PHOENITRON

PHOENITRON HOLDINGS LIMITED

品 創 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2011

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 Phoenitron 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.

HIGHLIGHTS

- The Group recorded an unaudited revenue of HK$32,368,000 for the three months ended 31 March 2011, representing a drop of 5.9% as compared with that of the corresponding period in 2010.
- The Group recorded an unaudited loss attributable to the owners of the Company of HK$1,343,000 for the three months ended 31 March 2011.
- The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2011.

UNAUDITED FIRST QUARTERLY RESULTS

The board of Directors (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months ended 31 March 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2011	2010
	Notes	***HK$***	*HK$*
Revenue	*2*	**32,368,290**	34,386,086
Cost of sales		**(24,384,515)**	(25,502,256)
Gross profit		**7,983,775**	8,883,830
Other income	*3*	**4,015,090**	54,143
Selling and distribution costs		**(1,212,481)**	(1,396,554)
Administrative expenses		**(6,215,740)**	(5,629,092)
Finance costs		**(111,348)**	(87,337)
Share of losses of a jointly controlled entity		**(4,942,612)**	(752,672)
(Loss) Profit before income tax		**(483,316)**	1,072,318
Income tax expense	*4*	**(859,723)**	(807,750)
(Loss) Profit for the period		**(1,343,039)**	264,568
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		**270,049**	199,759
Other comprehensive income for the period		**270,049**	199,759
Total comprehensive income for the period		**(1,072,990)**	464,327
		HK cents	*HK cents* (Restated)
(Losses) Earnings per share	*6*		
– Basic		**(0.048)**	0.011
– Diluted		**(0.047)**	0.010

NOTES:

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 unaudited consolidated results have been prepared under the historical cost convention. The accounting policies adopted in preparing the unaudited consolidated results were consistent with those applied for the financial statements of the Group for the year ended 31 December 2010.

The Group's unaudited results for the three months ended 31 March 2011 have been reviewed by the audit committee.

2. REVENUE

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

	Three months ended 31 March	
	2011	2010
	HK$	*HK$*
Sales of smart cards and plastic cards	**32,351,151**	34,358,436
Sales of smart card application systems	**7,500**	26,800
Service and other income	**9,639**	850
	32,368,290	34,386,086

3. OTHER INCOME

	Three months ended 31 March	
	2011	2010
	HK$	*HK$*
Handling fee income	**658,749**	–
Gain on disposal of property, plant and equipment	**7,000**	–
Interest income *(note)*	**3,315,541**	7,861
Sundry income	**33,800**	46,282
	4,015,090	51,143

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity of HK$1,624,315, interest income arising from amortisation of available-for-sale financial assets of HK$1,526,626, interest income on loan receivable of HK$123,288 and bank interest income of HK$41,312 (*three months ended 31 March 2010: HK$7,861*).

4. INCOME TAX EXPENSE

	Three months ended 31 March	
	2011	2010
	HK$	*HK$*
Current tax		
– Hong Kong Profits Tax:		
Current year	**708,000**	57,000
– PRC Enterprise Income Tax		
Current Year	**151,723**	750,750
Total income tax expense	**859,723**	807,750

Hong Kong Profits Tax has been provided at the rate of 16.5% (*2010: 16.5%*) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the People's Republic of China ("PRC") is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC Enterprise Income Tax ("EIT") at the rate of 25% (*2010: 25%*).

5. DIVIDENDS

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2011 (*2010: NIL*).

6. (LOSSES) EARNINGS PER SHARE

(a) Basic (losses) earnings per share

The calculation of basic (losses) earnings per share is based on the loss for the three months ended 31 March 2011 of HK$1,343,039 (*three months ended 31 March 2010: profit of HK$264,568*) and the weighted average of 2,827,056,889 ordinary shares in issue during the period, as adjusted for the Share Sub-division as defined and disclosed in the section headed "Share Sub-division" below as if it had occurred on 1 January 2011 (*three months ended 31 March 2010: 2,445,500,000 ordinary shares, restated for the Share Sub-division*).

(b) Diluted (losses) earnings per share

The calculation of diluted (losses) earnings per share is based on the loss for the three months ended 31 March 2011 of HK$1,343,039 (*three months ended 31 March 2010: profit of HK$264,568*) and the weighted average of 2,832,427,957 ordinary shares (*three months ended 31 March 2010: 2,555,034,954 ordinary shares, restated for the Share Sub-division*), calculated as follows:

	Three months ended 31 March	
	2011	2010 (Restated)
Weighted average number of ordinary shares used in the calculation of basic (losses) earnings per share	**2,827,056,889**	2,445,500,000
Effect of deemed issue of shares under the Company's share option scheme	**5,371,068**	6,087,089
Effect of deemed issue of shares on exercise of warrants	**–**	103,447,865
Weighted average number of ordinary shares for the purpose of calculating diluted (losses) earnings per share	**2,832,427,957**	2,555,034,954

7. RESERVE

	Contributed surplus HK$	Share option reserve HK$	Other reserves HK$	Translation reserve HK$	Available-for-sale financial assets revaluation reserve HK$	Warrant reserve HK$	Accumulated profits HK$	Total HK$
At 1 January 2010	77,937,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	113,481,233
Total comprehensive income for the period	–	–	–	199,759	–	–	264,568	464,327
At 31 March 2010	77,937,474	2,448,014	7	7,043,194	–	1,445,500	25,071,371	113,945,560
At 1 January 2011	**137,272,980**	**1,360,008**	**7**	**8,781,604**	**2,058,355**	**–**	**38,302,445**	**187,775,399**
Issue of new shares upon completion of the Open Offer	**93,826,400**	**–**	**–**	**–**	**–**	**–**	**–**	**93,826,400**
Share issue expenses	**(1,193,534)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,193,534)**
Total comprehensive income for the period	**–**	**–**	**–**	**270,049**	**–**	**–**	**(1,343,039)**	**(1,072,990)**
At 31 March 2011	**229,905,846**	**1,360,008**	**7**	**9,051,653**	**2,058,355**	**–**	**36,959,406**	**279,335,275**

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

During the period under review, the Group's financial results was principally derived from its Intercard subsidiary which is engaged in the manufacturing and sales of smart cards and plastic cards, and in the provision of customised smart card application systems.

The Group's Intercard subsidiary faced a difficult and competitive business environment in the first quarter of 2011, characterized by on-going price pressures and rising wage costs in China. The Group's revenue for the three months ended 31 March 2011 was HK$32.4 million, representing a drop of 5.9% as compared to the corresponding period in 2010 of HK$34.4 million. The decrease was due primarily to the price-cuts that have been offered to selected customers in exchange for greater sales volume.

Cost of Sales and Gross Profit

During the period under review, cost of sales dropped by HK$1.1 million, or 4.4%, from HK$25.5 million for the corresponding period in 2010 to HK$24.4 million. This was due to production efficiencies which led to lower per unit material costs and also a decline in direct depreciation charges as fixed assets gradually depreciate in full. However, such favorable effects were partly offset by the substantial increase in direct labor costs needed to meet the increased volume orders. Wages have experienced a high inflation rate in China in Shenzhen and Beijing where the Group's plants are located, and are RMB-based which has also appreciated relative to the HK dollar during the period. As a result, gross profit dropped to HK$8.0 million, down by HK$0.9 million, or 10.1%, as compared to the corresponding period in 2010 of HK$8.9 million. Due to the aforesaid, gross profit margin for the three months ended 31 March 2011 dropped slightly to 24.7%, as compared to 25.8% for the corresponding period in 2010.

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. New related value-added services and product smartcard product innovations are also being explored.

Overall, we remain confident about the quality of contribution of Intercard's business, which enjoys a sizable market share of the global outsourced SIM card production. Netting out the impact of the jointly controlled entity on the Income Statement, the smartcard business generated HK$0.5 million pretax profit, and over HK$8 million in operating cashflow for the period under review.

Other Income

Other income of HK$4.0 million (*three months ended 31 March 2010: HK$0.05 million*) mainly comprised interest income arising from amount due from a jointly controlled entity of HK$1.6 million and interest income arising from amortisation of available-for-sale financial assets of HK$1.5 million, handling fee income of HK$0.7 million, as well as bank and other interest income and gain on disposal of fixed assets.

Selling and Distribution Costs

Selling and distribution costs decreased by 13.2% over last year to HK$1.2 million (*three months ended 31 March 2010: HK$1.4 million*), was attributable to the drop in freight charges and other relating expenses in association to the drop in revenue.

Administrative Expenses

Administrative expenses recorded an increase of HK$0.6 million or 10.4% over last year to HK$6.2 million (*three months ended 31 March 2010: HK$5.6 million*). The increase was attributable to the increase in legal and professional fee and consultancy fee for various corporate exercises and transactions of the Group.

Finance Costs

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 27.5% to HK$0.11 million (*three months ended 31 March 2010: HK$0.09 million*) with an increase of 28.7% in the loan balance.

Share of Results of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK$4.94 million (*three months ended 31 March 2010: HK$0.75 million*). Hota's loss in this quarter is comprised of start-up operating expenses. Hota is in the process of equipment installation and trial productions. We expect Hota will start operations in Zhangjiagang with initial revenue contributions by the second quarter of 2011. Overseas operations were established in the first quarter of 2011 to handle scrap automobile purchases and pre-processing of select parts. In the long-term, the Board believes that the investment 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 and reusable 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.

Income Tax Expense

Income tax expense of the Group for the three months ended 31 March 2011 was HK$0.86 million, representing a slight increase of 6.4% as compared to the corresponding period in 2010 of HK$0.81 million.

As a result of the foregoing, loss attributable to the owners of the Company for the three months ended 31 March 2011 amounted to HK$1.34 million (*three months ended 31 March 2010: profit of HK$0.26 million*).

Subsequent to the year end, the Company has completed the Share Subdivision and the Open Offer (as defined and disclosed in the sections headed "Share-Subdivision" and "Open Offer" below).

The Share Sub-division has the effect of decreasing the nominal value and trading price of each share and increasing the total number of shares in issue. The Board is of the view that the increase in the number of shares as a result of the Share Sub-division will improve the liquidity in trading of the subdivided shares, thereby enabling the Company to attract more investors and broaden its shareholder base. The Board also believes that the implementation of the Share Subdivision is in the interests of the Company and its shareholders as a whole and would not have any adverse effect on the financial position of the Company.

As for the Open Offer, having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, it was decided that the Open Offer allowed the Group to strengthen its balance sheet at the lowest cost and avoided a substantial increase in exposure to potentially rising interest rates in the future. The Board considered that the Open Offer was in the interest of the Company and the shareholders as a whole as it offers all the qualifying shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the qualifying shareholders to maintain their proportionate interests in the Company and to continue to participate in the future development of the Company should they wish to do so. The estimated net proceeds from the Open Offer is approximately HK$98.15 million. The Board intends to apply such proceeds from the Open Offer as funds for the future development of the existing business of the Group, and to take advantage of future new investment should opportunities which may arise.

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

As at 31 March 2011, 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:

Name of director	Nature of interest	Long/short Position	Number of shares of the Company	Number of underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Lily Wu *(Note 1)*	Beneficial owner	Long	1,000,000	5,000,000	0.20
Chang Wei Wen	Beneficial owner	Long	5,250,000	–	0.17
Leung Quan Yue, Michelle *(Note 2)*	Beneficial owner	Long	200,000	2,500,000	0.09
Yang Meng Hsiu	Beneficial owner	Long	43,000,000	–	1.42

Notes:

1. As at 31 March 2011, the named director held 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.

2. As at 31 March 2011, the named director held 2,500,000 share options conferring rights to subscribe for 2,500,000 shares.

Save as disclosed above, as at 31 March 2011, 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 31 March 2011, 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:

Name of shareholders	Type of Interests	Long/short Position	Number of shares of the Company	Approximate percentage of interests
Golden Dice Co., Ltd. *(Note 1)*	Beneficial	Long	493,270,125	16.25
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	493,270,125	16.25
Best Heaven Limited *(Note 2)*	Beneficial	Long	316,500,000	10.43
Mr. Chu Chen Lin *(Note 2)*	Interests in controlled company	Long	316,500,000	10.43

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 31 March 2011, 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.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the period under review, the Group financed its business operations and investments with cash revenue generated from operating activities, bank loans, finance lease arrangements and net proceeds from issuance of new shares with the completion of the Open Offer. As at 31 March 2011, the Group had cash and bank balances of HK$145.6 million, finance leases payable of HK$1.3 million and a secured bank loan of HK$13.7 million.

As at 31 March 2011, the Group had current assets of HK$270.9 million and current liabilities of HK$43.5 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 6.2.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 3.9% as at 31 March 2011 (*31 December 2010: 7.2%*). Accordingly, the financial position of the Group remains very liquid.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. 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.

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 three months ended 31 March 2011, the Group compiled 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 A2.1 stipulated in the following paragraphs.

The Code provision A2.1 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 reasons 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 three months ended 31 March 2011.

COMPETING INTERESTS

As at 31 March 2011, none of the directors or the management shareholders or any of its 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 period ended 31 March 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE SUB-DIVISION

Pursuant to the resolution passed at the extraordinary general meeting on 17 January 2011, each of the issued and unissued shares of HK$0.1 in the share capital of the Company is sub-divided into five new shares of HK$0.02 each (the "Share Sub-division"). Immediately after the Share Sub-division, the authorised share capital of the Company becomes HK$100,000,000 divided into 5,000,000,000 shares of HK$0.02 each by the creation of additional 4,000,000,000 shares, and the issued share capital becomes HK$55,192,000 divided into 2,759,600,000 shares of HK$0.02 each by the creation of additional 2,207,680,000 shares.

OPEN OFFER

In February 2011, the Company proposed to raise funds by way of an open offer of 275,960,000 shares at a price of HK$0.36 per offer share on the basis of one offer share for every ten shares held (the "Open Offer"). Upon the completion of the Open Offer on 15 March 2011, the issued share capital of the Company has become HK$60,711,200 divided into 3,035,560,000 shares of HK$0.02. The net proceeds generated from the Open Offer amounted to approximately HK$98,150,000.

By order of the Board
Lily Wu
Chairman

Hong Kong, 9 May 2011