1st tier banks in the PRC had continued tightened up their IT related investment spending as a result of their busy overseas IPO activities and we had also faced tense competition out of the new market players engaging in the provision of similar IT services in the PRC. Despite the unsurprising financial results which we had generated for the year, through the implementation of sound business and investment strategies, Armarda had still been capable to capture business opportunity in the provision of IT consulting services to 2nd and 3rd tier banks in the PRC and could also achieve certain impressive business milestones in terms of joint venture alliance and business acquisition that could gear up our growth pace in the foreseeable future.

The Group's revenue income for FY2006 had decreased to HK$33.9m from HK$63.8m for FY2005. The major source of revenue for FY2006 was generated from the provision of IT consultancy services to 2nd tier banks in the PRC. The decrease in FY2006 was attributed mainly from the decrease in the sale of IT equipment from HK$17m in FY2005 to HK$3.3m in FY2006, of which the Group had undertaken since the second half of FY2005 in ancillary to our IT servicing business. In addition, as mentioned above, the continuous trimming down of IT spending from PRC 1st tier banks and the serious erosion of margin attributable from competition from new market entrants had also contributed to the non-renewal of some servicing contracts thus reducing our consultancy and servicing revenue in FY2006.

Our Group's net profit after tax ("NPAT") for FY2006 had decreased to HK$7m from HK$10.9m for FY2005. The amount of NPAT had included the share of post-acquisition profit of HK2.3m from Brilliant Time Limited ("BTL"), our 25% owned associate company acquired during the year. The reduction in profitability was attributed by the drop in the Group's revenue income and the decrease in profit margin, whist partly compensated by the decrease in our operating expenses by HK$11.6m to HK$26.1m in FY2006 from HK$37.7m in FY2005 due to our continuous effort in managing our operation more efficiently by streamlining organization and reducing overhead and staff costs.

I would like to draw your particular attention to a major business milestone which Armarda had achieved for FY2006. We have formed a joint venture with the FESCO Group in the PRC, which had offered us the precious chance to enter into another new business era, utilizing our solid technical and commercial experiences from the banking sector and applying such IT expertise into the huge human resources market in the PRC. Looking forward, our Group strategies will continue to focus and grasp on the existing opportunities in securing IT consultancy and servicing contracts with financial institutions and increase market penetration in the 2nd and 3rd tier and rural co-operative credit banking sectors in the PRC while at the same time aggressively develop the PRC human resources market as our new growth engine.

Lastly, I would like to offer my gratitude and appreciation to all shareholders, our board members, customers, suppliers and business partners for your continuous support and co-operation during the year. Not to forget each of our fellow staff at Armarda who deserves a big thank you from me for your dedication and effort.

Luk Chung Po, Terence
Chief Executive Officer
28 February 2007

BOARD OF DIRECTORS

Dr Chou Tao-Hsiung, Joseph

Non-executive Chairman

Dr Joseph Chou was appointed as the Group's Non-executive Chairman in March 2004. He is responsible for overseeing the business policies and strategies of our Group. Prior to his present position, Dr Chou served as a Chief Consultant (Business) with Taiwan Secom Co Ltd from March 2003 to February 2006. He also served as the Chairman and Chief Executive Officer of Aion Technologies Inc. between 2000 and 2003. Dr Chou spent more than 18 years with IBM in the USA including 3 years on assignment with IBM in Taiwan. He was the Chairman and President in charge of the overall operations of IBM in Taiwan from 1968 to 1971. Dr Chou holds a PhD in Econometrics from the Iowa State University, USA and a Master of Science in Agriculture Economics from the Cornell University, USA.

Mr Lin Ming Sheng, Vincent

Non-executive Deputy Chairman

Mr Vincent Lin was appointed as our Non-executive Director in March 2004 and our Non-executive Deputy Chairman on February 2006. Mr. Lin is also currently the President of Aion Technologies Inc. which he joined in 1999. He is also the Vice-President of the Integrated Systems Division at Taiwan Secom. Since 1997, he has been the President of Azure International Incorporated.

Mr Lin holds a Bachelor's Degree in Business Administration from Georgetown University, a Juris Doctorate Degree from the University of California's Hastings College of Law, and an EMBA Degree from Beijing's Tsinghua University.

Mr Luk Chung Po, Terence

Executive director, Chief Executive Officer

Mr Terence Luk was appointed as our CEO in June 2005. He is responsible for the overall strategic planning and business development of our Group. From 1986 to 1995, Mr Luk held various senior positions in the Unisys Group's subsidiaries in China – Unisys China Limited and Unisys China/Hong Kong Limited. Mr Luk cofounded and was appointed as the Vice-Chairman of Hong Kong-listed Technology Venture Holdings Limited between 1996 and 2001. Since September 2002, Mr Luk has also been the Non-executive Chairman of Singapore-listed LottVision Limited. Mr Luk holds a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong.

Mr Lee Joo Hai

Independent Director

Mr Lee Joo Hai was appointed as an Independent Director of our Company in March 2004. Currently a partner in BDO Raffles, a public accounting firm, Mr Lee has more than 20 years of experience in accounting and auditing. He is a Certified Public Accountant of Singapore and a member of Institute of Chartered Accountants in England and Wales, Malaysian Institute of Accountants and Singapore Institute of Directors. Mr Lee completed a foundation course in accountancy with the Northeast London Polytechnic and passed the Professional Examinations of the Institute of Chartered Accountants in England and Wales.

Mr Phuah Lian Heng

Independent Director

Mr Phuah Lian Heng was appointed as an Independent Director of our Company in March 2004. He is currently the Managing Director of VCOD (Spore) Pte Ltd, a business consultancy firm. Mr Phuah was an engineer with Hewlett Packard between 1992 to 1993 and Esso between 1993 to 1994 before moving on to the Mentor Media group of companies in 1995 where he held senior positions. Mr Phuah holds a Bachelor's Degree (First Class Honours) in Electrical Engineering from the National University of Singapore.

KEY MANAGEMENT

Mr Mak Tin Sang

Chief Financial Officer and Company Secretary

Mr Mak Tin Sang has been with us since January 2004. He oversees the Group's finance and accounting policies and operations. Mr Mak was a consultant with Armarda before he joined us as Chief Financial Officer in 2004. Prior to that, he was the Chief Financial Officer of the LottVision group of companies between August 2001 and September 2003. Mr Mak also served as Group Chief Financial Officer and General Manager of UniVision Engineering Limited's operations in the PRC from October 1996 to July 2001.

Mr Mak holds a Master's Degree in Business Administration from the University of Sheffield, UK. He is also a fellow of the United Kingdom Chartered Association of Certified Accountants.

Ms Florence Tso

Principal Consultant

Ms Florence Tso has been with us since March 2003. She is responsible for leading our team of consultants in the provision of IT Consulting services and for managing complex IT Consulting projects. Ms Tso has about 28 years of experience in the IT industry with specialisation in application development and technology integration and more than 20 years of experience in the banking industry. She served at Wing On Computer Systems Limited for 19 years where she held positions including Director of Marketing and Development and Systems Development Manager. She was also with Vanda Systems Communications Holding Ltd, which provides system integration services for banking and public sectors in Hong Kong and China as the Vanda Shenzhen Development Centre's General Manager and Vanda Software Group's Director of Professional Services and Product Development. In 2000, she joined IBM China/Hong Kong Ltd where she managed a professional team in the conduct of solution/service sales and delivery activities for IBM's banking engagements in Hong Kong and China. Ms Tso was an associate partner of Business Consulting Services, IBM Global Services when she left to join our Group in 2003.

Ms Tso holds a Bachelor's Degree of Social Science (Economics and Computer Science) from the Chinese University of Hong Kong.

Mr Wen Feng

General Manager of Armarda Zhuhai

Mr Wen Feng is the General Manager of our PRC subsidiary, Armarda Zhuhai and has been with us since March 2003. He is in charge of strategic planning and business development of our Group's operations in the PRC. Prior to that, Mr Wen was the general manager of Zhuhai Nengtong Bozhi Computer Network Co Ltd from 2002 to 2003. He was also the operating manager of the import and export department of Nangfang Gongmao Zhuhai Industry Company from 1990 to 2001 and a computer engineer at the National University of Defence Technology in the PRC from 1982 to 1990.

Mr Wen holds a Master's Degree in Computer System and Network from the National University of Defence Technology, PRC.

CORPORATE INFORMATION

Board of Directors
Dr Chou Tao-Hsiung, Joseph (Non-executive Chairman)
Lin Ming Sheng, Vincent (Non-executive Deputy Chairman)
Luk Chung Po, Terence (Executive Director, Chief Executive Officer)
Lee Joo Hai (Independent Director)
Phuah Lian Heng (Independent Director)

Key Management
Mak Tin Sang (Chief Financial Officer)
Florence Tso (Principal Consultant)
Wen Feng (General Manager of Armarda Zhuhai)

Audit Committee
Lee Joo Hai (Chairman)
Phuah Lian Heng
Lin Ming Sheng, Vincent

Remuneration Committee
Phuah Lian Heng (Chairman)
Lee Joo Hai
Dr Chou Tao-Hsiung, Joseph

Nominating Committee
Phuah Lian Heng (Chairman)
Lee Joo Hai
Lin Ming Sheng, Vincent

Company Secretary
Mak Tin Sang

Registered Office
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda
Tel: 441 295 1443
Fax: 441 295 9216

Bermuda Registrar and Share Registrar Agent
Reid Management Limited
Argyle House 41a Cedar Avenue
Hamilton HM12
Bermuda

Singapore Share Transfer Agent
M & C Services Private Limited
138 Robinson Road, #17-00
The Corporate Office
Singapore 068906

Auditors
KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong
Partner-in-charge: Mr Lam Kai Wa
(since financial year ended 31 December 2005)

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
Collyer Quay Branch
21 Collyer Quay,
Level 1, HSBC Building
Singapore 049320

Shanghai Commercial Bank Limited
Tsimshatsui East Branch
G/F, Houston Centre
Tsimshatsui East, Kowloon
Hong Kong

Zhuhai City Commercial Bank
No. 1234, JiuZhou Avenue (East)
JiDa, Zhuhai
China

PROPERTY INFORMATION

Major properties held for owned operations:

Location	Purpose of property	Tenure of land	Term of lease
Floor 18 & 19 Commercial Bank Building No.1346, Jiuzhou Road East, Zhuhai City Guangdong Province, PRC	Office premises	Leasehold	50 years

CORPORATE GOVERNANCE REPORT

Armarda Group Limited (the "Group") is committed to achieving a high standard of corporate governance which conforms to the principles set out in the Singapore Code of Corporate Governance (the "Code"). The Board is pleased to report on the compliance of the Group with the Code (except as otherwise stated).

CORPORATE GOVERNANCE REPORT

Principle 1 : Board's Conduct of its Affairs

Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal control and compliance. In addition, the Board reviews the financial performance of the Group, approves investment proposals, and approves nomination of Directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through designated Board Committees including the Audit Committee (the "AC"), the Nominating Committee (the "NC") and the Remuneration Committee (the "RC").

Principle 2 : Board Composition and Balance
Principle 4 : Board Membership

Board of Directors
The composition of the Board and designated Board Committees are as follows:

Name	Nature of Board Members	Committee Membership		
		Audit Committee	Remuneration Committee	Nominating Committee
Dr Chou Tao-Hsiung, Joseph	Non-Executive Chairman	-	Member	-
Mr Lin Ming Sheng, Vincent	Non-Executive Deputy Chairman	Member	-	Member
Mr Luk Chung Po, Terence	Executive Director, Chief Executive Officer	-	-	-
Mr Lee Joo Hai	Independent Director	Chairman	Member	Member
Mr Phuah Lian Heng	Independent Director	Member	Chairman	Chairman

The Group believes that there should be a strong and independent element in the Board to exercise objective judgment. The Board of 5 Directors includes 2 Independent and 2 Non-Executive Directors. The Directors appointed are qualified professionals who possess a diverse range of expertise to provide a balanced view within the Board. Key information regarding the Directors' academic and professional qualifications and other appointments is set out on pages 10 to 13 of the Annual Report.

The independence of each Director is reviewed by the Nominating Committee ("NC"). The NC adopts the definition of what constitutes an Independent Director from the Code. The NC is of the view that Mr Lee Joo Hai and Mr Phuah Lian Heng are independent.

The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Group.

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Group's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentations and meetings.

The Board meets regularly to review and deliberate on the key activities and business strategies of the Group, including reviewing and approving internal guidelines on materiality of transactions, acquisitions, financial performance, and to endorse the release of the quarterly and annual results. Where necessary, additional meetings may be held to address significant transactions or issues. The Group's Bye-laws permits a Board meeting to be conducted by way of tele-conference and videoconference.

ATTENDANCE OF MEMBERS AT MEETINGS OF THE BOARD AND BOARD COMMITTEES HELD FROM 1 JANUARY 2006 TO 31 DECEMBER 2006

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
Name Of Director	No. of meetings held while a member	No. of meetings attended	No. of meetings held while a member	No. of meetings attended	No. of meetings held while a member	No. of meetings attended	No. of meetings held while a member	No. of meetings attended
Dr Chou Tao-Hsiung, Joseph	4	4	-	-	-	-	2	2
Mr Luk Chung Po, Terence	4	4	-	-	-	-	-	-
Mr Lin Ming Sheng, Vincent	4	2	5	2	2	2	-	-
Mr Lee Joo Hai	4	4	5	5	2	2	2	2
Mr Phuah Lian Heng	4	4	5	5	2	2	2	2

No. of board meetings held from 1 January 2006 to 31 December 2006 : 4
No. of audit committee meetings held from 1 January 2006 to 31 December 2006 : 5
No. of nominating committee meetings held from 1 January 2006 to 31 December 2006 : 2
No. of remuneration committee meetings held from 1 January 2006 to 31 December 2006 : 2

Principle 3: Role of Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer ("CEO") perform separate functions to ensure that there is an appropriate balance of power and authority, and that accountability and independent decision-making are not compromised. The Chairman is Dr Chou Tao-Hsiung, Joseph and the CEO is Mr Luk Chung Po, Terence. Apart from providing guidance on the corporate direction of the Group, the Chairman chairs Board meetings, and controls the quality, quantity and timeliness of information supplied to the Board. The CEO sets the business strategies and directions for the Group and manages the business operations of the Group with other senior management staff. The Chairman and the CEO are not related.

CORPORATE GOVERNANCE REPORT

Principle 5: Board Performance

Nominating Committee
The NC comprises Mr Phuah Lian Heng, Mr Lee Joo Hai and Mr Lin Ming Sheng, Vincent. The NC is chaired by Mr Phuah Lian Heng.

The Board has approved the written terms of reference of the NC. The NC performs the following functions:

a) reviewing and making recommendations to the Board on all candidates nominated for appointment to the Board;
b) reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account the balance between Executive and Non-Executive, Independent and Non-Independent Directors and having regard at all times to the principles of corporate governance and the Code;
c) procuring that at least one-third of the Board shall comprise Independent Directors;
d) identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("AGM") of the Group, having regard to the Directors' contribution and performance, including Independent Directors;
e) determining whether a Director is independent (taking into account the circumstances set out in the Code and other salient factors); and
f) proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

For the year under review, the NC evaluated the Board's performance as a whole and the contribution of each Director to the effectiveness of the Board.

Pursuant to the Group's Bye-laws, all Directors submit themselves for re-nomination and re-election at least once every 3 years.

The NC recommended to the Board that Mr Luk Chung Po, Terence and Mr Lee Joo Hai be nominated for reappointment at the forthcoming AGM.

In making their recommendations, the NC had considered the Directors' overall contribution and performance.

Principle 6: Access to Information

To assist the Board in fulfilling its responsibilities, the Board will be provided with management reports containing complete, adequate and timely information, and papers containing relevant background or explanatory information required to support the decision making process. The Board is provided with adequate and timely information prior to each Board meeting. Board papers are prepared for each Board meeting and are usually circulated at least three working days prior to each meeting.

The Board has separate and independent access to senior management and the company secretary at all times. The company secretary administers, attends and prepares minutes of Board meetings, assists the Chairman in ensuring that (i) Board procedures are followed and reviewed so that the Board functions effectively; and (ii) the Group's Bye-laws and relevant rules and regulations, including requirements of the Bermuda Companies Act and the SGX-ST are complied with.

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Group.

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure on Remuneration

Remuneration Committee
The RC comprises Mr Phuah Lian Heng, Mr Lee Joo Hai and Dr Chou Tao-Hsiung, Joseph. The RC is chaired by Mr Phuah Lian Heng.

The Board has approved the written terms of reference of the RC. The functions of the RC are as follows:

a) recommending to the Board a framework of remuneration for the Board covering all aspects of remuneration such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;
b) proposing to the Board, appropriate and meaningful measures for assessing the Executive Directors' performance;
c) determining the specific remuneration package for each Executive Director;
d) considering the eligibility of Directors for benefits under long-term incentive schemes; and
e) considering and recommending to the Board the disclosure of details of the Group's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages of the Directors required by law or by the Code.

In discharging its functions, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses of such advice shall be borne by the Group.

The Group sets remuneration packages which are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group. The remuneration paid to the Directors and Senior Executive Officers for services rendered during the financial year ended 31 December 2006 are as follows:

Remuneration Bands	Salary %	Performance bonus %	Directors' fees %	Others %	Total %
Directors					
S$250,000 -S$500,000	-	-	-	-	-
Below S$250,000					
Dr Chou Tao-Hsiung, Joseph	-	-	-	-	-
Mr Luk Chung Po, Terence	100	-	-	-	-
Mr Lin Ming Sheng, Vincent	-	-	-	-	-
Mr Lee Joo Hai	-	-	100	-	100
Mr Phuah Lian Heng	-	-	100	-	100
Executive Officers					
S$250,000 -S$500,000					
Ms Florence Tso	100	-	-	-	100
Below S$250,000					
Mr Mak Tin Sang	100	-	-	-	100

Apart from Dr Chou Tao-Hsiung, Joseph and Mr Lin Ming Sheng, Vincent, who do not receive any compensation, the remuneration of the Non-Executive Directors is in the form of a fixed fee. Such fees will be pro-rated for the financial year ended 31 December 2006. The remuneration of the Non-Executive Directors will be subject to approval at the AGM. The Group does not have any employees who are relatives of a Director or substantial shareholder or the Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

Principle 10: Accountability and Audit

In presenting the annual and quarterly financial statements for announcements to shareholders, it is the aim of the Board to provide the shareholders with a balanced and comprehensive assessment of the Group's performance, position and prospects.

The management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis.

Principle 11: Audit Committee
Principle 12: Internal Controls

Audit Committee ("AC")
The AC comprises Mr Lee Joo Hai, Mr Phuah Lian Heng and Mr Lin Ming Sheng, Vincent. The AC is chaired by Mr Lee Joo Hai.

The Board has approved the written terms of reference of the AC. The AC performs the following functions:

a) reviewing with external auditors the audit plan, their evaluation of the system of internal accounting controls and their audit report;
b) reviewing the overall internal control system;
c) reviewing the Group's financial results and the announcements before submission to the Board for approval;
d) reviewing the assistance given by management to external auditors;
e) reviewing significant findings of internal audits;
f) considering the appointment/re-appointment of the external auditors;
g) reviewing interested person transactions; and
h) other functions as required by law or the Code.

The AC meets periodically and also holds informal meetings and discussions with the management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings.

During the financial year, the AC has met 5 times to discuss and review the audit plans and the audit reports.

The AC has been given full access to and is provided with the co-operation of the Group's management. In addition, the AC has independent access to the external auditors.

The AC meets with the external auditors without the presence of management. The AC has reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the volume of non-audit services provided to the Group by the external auditors, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, is pleased to recommend their re-appointment. The Group's internal controls and systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets.

During the year, a whistleblowing policy was approved by the Board and was implemented in the Group's companies with an aim is to identify any wrongdoing at an early stage for the Group's management to take appropriate measures. It enables employees to report suspected wrongdoing confidentially and without putting their job at risk.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group's management that was in place throughout the year and up to the date of this report, is adequate to meet the needs of the Group in its current business environment.

Principle 13: Internal Audit

The Board recognizes the importance of the internal audit function and has hired an Internal Audit Manager in the financial year of 2006.

The internal audit functions include assisting the AC and the Board in the evaluation of the internal controls, financial and accounting matters, compliance, business and financial risk management. The internal auditor reports directly to the Chairman of the AC on audit matters, and to the CFO on administrative matters.

The AC will review the internal audit program, the scope and results of internal audit procedures and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.

Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Group recognizes that effective communication can highlight transparency and enhance accountability to its shareholders.

The Group provides information to its shareholders via SGXNET announcements and news releases. Such information is available on the Group's website www.armarda.com.

The Group ensures that price-sensitive information is publicly released, and is announced within the mandatory period.

All shareholders of the Group will receive the Annual Report and the notice of the AGM. The notice is also advertised in a local newspaper and made available on SGXNET. The Group encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to Directors, including the chairperson of each of the Board Committees. The Group ensures that there are separate resolutions at general meetings on each distinct issue.

The Group's Bye-laws allows a shareholder of the Group to appoint one or two proxies to attend and vote at general meetings.

The external auditors are also present to assist the Directors in addressing any relevant queries from the shareholders.

Material Contracts

(Listing Manual Rule 1207(8))
Save for the service agreement between the Executive Director and the Group, there are no material contracts entered into by the Group or its subsidiaries and in which the Chief Executive Officer or any Director or controlling shareholders were interested subsisting at the end of the financial year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

Risk Management

(Listing Manual Rule 1207(4) (b) (iv))
The Group does not have a Risk Management Committee. However, the management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC. The Group has also considered the various financial risks, details of which are found on page 58 of the Annual Report.

Armarda Employee Share Option Scheme ("ESOS")

(Listing Manual Rule 852(1))
The ESOS is administered by the Remuneration Committee comprising Mr Phuah Lian Heng, Mr Lee Joo Hai and Dr Chou Tao-Tsiung, Joseph. There was no Employee Share Option granted during the financial year ended 31 December 2006.

Dealings in Securities

(Listing Manual Rule 1207(18))
Directors, management and officers of the Group are not permitted to deal in the Group's shares during the periods commencing two weeks before the announcement of the Group's financial statements for each of the first three quarters of its financial year, or one month before the financial year end, as the case may be, and ending on the date of announcements of relevant results, or when they are in possession of unpublished price-sensitive information on the Group. To provide further guidance to employees on dealings in the Group's shares, the Group has adopted its own code of best practices on securities transactions. The Group's code of best practices on securities transactions is in line with the best practices set out in the Listing Mannul of the Singapore Exchange Securities Trading Limited.

Interested Person Transactions

(Listing Manual Rule 907)

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Group and its minority shareholders.

There was no transaction with interested persons during the financial year ended 31 December 2006 that exceeded the stipulated thresholds as specified in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

The directors of the company are pleased to present their report together with the audited financial statements of the company and of the group for the financial year ended 31 December 2006.

1. DIRECTORS AT DATE OF REPORT

The directors of the company in office at the date of this report are:
Dr Chou Tao-Hsiung, Joseph (Non-executive Chairman)
Lin Ming Sheng, Vincent (Non-executive Deputy Chariman)
Luk Chung Po, Terence (Executive director, Chief Executive Officer)
Lee Joo Hai (Independent Director)
Phuah Lian Heng (Independent Director)

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures of the company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

Particulars of interests of directors, who held office at the end of the financial year, in shares and convertible securities of the Company are as follows:

	Shareholdings registered in the name of the directors		Shareholdings in which directors are deemed to have an interest	
	At beginning of the year/date of appointment	At end of the year	At beginning of the year/dateof appointment	At end of the year
	Number of ordinary shares of HK$0.20 each in the Company	Number of ordinary shares of HK$0.20 each in the Company	Number of ordinary shares of HK$0.20 each in the Company	Number of ordinary shares of HK$0.20 each in the Company
Dr Chou Tao-Hsiung, Joseph	887,626	887,626	-	-
Luk Chung Po, Terence	8,876,255	8,876,255	45,308,277	45,308,277
Lin Ming Sheng, Vincent	887,626	0	6,124,617	6,124,617
Lee Joo Hai	-	-	-	-
Phuah Lian Heng	-	-	-	-

The directors' interests as at 21 January 2007 were the same as those at the end of the year.

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except in respect of remuneration as disclosed in the financial statements.

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the company or any corporation in the group was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the company or any corporation in the group issued by virtue of the exercise of option to take up unissued shares.

7. UNISSUED SHARES UNDER OPTIONS

At the end of the financial year, there were no unissued shares of the Company or any corporation in the group under option.

8. AUDIT COMMITTEE

The Company has complied with the Code of Corporate Governance with respect to Audit Committee.

The Audit Committee was formed by the Board of Directors on 12 April 2004 and comprises three non-executive directors.

The members of the Committee are:
Lee Joo Hai (Chairman)
Phuah Lian Heng
Lin Ming Sheng, Vincent

Functions and responsibilities of the Audit Committee as detailed in its Terms of Reference are set out in the Corporate Governance section of the annual report.

The Audit Committee has recommended to the Board of Directors the nomination of KPMG, Hong Kong as auditors of the Company for the following financial year to be approved by the shareholders at the forthcoming Annual General Meeting.

9. DEVELOPMENT SUBSEQUENT TO ANNOUNCEMENT OF RESULTS

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 28 February 2007, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

10. AUDITORS

The auditors, KPMG, Hong Kong have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors
Dr Chou Tao-Hsiung, Joseph
Chairman

Luk Chung Po, Terence
Director and Chief Executive Officer
28 February 2007

STATEMENT BY THE DIRECTORS

STATEMENT BY THE DIRECTORS

STATEMENT BY THE DIRECTORS

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006, and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorized these financial statements for issue.

On behalf of the Board of Directors
Dr Chou Tao-Hsiung, Joseph
Chairman
Luk Chung Po, Terence
Director and Chief Executive Officer

28 February 2007

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Financial Statements Index

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

Armarda Group Limited

(Incorporated in Bermuda with limited liability)

We have audited the accompanying consolidated financial statements of Armarda Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated and company income statements, the consolidated statement of change in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and of the profit of the Company and the Group and, the cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road,
Central, Hong Kong
28 February 2007

INCOME STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Hong Kong dollars)

	Note	The Group 2006 *HK$'000*	The Group 2005 *HK$'000*	The Company 2006 *HK$'000*	The Company 2005 *HK$'000*
Revenue	3	33,856	63,847	-	-
Other income	3	1,314	1,204	3,595	2,957
Staff costs	4	(8,378)	(17,957)	(423)	(448)
Depreciation	9	(3,605)	(3,678)	-	-
Cost of goods sold	3	(2,871)	(14,787)	-	-
Other expenses	4	(14,086)	(16,086)	(1,525)	(2,506)
Finance costs	4	(36)	(36)	-	-
Share of profits of associates	8	2,262	-	-	-
Profit before taxation	4	8,456	12,507	1,647	3
Income tax	5	(1,369)	(1,640)	-	-
Profit for the year attributable to equity shareholders of the Company	19	7,087	10,867	1,647	3
Earnings per share					
Basic	6	2.16 cents	3.78 cents		
Diluted	6	N/A	N/A		

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

ARMARDA GROUP LIMITED AND SUBSIDIARIES
BALANCE SHEETS AS AT 31 DECEMBER 2006
(Expressed in Hong Kong dollars)

	Note	The Group 2006 *HK$'000*	The Group 2005 *HK$'000*	The Company 2006 *HK$'000*	The Company 2005 *HK$'000*
Non-current assets					
Investment in subsidiaries	7	-	-	45,446	45,446
Interest in associates	8	20,956	-	-	-
Property, plant and equipment	9	15,209	18,410	-	-
Amount due from a subsidiary	10	-	-	74,554	59,925
Other assets	11	790	763	-	-
Deferred tax assets	17	-	66	-	-
		36,955	19,239	120,000	105,371
Current assets					
Trade and other receivables	12	56,193	56,867	109	123
Cash and cash equivalents	13	89,505	80,270	4	-
		145,698	137,137	113	123
Current liabilities					
Secured bank loan	14	-	58	-	-
Obligations under finance lease	15	83	79	-	-
Trade and other payables	16	9,242	7,669	828	778
Taxation payable		930	-	-	-
		10,255	7,806	828	778
Net current assets/ (liabilities)		135,443	129,331	(715)	(655)
Non-current liabilities					
Secured bank loan	14	-	87	-	-
Obligations under finance lease	15	133	216	-	-
Deferred tax liabilities	17	2,288	1,943	-	-
		2,421	2,246	-	-
Net assets		169,977	146,324	119,285	104,716
Total equity attributable to equity shareholders of the Company					
Share capital	18	68,886	57,446	68,886	57,446
Reserves	19	101,091	88,878	50,399	47,270
		169,977	146,324	119,285	104,716

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

	Note	**2006**	**2005**
		HK$'000	*HK$'000*
Operating activities			
Profit before taxation		8,456	12,507
Interest income	3	(1,288)	(1,204)
Share of profits of associates		(2,262)	-
Loss on disposal of property, plant and equipment	4(b)	148	145
Finance costs	4(c)	36	36
Depreciation	9	3,605	3,678
Foreign exchange loss/(gain)		310	(94)
Operating profit before changes in working capital		9,005	15,068
Changes in working capital			
Increase in trade and other receivables		(16,742)	(13,339)
Increase in trade and other payables		73	3,868
Cash (used by)/generated from operations		(7,664)	5,597
Interest received		1,704	698
Interest paid		(36)	(36)
Income taxes paid		(48)	-
Net cash (outflow)/inflow from operating activities		(6,044)	6,259
Investing activities			
Additions of property, plant and equipment	9	(289)	(163)
Payment for the acquisition of associates		(2,194)	-
Dividend received from associates		2,000	-
Proceeds from disposal of property, plant and equipment		232	1
Net cash outflow from investing activities		(251)	(162)
Financing activities			
Repayment of finance lease obligations		(79)	(75)
Repayment of secured bank loan		(145)	(54)
Issue of shares, net of issue costs	18	12,922	-
Net cash inflow/(outflow) from financing activities		12,698	(129)
Net increase in cash and cash equivalents		6,403	5,968
Cash and cash equivalents at beginning of the year		80,270	72,956
Effect of foreign exchange rate changes		2,832	1,346
Cash and cash equivalents at end of the year		89,505	80,270
An analysis of cash and cash equivalents is as follows:			
Deposits with banks		56,386	54,423
Cash at bank and in hand		33,119	25,847
		89,505	80,270
Significant non-cash transactions:			
Utilisation of refundable deposit toward satisfaction of consideration payable for acquisition of associates	12	17,000	-

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

ARMARDA GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

	Note	*HK$'000*
Balance at 1 January 2005		133,868
Net profit for the year		10,867
Exchange differences on translation of financial statements of foreign entities	19	1,589
Balance at 31 December 2005		146,324
Balance at 1 January 2006		146,324
Net profit for the year		7,087
Exchange differences on translation of financial statements of foreign entities	19	3,644
Shares issued		
- par value	18	11,440
- premium received	19	1,482
Balance at 31 December 2006		169,977

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

These notes form an integral part of the financial statements.
The financial statements were authorised for issue by the board of directors on 28 February 2007.

1. The Company

The Company was incorporated on 13 August 2003 in Bermuda with limited liability. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 7 to the financial statements. Its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company was admitted to the Official List of the SGX-ST Dealing and Automated Quotation System ("SGX-SESDAQ") on 21 May 2004.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

2. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including related interpretations promulgated by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except as explained in the accounting policies set out below. The methods used to measure fair values are discussed further in note 2(w).

The accounting policies set out below have been consistently applied by the Group and the Company and are consistent with those used in the previous year.

(c) Functional and presentation currency

These consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional currency. The functional currency of the subsidiaries and associates in the People Republic of China ("PRC") is Renminbi ("RMB"). All financial information presented in Hong Kong dollar has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 23.

(e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less impairment losses.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(f) Goodwill

Goodwill arises on the acquisition of associates represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses.

In respect of equity accounted investee, the carrying amount of goodwill is included in the carrying amount of the investment.

(g) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Hong Kong dollars at the reporting date. The income and expenses of foreign operations are translated to Hong Kong dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

(h) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation (see below) and impairment losses (note 2(l)).

Cost includes expenditures that are directly attributable to the acquisition of the assets.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(iii) Subsequent expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives, after taking into account of the estimated residual values of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

Leasehold properties	Shorter of 20 years or the lease term
Leasehold improvements	Shorter of 5 years or the lease term
Furniture, fixtures, computer and other equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are assessed at the reporting date.

(i) Other assets

Other asset which represents transferable life memberships of golf club are stated at cost less any impairment losses (note 2(l)).

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses (note 2(l)) except the effect of discounting would be immaterial, in which case, the receivables are stated at cost less impairment losses (note 2(l)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk charateristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case, they are stated at cost.

(n) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Employee benefits

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

The equivalent cost of employee's entitlements to annual leave untaken as at the end of each financial year is accrued for and charged to the income statement in the period in which the related employment services are rendered.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Revenue recognition

(i) Provision of services

Revenue from the provision of services is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the services performed to date as a percentage of total services to be performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.

(ii) Licence fee income

Fees received and receivable from customers for the licensed uses of the Group's computer application systems are recognised as income upon the customers' acceptance of the licensed systems, when the Group has no substantial remaining obligations to perform in accordance with the terms of the licence agreements.

(iii) Sales of goods

Revenue is recognised when goods are delivered and installed and when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iv) Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(s) Finance costs

Finance costs comprise interest payable on borrowings and the interest expense component of finance lease payments, which are recognised in the income statement using the effective interest rate method.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, corporate assets and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, interest in associates and other non-current assets.

(u) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

- IFRC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified.

- IFRC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

- IFRC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).

(w) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values for certain assets and liabilities of the Group have been determined for measurement and/or disclosure purposes based on the following methods:

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Trade and other payables and finance leases

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

3 Revenue and segment reporting

The Group operates principally as a single business segment for the provision of IT consulting, IT support and other services to customers in the PRC and other Asian countries. Revenue represents the income received and receivable from the provision of services and ancillary activities including the licensing of computer application systems and sales of IT equipment.

During the year, the Group received non-refundable lump sum licence fees totalling HK$4,650,000 (2005: HK$3,850,000) from certain independent customers for the licensed uses of the Group's computer application systems for a period of ranging from five to eight years. The Group has recognised the licence fees as income upon the customers' acceptance of the licensed system, as the Group has no substantial remaining obligations to perform in accordance with the terms of the licence agreements.

For the year ended 31 December 2006, revenue and cost of goods sold in respect of sales of IT equipment recognised in the consolidated income statement amounted to HK$3,326,000 (2005: HK$17,034,000) and HK$2,871,000 (2005: HK$14,787,000) respectively.

Other income comprises:

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	1,288	1,204	-	-
Interest income from subsidiary	-	-	3,595	2,957
Others	26	-	-	-
	1,314	1,204	3,595	2,957

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

3 Revenue and segment reporting (Cont'd)

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical presence of the customers. Segment capital expenditure and assets are based on the geographical location of the assets. Geographical information about the Group's revenue, capital expenditure and assets is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Revenue		
PRC	33,856	63,847
Unallocated revenue	1,314	1,204
	35,170	65,051
Capital expenditure		
PRC	254	98
Hong Kong	18,729	65
	18,983	163

Note: Capital expenditure comprises additions to property, plant and equipment, interest in associates and other assets.

	2006	**2005**
Segment assets		
PRC	139,417	126,698
Hong Kong	43,005	29,332
Singapore	231	280
Unallocated assets	-	66
	182,653	156,376

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Staff costs				
Salaries and allowances	7,623	16,885	423	448
Contributions to defined contribution retirement plans	419	750	-	-
Other welfare and benefits	336	322	-	-
	8,378	17,957	423	448
Remuneration of directors included in staff costs:				
- Directors of the Company	1,635	2,260	423	448
- Other directors	1,238	2,847	-	-
(b) Other expenses				
Non-audit fees paid to auditors of the Company (Note)	74	35	-	-
Consultancy and subcontracting fees	6,446	4,863	-	-
Operating lease charges in respect of properties	906	2,154	-	-
Promotion and marketing expenses	1,186	1,124	169	244
Travelling expenses	2,292	4,294	97	151
Loss on disposal of property, plant and equipment	148	145	-	-
Net exchange (gain)/loss	(846)	(267)	41	-
Others	3,880	3,738	1,218	2,111
	14,086	16,086	1,525	2,506

Note: No non-audit fees was paid to other auditors engaged by certain subsidiaries during 2006 (2005:nil)

	The Group		The Company	
	2006	2005	2006	2005
(c) Finance costs				
Interest expense on				
- secured bank loan	23	19	-	-
- finance lease obligations	13	17	-	-
	36	36	-	-

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

5 Income tax

(a) Income tax in the income statement represents:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Current tax		
Current year	958	-
Adjustment for prior years	-	(187)
	958	(187)
Deferred tax expense (note 17)	411	1,827
	1,369	1,640

(b) Reconciliation of effective tax rate:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Consolidated profit before taxation	8,456	12,507
Applicable tax rate in Hong Kong	17.5%	17.5%
Expected taxation	1,480	2,189
Adjustments:		
Tax rate differential of subsidiaries	(552)	(2,014)
Tax exemption available to Armarda Zhuhai	-	(535)
Tax effect of non-taxable income	(492)	(141)
Tax effect of non-deductible expenses	724	1,766
Over-provision of current tax in prior years	-	(187)
Over-provision of deferred tax in prior years	(11)	-
Tax losses not recognised	220	562
	1,369	1,640

The Group's profits derived in Hong Kong are subject to Hong Kong profits tax at 17.5% (2005: 17.5%). No provision for Hong Kong profits tax was made, as the Group's tax losses brought forward from prior years exceed the estimated assessable profits for Hong Kong profits tax purposes for the year (2005: nil).

As a foreign invested enterprise with paid-up capital of over US$5 million and engaged in the provision of high technology business services in the Zhuhai Special Economic Zone, the Group's operating subsidiary in the PRC, Armarda Technology (Zhuhai) Limited ("Armarda Zhuhai") was fully exempted from PRC income tax for the first two profitable years in 2004 and 2005. Armarda

5 Income tax (cont'd)

Zhuhai will be entitled to 50% exemption from the applicable standard income rate of 15% for the further three years in 2006, 2007 and 2008 if its production-oriented revenue exceeds 50% of its total revenue in each year ("50% Criteria"). As Armarda Zhuhai did not meet the 50% Criteria in 2006, Armarda Zhuhai was subject to PRC income tax at 15% for 2006.

In December 2006, the PRC government officially submitted a draft new Enterprise Income Tax Law that would impose a single income tax rate of 25% for most domestic enterprises and foreign investment enterprises. The draft contemplates various transition periods for existing preferential tax policies. The draft is subject to change and may end up not being enacted by the PRC government. If the proposed Enterprise Income Tax Law is enacted, it is expected to be effective as of January 1, 2008, and could eliminate or significantly shorten the period in which Armarda Zhuhai enjoys its preferential tax treatments. The enactment of the Enterprise Income Tax Law could adversely affect the Group's financial condition and results of operations.

No Singapore income tax was payable in respect of the Group's operations in Singapore, as such operations sustained losses for tax purposes during the year (2005: nil).

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity shareholders of HK$7,087,000 (2005: HK$10,867,000) and the weighted average of 327,663,921 (2005: 287,232,140) ordinary shares in issue during the year.

Weighted average number of ordinary shares

	2006	2005
	'000	'000
Issued ordinary shares at 1 January	287,232	287,232
Effect of new ordinary shares issued on 18 April 2006 (note 18)	40,432	-
Weighted average number of ordinary shares at 31 December	327,664	287,232

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the year and therefore diluted earnings per share are not presented.

7 Investment in subsidiaries

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	45,446	45,446

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

7 Investment in subsidiaries (cont'd)

Particulars of the subsidiaries are set out below:

Name of subsidiary	Principal activities	Date and place of incorporation	Effective interest held by the Group
Armarda Holdings Limited (i)	Investment holding	5 May 2003 British Virgin Islands ("BVI")	100%
Armarda Technology Services Limited (i)	Investment holding	29 November 2001 BVI	100%
Armarda International Inc. (i)	Intellectual property holding	25 June 2003 BVI	100%
Armarda Technology (Zhuhai) Limited (ii)	Provision of IT consulting and IT support services	28 March 2003 The PRC	100%
Armarda Technology (Hong Kong) Limited (iii)	Provision of IT consulting and IT support services	17 March 2003 Hong Kong	100%
Armarda Technology (Singapore) Pte. Ltd. (iv)	Liaison office	14 May 2003 Republic of Singapore	100%

(i) The financial statements of Armarda Holdings Limited, Armarda Technology Services Limited and Armarda International Inc. are not required to be audited under the laws of the British Virgin Islands, their country of incorporation.

(ii) Armarda Technology (Zhuhai) Limited is a wholly foreign invested enterprise established in the PRC and its statutory financial statements were audited by Zhuhai Huaqi Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants.

(iii) The statutory financial statements of Armarda Technology (Hong Kong) Limited were audited by KPMG Hong Kong, a firm of Certified Public Accountants under Section 28A of the Professional Accountants Ordinance, Chapter 50.

(iv) The statutory financial statements of Armarda Technology (Singapore) Pte. Ltd. were audited by KPMG Singapore, Certified Public Accountants, a member of the Institute of Certified Public Accountants of Singapore.

8 Interest in associates

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	2,113	-	-	-
Goodwill	18,843	-	-	-
	20,956	-	-	-

Particulars of the associates are set out below:

Name of associates	**Principal activities**	**Date and place of incorporation**	**Effective interest held by the Group**
Brilliant Time Limited (i)	Investment holding	28 January 2000 BVI	25%
Ri Da Computer Systems (Chengdu) Limited (ii)	Provision of IT consulting and IT support services	19 March 2004 The PRC	18.75%

(i) The consolidated financial statements of Brilliant Time Limited were audited by To Wai Chung CPA Ltd, a firm of Certified Public Accountants under Section 28A of the Professional Accountants Ordinance, Chapter 50 in Hong Kong.

(ii) Ri Da Computer Systems (Chengdu) Limited is a Sino-foreign joint venture enterprise established in the PRC and its statutory financial statements were audited by Sichuen Hu Xin Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants

Summary finance information on associates

	Assets	Liabilities	Equity	Revenues	Profit
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
100 per cent	21,154	(12,543)	8,611	26,533	9,049
Group's effective interest	5,289	(3,136)	2,153	6,633	2,262

NOTES TO THE FINANCIAL STATEMENTS

9 Property, plant and equipment

The Group

	Leasehold properties *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures, computer and other equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2006	8,069	2,155	12,564	1,458	24,246
Additions	-	-	35	254	289
Disposals	-	-	(354)	(400)	(754)
Exchange adjustments	291	76	297	20	684
At 31 December 2006	8,360	2,231	12,542	1,332	24,465
Accumulated depreciation					
At 1 January 2006	751	890	3,629	566	5,836
Charge for the year	379	448	2,503	275	3,605
Written back on disposal	-	-	(173)	(201)	(374)
Exchange adjustments	36	41	105	7	189
At 31 December 2006	1,166	1,379	6,064	647	9,256
Net book value					
At 31 December 2006	7,194	852	6,478	685	15,209

9 Property, plant and equipment (Cont'd)

	Leasehold properties	Leasehold improvements	Furniture, fixtures, computer and other equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2005	7,917	2,588	12,495	1,446	24,446
Additions	-	47	116	-	163
Disposals	-	(527)	(214)	-	(741)
Exchange adjustments	152	47	167	12	378
At 31 December 2005	8,069	2,155	12,564	1,458	24,246
Accumulated depreciation					
At 1 January 2005	370	843	1,203	281	2,697
Charge for the year	370	536	2,491	281	3,678
Written back on disposal	-	(506)	(89)	-	(595)
Exchange adjustments	11	17	24	4	56
At 31 December 2005	751	890	3,629	566	5,836
Net book value					
At 31 December 2005	7,318	1,265	8,935	892	18,410

As at 31 December 2006, the net book value of a motor vehicle held under a finance lease amounted to HK$234,000 (2005: HK$325,000).

10 Amount due from a subsidiary

The amount due from a subsidiary which is a non-trade balance, is unsecured, bears interest at prevailing commercial rate (7% and 5% per annum at 31 December 2006 and 2005 respectively) and has no fixed term of repayment. The Company expects that the amount will not be repaid within one year.

11 Other assets

Other assets comprised the costs of transferable life memberships of golf club.

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

12 Trade and other receivables

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	40,889	29,757	-	-
Accrued services revenue	6,942	7,131	-	-
Refundable acquisition deposit	-	17,000		-
Other prepayments and receivables	8,362	2,979	109	123
	56,193	56,867	109	123

In April 2006, the refundable acquisition deposit of $17,000,000 outstanding at 31 December 2005 was fully utilised toward satisfaction of an equivalent amount out of the total consideration payable of $20,000,000 for the acquisition of associates.

All of the trade and other receivables are expected to be recovered within one year.

13 Cash and cash equivalents

	The Group	
	2006	**2005**
	HK$'000	HK$'000
Deposits with banks	56,386	54,423
Cash at bank and in hand	33,119	25,847
	89,505	80,270

As at 31 December 2006, the effective interest rate of cash and cash equivalents was 1.67% (2005: 1.74%) per annum. The interest rate on all deposits with banks is repriceable within one year.

14 Secured bank loan

	The Group	
	2006	2005
	HK$'000	HK$'000
Secured bank loan:		
Repayable within one year	-	58
Repayable after one year but within 5 years	-	87
	-	145

The bank loan as at 31 December 2005 was secured by a charge over a motor vehicle of the Group.

15 Obligations under finance lease

As 31 December 2006, the Group had obligations under a finance lease that are repayable as follows:

The Group

	2006			2005		
	Principal	Interest	Total minimum lease payments	Principal	Interest	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Repayable within 1 year	83	9	92	79	13	92
Repayable after 1 year but within 5 years	133	5	138	216	14	230
	216	14	230	295	27	322

No contingent rents are payable under the terms of the finance lease. The finance lease carried an implicit fixed interest rate of 5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

16 Trade and other payables

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	-	1,693	-	-
Other payables and accruals	9,242	5,976	828	778
	9,242	7,669	828	778

17 Deferred tax (assets)/liabilities

The components of deferred tax (assets)/ liabilities recognised in the consolidated balance sheets and the movements during the year are as follows:

The Group

	Fixed assets depreciation	Future benefit of tax losses	Trade receivables	Accrued expenses	Others	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*	*HK'000*	*HK'000*
Balance at 1 January 2005	513	(463)	-	-	-	50
Charged/(credited) to the consolidated income statement	(265)	(48)	2,281	(191)	50	1,827
Balance at 31 December 2005	248	(511)	2,281	(191)	50	1,877
Balance at 1 January 2006	248	(511)	2,281	(191)	50	1,877
Charged/(credited) to the consolidated income statement	(311)	316	458	(13)	(39)	411
Balance at 31 December 2006	(63)	(195)	2,739	(204)	11	2,288

17 Deferred tax (assets)/liabilities (Cont'd))

	The Group	
	2006	**2005**
	HK$'000	HK$'000
Net deferred tax asset recognised on the balance sheet	-	(66)
Net deferred tax liability recognised on the balance sheet	2,288	1,943
	2,288	1,877

The Group has not recognised deferred tax assets in respect of tax losses totalling HK$13,985,000 (2005: HK$12,887,000) incurred by the Group's operations in Singapore, as their utilisation in the foreseeable future cannot be reasonably ascertained. Such tax losses do not have an expiry date under the current tax laws in Singapore.

There were no material unprovided deferred tax liabilities as at 31 December 2006.

18 Share capital

The Company

	2006	**2005**
	HK$'000	HK$'000
Authorised:		
900,000,000 ordinary shares of HK$0.20 each (2005: 900,000,000 ordinary shares of HK0.20 each)	180,000	180,000
Issued and fully paid:		
344,432,140 ordinary shares of HK$0.20 each (2005: 287,232,140 ordinary shares of HK0.20 each)	68,886	57,446

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

18 Share capital (Cont'd)

The following is a summary of movements in the authorised and issued share capital of the Company:

	Number of ordinary shares of HK$0.20 each	
Authorised:		*HK'000*
Balance at 1 January 2005, 31 December 2005 and 2006	900,000,000	180,000
Issued and fully paid:		
Balance at 1 January 2005 and 31 December 2005	287,232,140	57,446
Balance at 1 January 2006	287,232,140	57,446
Issue of new ordinary shares during the year *(Note)*	57,200,000	11,440
Balance at 31 December 2006	344,432,140	68,886

Note:

On 18 April 2006, the Company issued 57,200,000 new ordinary shares at issue price of $0.24 per share by way of private placement to certain independent investors. The net proceeds from the share issue amounted to $12,922,000 (net of issue costs of $806,000).

19 Reserves

The Group

	Note	Share premium	Foreign currency translation reserve	PRC statutory reserve	(Accumulated losses)/ retained profits	Total
		Attributable to equity shareholders of the Company				
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2005		48,018	314	2,678	25,412	76,422
Net profit for the year		-	-	-	10,867	10,867
Appropriation to reserve	**(a)**	-	-	2,709	(2,709)	-
Exchange difference on translation of financial statements of foreign entities	**(b)**	-	1,589	-	-	1,589
Balance as at 31 December 2005		48,018	1,903	5,387	33,570	88,878
Balance as at 1 January 2006		48,018	1,903	5,387	33,570	88,878
Issue of new shares	**(c)**	1,482	-	-	-	1,482
Net profit for the year		-	-	-	7,087	7,087
Appropriation to reserve	**(a)**	-	-	275	(275)	-
Exchange difference on translation of financial statements of foreign entities	**(b)**	-	3,644	-	-	3,644
Balance as at 31 December 2006		49,500	5,547	5,662	40,382	101,091

Notes:

(a) In accordance with the relevant PRC laws applicable to enterprises with foreign investment, Armarda Zhuhai is required to transfer at least 10% of its annual net profit determined under PRC accounting regulations to the general reserve. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

(b) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities that are not integral to the operation of the Company.

(c) The addition to share premium account of $1,482,000 was attributable to the issue of 57,200,000 new ordinary shares on 18 April 2006 (note 18).

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

19 Reserves (Cont'd)

The Company

	Share premium *HK$'000*	(Accumulated losses)/ retained profits *HK$'000*	Total *HK$'000*
Balance as at 1 January 2005	48,018	(751)	47,267
Net profit for the year	-	3	3
Balance as at 31 December 2005	48,018	(748)	47,270
Balance as at 1 January 2006	48,018	(748)	47,270
Issue of new shares	1,482	-	1,482
Net profit for the year	-	1,647	1,647
Balance as at 31 December 2006	49,500	899	50,399

20 Financial instruments and concentration of risks

The Group's and the Company's financial assets comprise mainly trade receivables, deposits and other receivables, amount due from subsidiary and cash and cash equivalents. The Group's financial liabilities comprise mainly trade and other payables.

(a) Interest rate risk

The interest rate of the cash and cash equivalents is disclosed in note 13.

The interest rate and maturity of the amount due from a subsidiary and finance lease obligations are disclosed in notes 10 and 15 respectively.

(b) Credit risk

The cash and cash equivalents of the Group represent deposits and cash accounts with banks in Hong Kong, the PRC and Singapore. The carrying amounts of trade receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other significant concentration of credit risk. No other financial assets carry a significant exposure to credit risk.

(c) Business risk

The Group's principal market is concentrated on enterprises operating in the PRC banking and financial service sector which accounted for a significant proportion of the Group's total revenue for the year ended 31 December 2006. Accordingly, the Group's operating results and financial position could be significantly affected by any material changes in the business environment of the PRC banking and financial service sector.

(d) Foreign exchange risk

The Group incurs foreign currency risk on collection of service revenue and making of operating expenditure payments that are denominated in currencies other than Hong Kong dollars. The currency giving risk to this risk is primarily the Renminbi, which is

20 Financial instruments and concentration of risks (Cont'd)

not freely convertible into foreign currencies. Currently, all foreign exchange transactions in the PRC take place either through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments by the People's Bank of China or other authorised institutions requires submission of a payment application form together with the relevant supporting documentation.

The Group reviews its foreign currency exposures regularly and does not consider its present foreign exchange risk to be significant.

The Group's significant financial instruments denominated in a currency other than Hong Kong dollars were as follows:

	2006	**2005**
	Equivalent	*Equivalent*
	HK$'000	*HK$'000*
Denominated in Renminbi:		
Trade and other receivables	45,660	32,176
Cash and cash equivalents	79,753	78,320
Secured bank loan	-	145
Trade and other payables	3,408	5,389

(e) Fairvalues

The fair values of cash and cash equivalents, trade receivables, deposits and other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair values of secured bank loan and amount due from subsidiary approximate their respective carrying amounts.

21 Commitments

(a) Operating lease commitments

Future minimum lease payments under non-cancellable operating leases in respect of properties with terms over one year are as follows:

		The Group
	2006	**2005**
	HK$'000	HK$'000
Payable as follows:		
- within 1 year	260	287
- after 1 year but within 5 years	262	156
	522	443

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated. No contingent rents are payable.

NOTES TO THE FINANCIAL STATEMENTS

ARMARDA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Hong Kong dollars)

22 Material related party transactions

Remuneration for key management personnel represent short-term employee benefits paid to the directors of the Company and other entities of the Group as disclosed in note 4.

23 Accounting estimates and judgements

Certain crucial accounting judgements in applying the Group's accounting policies are described below:

(a) Impairment review of property, plant and equipment, interest in associates and goodwill

Impairment review is carried out annually by management to determine whether or not property, plant and equipment, interest in associates and goodwill may be impaired. Such process requires the exercise of significant judgement by management based on available information relating to the individual assets' value in use assessed based on estimated future discounted cash flows and their corresponding fair value less costs to sell. The accuracy of the available information could affect the management judgement and hence the outcome of the impairment review. Profit or loss could be affected.

(b) Recognition of deferred taxes

Deferred taxes are provided based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The accuracy in predictions about the expected manner of realisation or settlement of the carrying amount of assets and liabilities would affect the amount of deferred taxes to be recognised and profit or loss of the Group.

24 Subsequent events

Pursuant to a conditional joint venture agreement dated 22 September 2006 entered into between a wholly-owned subsidiary, Armarda Technology (Hong Kong) Limited and Beijing Foreign Enterprise Services Group Limited ("the Agreement"), the Group has agreed to acquire 45% equity interest in FESCO e-HR Service (Beijing) Co. Ltd ("FESCO ESB") in consideration of RMB18,000,000 (approximately HK$17,900,000). The Agreement is conditional, amongst other things, upon the approval of the Company's shareholders. In accordance with the approval of the Company's shareholders given in an extraordinary general meeting held on 3 February 2007, the above agreement has became unconditionally effective and the Company' directors are authorised to proceed with the necessary legal procedures for completion of the transaction. Upon completion of the transaction, FESCO ESB will become an associate of the Group.

SHAREHOLDERS' INFORMATION

SHAREHOLDERS' INFORMATION

As At 7 March 2007

SHARE CAPITAL

Authorised share capital:	HK$180,000,000
Issued and fully paid-up share capital:	HK$68,886,428
Class of shares:	Ordinary shares of HK$0.20 each
Voting rights:	On a show of hands - 1 vote for each shareholder On a poll - 1 vote for each ordinary share

PUBLIC SHAREHOLDERS

Based on information available to the Company as at 7 March 2007, 71.39 % of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	5	0.33	1,306	0.00
1,000 - 10,000	678	45.29	2,401,000	0.70
10,001 - 1,000,000	786	52.51	95,070,623	27.60
1,000,001 and above	28	1.87	246,959,211	71.70
	1,497	100.00	344,432,140	100.00

TOP 20 SHAREHOLDERS

No.	Name	No. of Shares	%
1	Compelling Vision Technology Limited	44,381,277	12.89
2	Morgan Stanley Asia (S) Securities Pte Ltd	43,381,277	12.60
3	UOB Kay Hian Pte Ltd	20,411,195	5.93
4	Lu Zhen Dong	14,300,000	4.15
5	Jin Da Gang	14,300,000	4.15
6	Cou Tzi Meng	14,300,000	4.15
7	Chong Choi Fu	14,300,000	4.15
8	OCBC Securities Private Ltd	10,422,000	3.03
9	Citibank Nominees Singapore Pte Ltd	9,348,000	2.71
10	Luk Chung Po	8,876,255	2.58
11	Kim Eng Securities Pte. Ltd.	7,788,000	2.26
12	DBS Vickers Securities (S) Pte Ltd	7,211,328	2.09
13	Philip Securities Pte Ltd	5,789,126	1.68
14	Hong Leong Finance Nominees Pte Ltd	5,163,000	1.50
15	HSBC (Singapore) Nominees Pte Ltd	4,951,000	1.44
16	Mak Tin Sang	3,550,502	1.03
17	Loo Min	2,500,000	0.73
18	Teo Geok Eng	2,100,000	0.61
19	Hui Kong Anna Kwok Choy	1,775,251	0.52
20	Lee Teng Hong	1,670,000	0.48
		236,518,211	68.68

SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Deemed Interest	
Name	**No. of Shares**	**%**	**No. of Shares**	**%**
Compelling Vision Technology Limited	44,381,277	12.89	-	-
GC&C Holdings Limited	44,381,277[(1)]	12.89 [(1)]	-	-
Peregrine Soleil Asset Holdings Ltd.	-	-	44,381,277[(2)]	12.89 [(2)]
Aion Technologies Inc.	-	-	44,381,277[(3)]	12.89 [(3)]
Taiwan Secom Co., Ltd.	-	-	44,381,277[(4)]	12.89 [(4)]
Luk Chung Po	8,876,255	2.58	45,308,277[(5)]	13.15[(5)]

Notes:

(1) GC&C Holdings Limited holds 44,381,277 shares through the nominee companies.

(2) Based on Peregrine Soleil Asset Holdings Ltd.'s deemed interest in the shares held by GC&C Holdings Limited by virtue of Peregrine Soleil Asset Holdings Ltd.'s 100% shareholding in GC&C Holdings Limited.

(3) Based on Aion Technologies Inc.'s deemed interest in the shares held by GC&C Holdings Limited by virtue of Aion Technologies Inc.'s 100% shareholding in Peregrine Soleil Asset Holdings Ltd.

(4) Based on Taiwan Secom Co., Ltd.'s deemed interest in the shares held by GC&C Holdings Limited by virtue of Taiwan Secom Co., Ltd.'s 100% shareholding in Aion Technologies Inc.

(5) Based on Luk Chung Po's deemed interest in the shares held by Compelling Vision Technology Limited and Team Vision Management Limited by virtue of Luk Chung Po's 100% and 50% shareholdings in Compelling Vision Technology Limited and Team Vision Management Limited respectively.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2007 Annual General Meeting of Armarda Group Limited will be held at The Executive Centre, Level 14 Prudential Tower, 30 Cecil Street, Singapore 049712 on 28 April 2007 at 10.00 a.m. to transact the following business:

Ordinary Business

1 To receive and adopt the directors' report and audited financial statements for the year ended 31 December 2006 together with the auditors' report thereon.

2 To re-elect the following directors, each of whom will retire by rotation pursuant to Bye-Law 104 of the Bye-Laws of the Company and who, being eligible, will offer themselves for re-election:

(a) Mr Luk Chung Po, Terence

(b) Mr Lin Ming Sheng, Vincent

Note: Mr Lin Ming Sheng, Vincent, a member of the Audit Committee, will continue in office as a member of the Audit Committee upon his re-election as a director of the Company. Mr Lin Ming Sheng, Vincent director, is not considered an independent director.

3 To consider and, if thought fit, to pass the following ordinary resolutions, with or without modifications:

(a) "That the payment of S$110,000 as directors' fees for the year ended 31 December 2006 be approved, confirmed and ratified." (2005: S$90,000)

(b) "That directors' fees of S$110,000 payable by the Company for the year ending 31 December 2007 be approved."

4 To re-appoint KPMG, Hong Kong as auditors of the Company for the financial year ending 31 December 2007 and to authorise the directors to fix their remuneration.

Special Business

5 To consider and, if thought fit, to pass the following ordinary resolutions, with or without modifications:

(a) "That authority be and is hereby given to the directors of the Company to (i) allot and issue shares in the Company; and (ii) issue convertible securities and any shares in the Company pursuant to the convertible securities (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the directors shall in their absolute discretion deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution shall not exceed 50% of the issued share capital of the Company and that the aggregate number of shares to be issued other than on a pro-rata basis to the existing shareholders of the Company shall not exceed 20% of the issued share capital of the Company for the time being. Unless revoked or varied by the Company in a general meeting, this resolution shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law or by the Bye-Laws of the Company to be held, whichever is earlier, except that the directors shall have authority to allot and issue new shares pursuant to the convertible securities, notwithstanding that such authority has ceased. For the purposes of this resolution and pursuant to Rule 806(3) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the percentage of issued share capital is based on the issued share capital of the Company as at the date of the passing of this resolution (after adjusting for new shares arising from the conversion of convertible securities or share options on issue as at the date of the passing of this resolution and any subsequent consolidation or sub-division of shares)."

(b) "That approval be and is hereby given to the directors of the Company or a committee of the directors to offer and grant options in accordance with the provisions of the Armarda Employee Share Option Scheme (including options over shares at an exercise price per share set at a discount to the market price of a share) and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Armarda Employee Share Option Scheme, provided that the aggregate number of shares to be issued pursuant to the Armarda Employee Share Option Scheme shall not exceed 15% of the issued share capital of the Company on the day immediately preceding the relevant date of grant of the options."

6 To transact any other business that may be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD
MAK TIN SANG
COMPANY SECRETARY
Singapore,
4 April 2007

NOTICE OF ANNUAL GENERAL MEETING

Statements Pursuant To Bye-Law 66 Of The Bye-Laws Of The Company

(1) The ordinary resolution set out in item no. 5(a), if passed, will empower the directors from the date of the 2007 Annual General Meeting until the date of the next Annual General Meeting of the Company, to issue shares and convertible securities in the Company up to an aggregate number not exceeding 50% of the issued share capital of the Company, of which the aggregate number issued other than on a pro-rata basis to the existing shareholders of the Company shall not exceed 20% of the issued share capital of the Company, as more particularly set out in the resolution.

(2) The ordinary resolution set out in item no. 5(b), if passed, will empower the directors to offer and grant options and to allot and issue shares in the capital of the Company pursuant to the Armarda Employee Share Option Scheme provided that the aggregate number of shares to be issued shall not exceed 15% of the issued share capital of the Company on the day immediately preceding the relevant date of grant of the options.

Notes

(1) A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her/its stead. With the exception of The Central Depository (Pte) Limited who may appoint more than two proxies, any shareholder who is the holder of two or more shares may appoint not more than two proxies. A proxy need not be a shareholder.

(2) The instrument appointing a proxy must be deposited at the office of the Singapore share transfer agent, M & C Services Private Limited at 138 Robinson Road #17-00, The Corporate Office, Singapore 068906, not less than 48 hours before the time appointed for holding the meeting.

ARMARDA GROUP HEADQUARTER
30 Cecil Street, Level 15 Prudential Tower, Singapore 049712
Tel:+65 6232 2727, Fax: +65 62322888
www.armarda.com