

ARMARDA GROUP LIMITED
(Incorporated in Bermuda on 13 August 2003)
(Registration No.: 34050)

AUDITORS' EMPHASIS OF MATTER ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 AND DIFFERENCES FROM ANNOUNCEMENTS MADE

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements, which identifies material uncertainties related to the future profitability of the Group's major businesses. In particular, note 2(b) to the financial statements indicates that the financial performance of the two subsidiaries of the Group, namely Brilliant Time Limited ("BTL") and China RFID Limited ("RFID") was low, and the trading of radio frequency identification chips ("RFID business") did not generate any income up to 31 December 2010, resulting in significant impairment losses being recognised against goodwill and other acquired intangibles. The profitability and the estimates of future cash flows generated from such new businesses in the foreseeable future are inherently uncertain. Further details in this regard are set out in note 2(b) to the financial statements.

Extracts of the Notes to the Financial Statements

2 Basis of preparation

(b) Basis of preparation

Following the scaling down of the Group's core businesses (namely provision of IT consulting and IT support services), the Group is undergoing a business restructuring by actively seeking other business opportunities in the market in recent years. In particular, the Company acquired two subsidiaries, Brilliant Time Limited ("BTL") and China RFID Limited ("RFID"), in 2008 and 2009 to be the major profit generators of the Group in the foreseeable future. However, as the financial performance of BTL and RFID since acquisition was low, impairment losses have been recognised against goodwill and other intangibles arising from these investments as follows:

(i) BTL

The principal activities of BTL are the provision of IT services and trading of IT equipment. Since BTL was acquired by the Company, the financial performance of BTL was low. The directors have performed an impairment testing of the cash generating units of BTL and recognised impairment losses against the carrying amount of goodwill and customer relationships as at 31 December 2010.

Details of the assumptions used in preparing the cash flow projections and financial budgets and information regarding the calculation of value in use of the cash generating units of BTL are set out in note 11.

(ii) RFID

The Group acquired RFID in 2009 after it had obtained an exclusive distributorship right to trade radio frequency identification chips ("RFID business") in the PRC. The

exclusive distributorship agreement was signed in September 2009 with a contract term of two years and it is subject to renewal. The valuation of the exclusive distributorship right as at the date of acquisition of RFID was \$98.3million. Due to a delay in the pilot testing of the RFID chips by the end-user customer, as of 31 December 2010, no income has been generated from the RFID business. Accumulated impairment loss amounted to \$81.4million was recognised as at 31 December 2010 and, taking account of accumulated amortisation of \$11.3million, the carrying amount of exclusive distributorship right was \$5.6 million as at 31 December 2010 (see note 11).

As explained in notes 2(e) and 24, the impairment review process requires the exercise of significant judgement by management at each reporting date, based on available information, estimates, and assumptions about future cash flows and profitability, and is therefore an inherently uncertain process. The management considers that in preparing these financial statements they have taken into account all information that could reasonably be expected to be available and that the basis of preparation is appropriate.

Management is continuing to focus on developing these businesses and in particular, following receipt of the first batch order from the customer in January 2011 for use in the pilot site of the project in Shandong, the management is confident that RFID will begin generating revenue, as well as positive cash flow for the Group on an ongoing basis from FY2011 onwards. Any revisions to accounting estimates, other than relating to reversals of impairment losses recognised against goodwill, will be recognised in the periods in which the estimates are revised.