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 2012

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.

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

- Revenue for the three months ended 31 March 2012 amounted to HK$32,623,000, representing a drop of 1.2% as compared to the corresponding period in 2011 of HK$33,027,000.

- The Group recorded an unaudited loss attributable to the owners of the Company of HK$3,414,000 for the three months ended 31 March 2012.

- The Directors do not recommend any payment of an interim dividend for the three months ended 31 March 2012.

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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2012	2011
	Notes	***HK$***	*HK$*
			(Restated)
Revenue	*2*	**32,623,400**	33,027,039
Cost of sales		**(26,076,813)**	(24,384,515)
Gross profit		**6,546,587**	8,642,524
Other income	*3*	**4,900,373**	3,349,341
Other gains and losses	*4*	**(583,123)**	(321,364)
Selling and distribution costs		**(1,478,110)**	(1,212,481)
Administrative expenses		**(6,202,714)**	(5,887,376)
Finance costs		**(352,440)**	(111,348)
Share of losses of a jointly controlled entity		**(5,112,299)**	(4,942,612)
Loss before income tax		**(2,281,726)**	(483,316)
Income tax expense	*5*	**(1,132,000)**	(859,723)
Loss for the period		**(3,413,726)**	(1,343,039)
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		**580,180**	270,049
Other comprehensive income for the period		**580,180**	270,049
Total comprehensive income for the period		**(2,833,546)**	(1,072,990)
		HK cents	*HK cents*
Losses per share	*7*		
– Basic		**(0.113)**	(0.048)
– Diluted		**(0.112)**	(0.047)

NOTES:

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the three months ended 31 March 2012 has 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 ("HKICPA"). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2012, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

Taxes on income in the periods are accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the Period.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs will not have material impact on the unaudited condensed consolidated financial information of the Group.

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

In preparing these condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2011.

2. REVENUE

Turnover of the Group is the revenue from these activities. Revenue from the Group's principal activities recognised during the reporting period is as follows:

	Three months ended 31 March	
	2012	2011
	HK$	*HK$*
		(Restated)
Sales of smart cards and plastic cards	**31,554,491**	32,351,151
Sales of smart card application systems	**3,720**	17,139
Service income	**1,065,189**	658,749
	32,623,400	33,027,039

3. **OTHER INCOME**

	Three months ended 31 March	
	2012	2011
	HK$	*HK$*
		(Restated)
Interest income *(Note)*	**4,864,138**	3,315,541
Sundry income	**36,235**	33,800
	4,900,373	3,349,341

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity and bank deposits of HK$3,010,586 (*2011: HK$1,788,915*) in aggregate which are financial assets not at fair value through profit or loss, as well as interest income arising from amortisation of available-for-sale financial assets of HK$1,853,552 (*2011: HK$1,526,626*).

4. **OTHER GAINS AND LOSSES**

	Three months ended 31 March	
	2012	2011
	HK$	*HK$*
		(Restated)
Gain on disposal of property, plant and equipment	**92,466**	7,000
Exchange losses, net	**(675,589)**	(328,364)
	(583,123)	(321,364)

5. **INCOME TAX EXPENSE**

	Three months ended 31 March	
	2012	2011
	HK$	*HK$*
Current tax		
Hong Kong Profits Tax:		
Current period	**1,132,000**	708,000
PRC Enterprise Income Tax		
Current period	**–**	151,723
Total income tax expense	**1,132,000**	859,723

Hong Kong Profits Tax has been provided at the rate of 16.5% (*2011: 16.5%*) on the estimated assessable profits for the period. Taxation for subsidiaries established and operated in the PRC is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC. No provision for PRC Enterprise Income Tax ("EIT") has been made for the period as the subsidiaries sustained tax losses during the period.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to EIT at the rate of 25% (*2011: 25%*).

6. DIVIDENDS

The Board does not recommend any payment of an interim dividend for the three months ended 31 March 2012 (*three months ended 31 March 2011: NIL*).

7. LOSSES PER SHARE

(a) Basic losses per share

The calculation of basic losses per share is based on the loss for the three months ended 31 March 2012 of HK$3,413,726 (*three months ended 31 March 2011: HK$1,343,039*) and the weighted average of 3,026,363,571 (*three months ended 31 March 2011: 2,827,056,889)* ordinary shares in issue during the period.

(b) Diluted losses per share

The calculation of diluted losses per share is based on the loss for the three months ended 31 March 2012 of HK$3,413,726 (*three months ended 31 March 2011: HK$1,343,039*) and the weighted average of 3,040,436,174 (*three months ended 31 March 2011: 2,832,427,957*) ordinary shares, calculated as follows:

	Three months ended 31 March	
	2012	2011
Weighted average number of ordinary shares used in the calculation of basic losses per share	**3,026,363,571**	2,827,056,889
Effect of deemed issue of shares under the Company's share option scheme	**3,859,287**	5,371,068
Effect of deemed issue of shares on exercise of warrants	**10,213,316**	–
Weighted average number of ordinary shares for the purpose of calculating diluted losses per share	**3,040,436,174**	2,832,427,957

8. 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 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
At 1 January 2012	**214,082,297**	**1,360,008**	**7**	**12,541,386**	**8,595,048**	**–**	**125,372,916**	**361,951,662**
Issue of unlisted warrants	**–**	**–**	**–**	**–**	**–**	**4,000,000**	**–**	**4,000,000**
Repurchase of shares	**(1,387,075)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,387,075)**
Total comprehensive income for the period	**–**	**–**	**–**	**580,180**	**–**	**–**	**(3,413,726)**	**(2,833,546)**
At 31 March 2012	**212,695,222**	**1,360,008**	**7**	**13,121,566**	**8,595,048**	**4,000,000**	**121,959,190**	**361,731,041**

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Review

Revenue

During the period under review, the Group's revenue was principally derived from its Intercard subsidiary which is engaged in the manufacturing and sales of smart cards and plastic cards, and also from the provision of management and financial consultancy services.

The Group's Intercard subsidiary faced a difficult and competitive business environment for the period under review, characterized by on-going price pressures and rising costs in China. During the period under review, the Group's revenue generated from the smartcard business was HKD31.6 million, slightly down by 0.8 million or 2.5%, as compared to HKD32.4 million for the corresponding period in 2011. The decrease was due primarily to price-cuts that have been offered to selected customers in exchange for greater sales volume.

Revenue generated from the provision of management and financial consultancy services amounted to HKD1.1 million during the period under review, representing an increase of 61.7% as compared to the corresponding period in last year of HK$0.7 million.

Cost of Sales and Gross Profit

During the period under review, cost of sales increased by HK$1.7 million, or 6.9%, from HK$24.4 million for the corresponding period of 2011 to HK$26.1 million. As mentioned in the 2011 annual report, the Group is vertically integrating upstream and will begin to offer smartcard IC module packaging and testing services (trial production is expected to be commenced by June 2012), and therefore, the Beijing smartcard operation has just completed the moving in April to a new larger facility in Shunyi which houses both the existing smartcard production business and the new module packaging and testing business. The increase in cost of sales was largely attributable to the pre-operating direct costs (e.g. rental of new plant) incurred during the period in relation to the move and integration which amounted to approximately HK$1.0 million. Improved production efficiency in the on-going smartcard production operation led to a 4.8% reduction year-over-year in direct wages, which was unfortunately offset by an 8.7% year-over-year increase in materials (primarily plastics, which is an oil-based cost).

As a result, gross profit dropped to HK$6.5 million, down by HK$2.1 million, or 24.3%, as compared to the corresponding period in last year of HK8.6 million. Due to the aforesaid, gross profit margin for the period under review dropped to 20.1%, as compared to 26.2% for the corresponding period in 2011.

By this year end and going into next year when the new smartcard IC module packaging and testing services become fully up to speed, the Board believes the Company will capture a greater portion of the value and profit in the smartcard production chain, and provide improved one-stop services to its existing and potential customers, from the original manufacturing and sales of smart cards and plastic cards to the new module packaging and testing services. This should enhance competitiveness and achieve a return to smartcard revenue growth and better profits for the Group.

Other Income

Other revenue of HK$4.9 million (*three months ended 31 March 2011 (restated): HK$3.4 million*) was mainly comprised of interest income arising from the amount due from a jointly controlled entity and bank deposits of HK$3.0 million (*2011: HK$1.8 million*) and interest income arising from amortisation of available-for-sale financial assets of HK$1.9 million (*three months ended 31 March 2011: HK$1.6 million*).

Other Gains or Losses

During the period under review, other losses amounted HK$0.6 million (*three months ended 31 March 2011 (restated): HK$0.3 million*) which was represented mainly by the exchange losses arising from the foreign currency transactions.

Selling and Distribution Costs

Selling and distribution costs increased by 21.9% over the corresponding period in 2011 to HK$1.5 million (*three months ended 31 March 2011: HK$1.2 million*), and was attributable to the increases in freight charges (as goods were delivered to more remote customers) and also in overseas travelling expenses for soliciting new orders and exploring new business opportunities.

Administrative Expenses

Administrative expenses recorded an increase of HK$0.3 million or 5.4% over the corresponding period in 2011 to HK$6.2 million (*three months ended 31 March 2011 (restated): HK$5.9 million*). The increase was primarily attributable to the pre-operating expenses incurred in relation to the new smartcard IC module packaging and testing services as mentioned above, which was partly offset by a decline in legal and professional fees (for various corporate exercises and transactions of the Group), consultancy fees, and other operating expenses during the period under review.

Finance Costs

In a lower interest rate environment, the Group has decided to increase its bank borrowings for its operating activities and to finance the acquisition of machinery in relation to the new module packaging and testing business. During the period under review, the Group's finance costs amounted to HK$0.35 million (*three months ended 31 March 2011: HK$0.11 million*).

Share of Losses of a Jointly Controlled Entity

Share of losses of Hota, a jointly controlled entity, after tax amounted to HK$5.1 million (*three months ended 31 March 2011: HK$4.9 million*). Hota's loss in the period under review was attributed to operations being below optimal utilization levels due to the early trial period nature of establishing sourcing and delivery channels and fine tuning production. Hota just started operations in Zhangjiagang in December 2011, and we expect commercial volumes of recycling and parts sales to be evident by the second half of 2012. Overseas office have also been established in Japan and Taiwan to handle scrap automobile purchases and pre-processing of select parts. It is expected that Hota's earnings potential will gradually ramp up in the coming quarters to become a net contributor to the Group. In the long-term, the Board believes that the Hota 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

During the period under review, income tax expense of the Group amounted to HK$1.1 million (*three months ended 31 March 2011: HK$0.9 million*).

As a result of the foregoing, loss attributable to the owners of the Company for the three months ended 31 March 2012 amounted to HK$3.4 million, representing an increase of HKD2.1 million as compared to HK$1.3 million for the corresponding period in 2011.

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

As at 31 March 2012, 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. These include 5,000,000 share options conferring rights to subscribe for 5,000,000 shares.

2. These include 2,500,000 share options conferring rights to subscribe for 2,500,000 shares.

Save as disclosed above, as at 31 March 2012, 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 2012, 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	504,080,125	16.67
Best Heaven Limited *(Note 1)*	Beneficial	Long	313,240,000	10.36
Mr. Tsai Chi Yuan *(Note 1)*	Interests in controlled company	Long	817,320,125	27.03

Note:

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. and Best Heaven Limited.

Save as disclosed above, as at 31 March 2012, 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 unlisted warrants. As at 31 March 2012, the Group had cash and bank balances of HK$56.5 million, finance leases payable of HK$0.7 million and a secured bank loan of HK$39.5 million.

As at 31 March 2012, the Group had current assets of HK$276.8 million and current liabilities of HK$69.5 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 4.0.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 8.2% as at 31 March 2012 (*31 December 2011: 7.8%*). 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 Group's results for the three months ended 31 March 2012 have been reviewed by the audit committee.

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 2012, 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 2012.

COMPETING INTERESTS

As at 31 March 2012, 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 three months ended 31 March 2012, the Company repurchased and cancelled a total of 4,030,000 of its own shares on the Stock Exchange at an aggregate consideration (before expenses) of HK$1,467,675.

Particulars of the repurchases are as follows:

Date of repurchase	**No. of Shares**	**Price per share**		**Aggregate**
		Highest	**Lowest**	**price**
		HK$	*HK$*	*HK$*
January	2,130,000	0.400	0.350	793,050
February	1,900,000	0.370	0.350	674,625
TOTAL	4,030,000			1,467,675

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the period.

By order of the Board
Lily Wu
Chairman

Hong Kong, 10 May 2012