



PHOENITRON

PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”).

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Phoenix Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- The Group recorded an unaudited revenue of about HK\$110,117,000 for the nine months ended 30 September 2010, representing an increase of 8.1% as compared with that of the corresponding period in 2009.
- The unaudited profit attributable to the owners of the Company for the nine months ended 30 September 2010 was about HK\$2,843,000.
- For the three months and the nine months ended 30 September 2010, the basic earnings per share were about HK\$0.0043 and about HK\$0.0057 respectively.
- The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2010.

UNAUDITED THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and the nine months ended 30 September 2010 together with the comparative figures for the corresponding periods in 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended		Nine months ended	
		30 September	2009	30 September	2009
		2010	2009	2010	2009
		HK\$	HK\$	HK\$	HK\$
Revenue	2	38,757,906	35,849,758	110,117,389	101,910,051
Cost of sales		<u>(28,211,456)</u>	<u>(24,352,845)</u>	<u>(82,239,357)</u>	<u>(67,912,606)</u>
Gross profit		10,546,450	11,496,913	27,878,032	33,997,445
Other revenue	3	672,043	32,610	805,814	113,275
Selling and distribution costs		<u>(1,240,720)</u>	<u>(1,724,062)</u>	<u>(4,003,763)</u>	<u>(4,702,436)</u>
Administrative expenses		<u>(5,503,068)</u>	<u>(5,937,468)</u>	<u>(16,241,673)</u>	<u>(17,958,311)</u>
Finance costs	4	<u>(157,803)</u>	<u>(80,693)</u>	<u>(391,993)</u>	<u>(286,012)</u>
Share of results of a jointly controlled entity		<u>(1,153,225)</u>	–	<u>(2,708,774)</u>	–
Profit before income tax		3,163,677	3,787,300	5,337,643	11,163,961
Income tax expense	5	<u>(1,028,905)</u>	<u>(1,122,026)</u>	<u>(2,495,081)</u>	<u>(4,381,731)</u>
Profit for the period		<u>2,134,772</u>	<u>2,665,274</u>	<u>2,842,562</u>	<u>6,782,230</u>
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		<u>588,005</u>	<u>378,133</u>	<u>1,250,749</u>	<u>1,671,963</u>
Other comprehensive income, net of tax		<u>588,005</u>	<u>378,133</u>	<u>1,250,749</u>	<u>1,671,963</u>
Total comprehensive income for the period		<u>2,722,777</u>	<u>3,043,407</u>	<u>4,093,311</u>	<u>8,454,193</u>
Earnings per share for profit attributable to the owners of the Company during the period	7				
Basic		<u>0.43 cents</u>	<u>0.57 cents</u>	<u>0.57 cents</u>	<u>1.47 cents</u>
Diluted		<u>0.40 cents</u>	<u>0.56 cents</u>	<u>0.54 cents</u>	<u>1.46 cents</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Contributed surplus	Share option reserve	Other reserves	Exchange difference	Available-for sale financial assets revaluation reserve	Warrant reserve	Accumulated profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2009	45,810,000	51,611,489	2,448,014	7	4,994,418	(5,915,760)	–	14,508,410	113,456,578
2008 final dividend paid during the period	–	(6,871,500)	–	–	–	–	–	–	(6,871,500)
Issue of new shares upon exercise of share options	100,000	830,000	–	–	–	–	–	–	930,000
Issue of new shares on placement	3,000,000	34,500,000	–	–	–	–	–	–	37,500,000
Share issue expenses	–	(1,880,585)	–	–	–	–	–	–	(1,880,585)
Issue of unlisted warrants	–	–	–	–	–	–	1,540,500	–	1,540,500
Transactions with owners	48,910,000	78,189,404	2,448,014	7	4,994,418	(5,915,760)	1,540,500	14,508,410	144,674,993
Profit for the period	–	–	–	–	–	–	–	6,782,230	6,782,230
Other comprehensive income – Currency translation	–	–	–	–	1,671,963	–	–	–	1,671,963
Total comprehensive income for the period	–	–	–	–	1,671,963	–	–	6,782,230	8,454,193
At 30 September 2009	<u>48,910,000</u>	<u>78,189,404</u>	<u>2,448,014</u>	<u>7</u>	<u>6,666,381</u>	<u>(5,915,760)</u>	<u>1,540,500</u>	<u>21,290,640</u>	<u>153,129,186</u>
At 1 January 2010	48,910,000	77,937,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	162,391,233
2009 final dividend paid during the period	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of warrants	1,450,000	14,862,500	–	–	–	–	–	–	16,312,500
Issue of new shares upon exercise of share options	120,000	996,000	–	–	–	–	–	–	1,116,000
Transactions with owners	50,480,000	86,441,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	172,465,233
Profit for the period	–	–	–	–	–	–	–	2,842,562	2,842,562
Other comprehensive income – Currency translation	–	–	–	–	1,250,749	–	–	–	1,250,749
Total comprehensive income for the period	–	–	–	–	1,250,749	–	–	2,842,562	4,093,311
At 30 September 2010	<u>50,480,000</u>	<u>86,441,474</u>	<u>2,448,014</u>	<u>7</u>	<u>8,094,184</u>	<u>–</u>	<u>1,445,500</u>	<u>27,649,365</u>	<u>176,558,544</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The Group's unaudited results for the three months and the nine months ended 30 September 2010 have been reviewed by the audit committee.

2. REVENUE

Revenue from the Group's principal activities recognised during the period is as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Sales of smart cards and plastic cards	38,750,586	35,846,558	110,073,669	101,896,101
Sales of smart card application systems	7,320	3,200	42,870	13,950
Service and other income	—	—	850	—
	<u>38,757,906</u>	<u>35,849,758</u>	<u>110,117,389</u>	<u>101,910,051</u>

3. OTHER REVENUE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Interest income	145,468	11,963	190,643	30,060
Gain on disposal of property, plant and equipment	361,636	20,101	361,636	31,702
Sundry income	164,939	546	253,535	51,513
	<u>672,043</u>	<u>32,610</u>	<u>805,814</u>	<u>113,275</u>

4. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Interest on bank loans wholly repayable within five years	127,769	20,536	279,101	83,425
Finance charges on obligations under finance leases	30,034	60,157	112,892	202,587
	<u>157,803</u>	<u>80,693</u>	<u>391,993</u>	<u>286,012</u>

5. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the periods. Taxation for subsidiaries incorporated in the People's Republic of China ("PRC") is calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the PRC.

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") as follows:

Beijing Tecsun Venus Technology Limited is subject to EIT rate of 25%.

Topwise Technology (SZ) Limited is exempted from EIT for two years ending 31 December 2007 and was granted a 50% reduction in EIT for the period from 1 January 2008 to 31 December 2010.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$	2009 HK\$	2010 HK\$	2009 HK\$
Current tax				
– Hong Kong Profits Tax				
Current year	<u>394,000</u>	<u>307,000</u>	<u>571,000</u>	<u>1,357,000</u>
	394,000	307,000	571,000	1,357,000
– PRC Enterprise Income Tax				
Current year	<u>556,684</u>	<u>1,045,238</u>	<u>1,937,980</u>	<u>2,358,536</u>
Under provision in prior year	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,238,153</u>
	556,684	1,045,238	1,937,980	3,596,689
Deferred tax				
Current year	<u>78,221</u>	<u>(230,212)</u>	<u>(13,899)</u>	<u>(571,958)</u>
Total tax charge for the period	<u>1,028,905</u>	<u>1,122,026</u>	<u>2,495,081</u>	<u>4,381,731</u>

6. DIVIDEND

The Board does not recommend any payment of an interim dividend for the nine months ended 30 September 2010 (2009: NIL).

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months and the nine months ended 30 September 2010 is based on the unaudited profit attributable to owners of the Company for the three months and the nine months ended 30 September 2010 of HK\$2,134,772 and HK\$2,842,562 (three months and nine months ended 30 September 2009: HK\$2,665,274 and HK\$6,782,230 respectively) and the weighted average of 499,973,913 and 493,560,806 (three months and nine months ended 30 September 2009: 471,100,000 and 462,554,212 respectively) ordinary shares respectively in issue during the periods.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three months and the nine months ended 30 September 2010 is based on the unaudited profit attributable to owners of the Company for the three months and the nine months ended 30 September 2010 of HK\$2,134,772 and HK\$2,842,562 (three months and nine months ended 30 September 2009: HK\$2,665,274 and HK\$6,782,230 respectively) and the weighted average of 532,093,587 and 525,757,751 (three months and nine months ended 30 September 2009: 473,462,569 and 463,031,551 respectively) ordinary shares in issue during the periods respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

During the period under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards, and the provision of customised smart card application systems. Through its 62.2% owned subsidiary, the Group is also one of the largest licensed scrap auto importer and recyclers in China.

The Group faced a difficult and competitive business environment in the first three quarters of 2010, characterized by both tremendous sales and pricing pressures. Nonetheless, for the nine months ended 30 September 2010, the Group recorded revenue of HK\$110.1 million, representing an increase of 8.1% as compared to the revenue in the corresponding period in 2009 of HK\$101.9 million. The increase in revenue was, however, achieved through offering price-cuts to select customers in exchange for greater sales volume. During the period under review, the cost of sales rose by 21.1%, up from HK\$67.9 million in the corresponding period in 2009, to HK\$82.2 million. This was due primarily to the increase in various direct costs, such as material costs, labor costs and overhead expenses needed to meet the increased volume orders. Many of these direct costs are RMB-based which has also appreciated relative to the HK dollar in the first three quarters of 2010. For the nine months ended 30 September 2010, gross profit dropped to HK\$27.9 million, down by HK\$6.1 million, or 18.0%, as compared to HK\$34.0 million for the corresponding period in 2009. The decrease in gross profit was also partly due to a less favorable sales mix as compared to the corresponding period in 2009. Due to the aforesaid, gross profit margin for the nine months ended 30 September 2010 dropped to 25.3%, as compared to 33.4% for the corresponding period in 2009.

To help off-set the negative impact of the market environment, the Group will continue to streamline its production and operations, including optimising internal resources, enhancing its cash management program, and negotiating with suppliers for better terms. Operating expenses will also be scrutinized to improve efficiency.

During the period under review, selling and distribution costs decreased by 14.9% over last year to HK\$4.0 million (*nine months ended 30 September 2009: HK\$4.7 million*). The decrease was mainly due to the reduction in commission paid after restructuring of the sales team, freight charges and other sales related expenses.

During the period under review, administrative expenses also declined by HK\$1.7 million, or 9.6%, from HK\$18.0 million in the corresponding period in 2009, to HK\$16.3 million. The decrease was attributable to the decreases in various expenses such as exchange loss and office salary due to restructuring of the management team.

In a lower interest rate environment, the Group has decided to increase its bank borrowings. During the period under review, the Group's finance costs increased by only 37.1% during the period to HK\$0.39 million (*nine months ended 30 September 2009: HK\$0.29 million*) despite a two times higher loan balance.

During the period under review, the Group's share of losses of Hota (USA) and its subsidiaries amounted to HK\$2.7 million. Hota's loss in first three quarters of 2010 is comprised of start-up operating expenses, as Hota is still in its plant construction phase. Hota should start manufacturing operations with initial revenue contributions by the end of 2010. The Board believes that the investment in Hota should provide the Group with direct exposure to the promising business opportunity presented by the recycling of metals and materials from scrapped automobiles and the sale of recovered metals and parts. Hota's business is not only a good potential growth and profit driver for the Group, it is also an environmentally significant operation to conserve the earth's metals resources, reduce the amount of auto waste disposed globally, and increase the amount of energy efficient recycled steel production in China.

For the nine months ended 30 September 2010, income tax expense of the Group was HK\$2.5 million, representing a drop of 43.1% as compared with the corresponding period in 2009 of HK\$4.4 million. The drop in income tax expense was due mainly to the decrease in estimated assessable profits for the subsidiaries in Hong Kong and the PRC, but partly offset by the increase in tax rate for a subsidiary of the Company in Shenzhen.

As a result of the foregoing, profit attributable to the owners of the Company for the nine months ended 30 September 2010 amounted to HK\$2.8 million, representing a drop of 58.1% as compared to the corresponding period in 2009 of HK\$6.8 million.

LIQUIDITY AND FINANCIAL RESOURCES

For the nine months ended 30 September 2010, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuing new shares upon exercises of share options and warrants. As at 30 September 2010, the Group had cash and bank balances of HK\$57.2 million, finance lease payable of HK\$3.3 million and secured bank loans of HK\$17.7 million.

As at 30 September 2010, the Group had current assets of HK\$114.6 million and current liabilities of HK\$36.1 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.2.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total bank borrowings to total assets of the Group, was 9.5% as at 30 September 2010 (*30 June 2010: 12.1%*). Accordingly, the financial position of the Group has remained very liquid.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 30 September 2010, the interests or short position of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of director	Type of Interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Aggregate long positions in shares of the Company	Percentage of shareholding
Lily Wu	Personal Interest	–	1,000,000 <i>(Note 1)</i>	1,000,000	0.20
Chang Wei Wen	Personal Interest	800,000	–	800,000	0.16
Leung Quan Yue, Michelle	Personal Interest	–	500,000 <i>(Note 2)</i>	500,000	0.10

Notes:

- As at 30 September 2010, the named director held 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.
- As at 30 September 2010, the named director held 500,000 share options conferring rights to subscribe for 500,000 shares.

Save as disclosed above, as at 30 September 2010, none of the Directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the following persons/companies had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in the shares of the Company

Name of shareholders	Notes	Number of shares held	Percentage of interests
Golden Dice Co., Ltd.	1	82,400,000	16.32
Mr. Tsai Chi Yuan	1	82,400,000	16.32
Best Heaven Limited	2	63,300,000	12.54
Mr. Chu Chen Lin	2	63,300,000	12.54

Notes:

1. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd.
2. Mr. Chu Chen Lin is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Best Heaven Limited.

Save as disclosed above, as at 30 September 2010, the Directors are not aware of any other persons or corporation (other than the Directors and chief executive of the Company) having an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital rights to vote in all circumstances at general meetings of any other member of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the nine months ended 30 September 2010, the Group has complied with the code provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A 2.1 stipulated in the following paragraphs.

The Code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu (“Ms. Wu”) serves as the Chairman of the Board since 1 April 2006. Mr. Anton Ho, the former Chief Executive Officer, resigned from the post with effect from 1 January 2009 and the position was left vacant since his resignation. After due and careful consideration by the Board, Ms. Wu was further appointed as the Chief Executive Officer on 23 March 2009. The reason for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group is still relatively small and thus not justified to separate the roles of chairman and chief executive officer; and
- The Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in such code of conduct throughout the nine months ended 30 September 2010.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond. The chairman of the audit committee is Ms. Wong Ka Wai, Jeanne.

COMPETING INTERESTS

As at 30 September 2010, none of the directors or the management shareholders or any of their respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

For and on behalf of the Board

Lily Wu
Chairman

Hong Kong, 11 November 2010