PHOENITRON HOLDINGS LIMITED

品創控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8066)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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.

This announcement, 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 announcement 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 announcement misleading.

HIGHLIGHTS

- Revenue for the year ended 31 December 2010 amounted to HK$152,604,000, representing an increase of 7.8% as compared to the corresponding period in 2009 of HK$141,510,000.
- The Group recorded an audited profit attributable to the owners of the Company of HK$13,496,000 for the year ended 31 December 2010.
- The Directors recommend the payment of a final dividend of 0.4 HK cents per share (2009: 1.5 HK cents) for the year ended 31 December 2010.

The board of Directors (the "Board") announces the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2010 together with the comparative figures for the year 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2010** *HK$*	2009 *HK$*
Revenue	*4*	**152,604,376**	141,509,907
Cost of sales		**(112,448,983)**	(94,307,118)
Gross profit		**40,155,393**	47,202,789
Other income	*5*	**8,413,052**	501,974
Selling and distribution costs		**(5,489,606)**	(6,341,575)
Administrative expenses		**(24,765,581)**	(23,311,342)
Finance costs	*6*	**(527,821)**	(354,587)
Share of losses of a jointly controlled entity		**(346,924)**	(1,161,881)
Profit before income tax	*7*	**17,438,513**	16,535,378
Income tax expense	*8*	**(3,942,871)**	(6,236,985)
Profit for the year		**13,495,642**	10,298,393
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		**2,058,355**	5,915,760
Exchange gain on translation of financial statements of foreign operations		**1,938,169**	1,849,017
Other comprehensive income for the year		**3,996,524**	7,764,777
Total comprehensive income for the year		**17,492,166**	18,063,170
		HK cents	*HK cents* (Restated)
Earnings per share	*10*		
– Basic		**0.537**	0.439
– Diluted		**0.507**	0.432

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2010** **HK$**	2009 *HK$* (Restated)	At 1 January 2009 *HK$* (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		**26,431,378**	35,637,560	40,179,593
Intangible assets		**420,000**	–	–
Interest in an associate		**1,135,136**	1,135,136	1,135,136
Long-term financial assets		**83,680,030**	78,787,860	27,461,681
		111,666,544	115,560,556	68,776,410
Current assets				
Inventories		**6,280,020**	6,829,843	7,841,812
Trade and other receivables	*11*	**57,521,989**	41,483,512	36,509,513
Amount due from a jointly controlled entity		**67,103,364**	–	–
Pledged bank deposits		**927,117**	926,972	926,615
Cash and cash equivalents		**47,340,764**	32,949,818	42,698,969
		179,173,254	82,190,145	87,976,909
Current liabilities				
Trade and other payables	*12*	**26,532,929**	26,217,755	22,720,555
Borrowings	*13*	**20,956,851**	5,521,649	12,221,334
Current tax liabilities		**377,912**	1,319,812	1,526,167
		47,867,692	33,059,216	36,468,056
Net current assets		**131,305,562**	49,130,929	51,508,853
Total assets less current liabilities		**242,972,106**	164,691,485	120,285,263
Non-current liabilities				
Borrowings	*13*	**–**	2,295,545	6,362,321
Deferred tax liabilities		**4,707**	4,707	466,364
		4,707	2,300,252	6,828,685
Net assets		**242,967,399**	162,391,233	113,456,578
EQUITY				
Share capital		**55,192,000**	48,910,000	45,810,000
Reserves		**187,775,399**	113,481,233	67,646,578
Total equity		**242,967,399**	162,391,233	113,456,578

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital *HK$*	Contributed surplus *HK$*	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 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 *(note 9)*	–	(6,871,500)	–	–	–	–	–	–	(6,871,500)
Issue of new shares on placement	3,000,000	34,500,000	–	–	–	–	–	–	37,500,000
Issue of new shares upon exercise of share options	100,000	830,000	–	–	–	–	–	–	930,000
Share issue expenses	–	(2,132,515)	–	–	–	–	–	–	(2,132,515)
Issue of non-listed warrant	–	–	–	–	–	–	1,445,500	–	1,445,500
Transactions with owners	3,100,000	26,325,985	–	–	–	–	1,445,500	–	30,871,485
Profit for the year	–	–	–	–	–	–	–	10,298,393	10,298,393
Other comprehensive income									
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	5,915,760	–	–	5,915,760
– Translation of foreign operation	–	–	–	–	1,849,017	–	–	–	1,849,017
Total comprehensive income for the year	–	–	–	–	1,849,017	5,915,760	–	10,298,393	18,063,170
At 31 December 2009	48,910,000	77,937,474	2,448,014	7	6,843,435	–	1,445,500	24,806,803	162,391,233

	Share capital HK$	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	**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 *(note 9)*	–	(7,354,500)	–	–	–	–	–	–	(7,354,500)
Issue of new shares upon exercise of share options	120,000	2,084,006	(1,088,006)	–	–	–	–	–	1,116,000
Issue of new shares upon exercise of non-listed warrant	6,162,000	64,606,000	–	–	–	–	(1,445,500)	–	69,322,500
Transactions with owners	6,282,000	59,335,506	(1,088,006)	–	–	–	(1,445,500)	–	63,084,000
Profit for the year	–	–	–	–	–	–	–	13,495,642	13,495,642
Other comprehensive income									
– Change in fair value of available-for-sale financial assets	–	–	–	–	–	2,058,355	–	–	2,058,355
– Translation of foreign operation	–	–	–	–	1,938,169	–	–	–	1,938,169
Total comprehensive income for the year	–	–	–	–	1,938,169	2,058,355	–	13,495,642	17,492,166
At 31 December 2010	**55,192,000**	**137,272,980**	**1,360,008**	**7**	**8,781,604**	**2,058,355**	**–**	**38,302,445**	**242,967,399**

NOTES:

1. BASIS OF PREPARATION

The financial statements 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 ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for certain financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

2. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

In the current year, the Group has applied for the first time the following revision and amendment to standards and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Improvements to HKFRSs 2009

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HK Interpretation 5 is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively with consequential reclassification adjustments to comparatives as at 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

Effect of adoption of HK Interpretation 5 on the consolidated statement of financial position is summarised below:

	As at 31 December 2010 *HK$*	As at 31 December 2009 *HK$*	As at 1 January 2009 *HK$*
Increase/(Decrease) in:			
Current liabilities			
Borrowings	**6,273,089**	–	1,454,874
Non-current liabilities			
Borrowings	**(6,273,089)**	–	(1,454,874)

As a result of the above retrospective reclassification, an additional consolidated statement of financial position is presented in accordance with HKAS 1.

(b) New/revised HKFRSs that have been issued but are not yet effective

HKAS 24 (Revised) Related Party Disclosure

The standard is effective for annual periods beginning on or after 1 January 2011. The new standard clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. This amendment is not expected to have significant impact to the Group.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HK(IFRIC)-Int 19 Extinguishing financial liabilities with equity instruments

The interpretation clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. The directors are currently assessing the possible impact of this interpretation on the Group's results and financial position in the first year of application.

Annual improvements 2010

The HKICPA issued "Improvements to Hong Kong Financial Reporting Standards 2010". Unless otherwise specified, the amendments contained in the improvements are effective for annual periods beginning on or after 1 January 2011. The directors are currently assessing the possible impact of the amendments contained in the improvements on the Group's results and financial position in the first year of application.

3. SEGMENT INFORMATION

The Group operates in one single business segment i.e. manufacturing and sales of smart cards and plastic cards and smart card application systems. Information reported in these financial statements is identical to those used regularly by the directors for the purpose of resource allocation and assessment of the Group's performance as a whole. Accordingly, no business segment information is presented.

Geographical information:

The following table presents the revenue from external customers for the reporting period and the specified non-current assets (i.e. non-current assets excluding financial instrument and tax assets) by geographical locations as at the reporting date.

	Revenue from external customers		**Specified non-current assets**	
	2010	2009	**2010**	2009
	HK$	*HK$*	***HK$***	*HK$*
Asia, excluding the PRC	**55,418,784**	48,606,522	**–**	–
Europe	**44,344,936**	48,857,876	**–**	–
Hong Kong	**559,493**	546,183	**15,117,379**	21,833,710
PRC, excluding Hong Kong	**52,050,203**	42,750,194	**12,869,135**	14,938,986
Others	**230,960**	749,132	**–**	–
Total	**152,604,376**	141,509,907	**27,986,514**	36,772,696

The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have activities. Since the major operations of the Group are conducted in the PRC, the PRC is considered as the Group's country of domicile for the disclosure purpose of HKFRS 8 *Operating Segments*.

Information about major customers

Revenue from each of the major customers during the reporting period are as follows:

	2010	2009
	HK$	*HK$*
Customer A	**44,071,068**	46,454,495
Customer B	**38,407,757**	12,525,724
Customer C	**22,909,637**	25,768,881
Customer D	**14,944,793**	11,588,922

4. REVENUE

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

	2010	2009
	HK$	*HK$*
Sales of smart cards and plastic cards	**152,560,656**	141,488,407
Sales of smart card application systems	**42,870**	19,200
Service and other income	**850**	2,300
	152,604,376	141,509,907

5. OTHER INCOME

	2010	2009
	HK$	*HK$*
Handling fee income	**254,200**	–
Gain on disposal of property, plant and equipment	**376,297**	31,702
Interest income *(note)*	**7,094,194**	41,749
Sundry income	**688,361**	428,523
	8,413,052	501,974

Note:

Interest income comprises interest income arising from amount due from a jointly-controlled entity of HK$974,164, interest income arising from amortisation of available-for-sale financial assets of HK$5,762,050, interest income on loan receivable (note 11(b)) of HK$268,000 and bank interest income of HK$89,890 (2009: HK$41,749).

6. FINANCE COSTS

	2010	2009
	HK$	*HK$*
Interest charges on bank loans wholly repayable within five years *(note)*	**392,567**	99,290
Interest elements of finance lease payments	**135,254**	255,297
	527,821	354,587

Note:

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the respective loan agreements. For the years ended 31 December 2010 and 2009, interest charges on bank borrowings which contain a repayment on demand clause amounted to HK$330,230 and HK$91,322 respectively.

7. PROFIT BEFORE INCOME TAX

	2010	2009
	HK$	*HK$*
Profit before income tax is arrived at after charging:		
Auditors' remuneration	**417,000**	490,000
Bad debts written off	**37,285**	–
Costs of inventories recognised as expenses	**112,448,983**	94,307,118
Depreciation		
– Owned assets	**10,954,746**	10,893,649
– Leased assets	**2,661,153**	2,661,153
	13,615,899	13,554,802
Net foreign exchange loss	**1,132,494**	2,626,584
Operating lease charges on land and buildings	**4,083,701**	3,676,094
Research and development costs	**161,634**	149,860
Write down of inventories to net realisable value[1]	**382,949**	–
Fair value loss on a derivative[2]	**2,928,235**	–

[1] included in cost of inventories recognised as expenses

[2] included in administrative expenses and represents the change in fair value of the derivative component arises from conversion right attaching to the investment in HOTA (USA) which is accounted for as an available-for-sale financial asset.

8. INCOME TAX EXPENSE

	2010	2009
	HK$	*HK$*
Current tax		
– Hong Kong Profits Tax:		
Current year	**1,170,937**	1,605,153
Underprovision in prior year	**–**	56,847
	1,170,937	1,662,000
– PRC Enterprise Income Tax		
Current year	**2,769,171**	3,798,489
Underprovision in prior year	**2,763**	1,238,153
	2,771,934	5,036,642
Deferred tax		
Current year	**–**	(461,657)
Total income tax expense	**3,942,871**	6,236,985

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation for subsidiaries established and operated in the People's Republic of China ("PRC") is calculated on the estimated assessable profit for the year 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% (2009: 25%).

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

Reconciliation between income tax expense and accounting profit at applicable tax rates is at follows:

	2010	2009
	HK$	*HK$*
Profit before income tax	**17,438,513**	16,535,378
Income tax at Hong Kong profits tax rate of 16.5% (2009: 16.5%)	**2,877,355**	2,728,337
Effect of different tax rates of subsidiaries operating in other jurisdictions	**319,335**	565,399
Tax effect of non-deductible expenses	**2,016,024**	1,567,033
Tax effect of non-taxable income	**(1,200,139)**	(196,870)
Tax effect of tax losses not recognised	**94,373**	57,728
Utilisation of tax losses previously not recognised	**(215,074)**	–
Under provision in prior year	**2,763**	1,295,000
Others	**48,234**	220,358
Income tax expense	**3,942,871**	6,236,985

9. DIVIDENDS

(a) Dividends attributable to the year

	2010	2009
	HK$	*HK$*
Proposed final dividend of 0.4 HK cents (2009: 1.5 HK cents) per share	**12,142,240**	7,336,500

The final dividend proposed after the reporting period has not been recognised. The rate of the final dividend for 2010 is determined after taking into account the Share Sub-division and the Open Offter as defined and disclosed in the section headed "Event After the End of the Reporting Period".

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2010	2009
	HK$	*HK$*
Final dividend in respect of the previous financial year of 1.5 HK cents (2009: 1.5 HK cents) per share	**7,354,500**	6,871,500

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$13,495,642 (2009: HK$10,298,393) and the weighted average of 2,513,317,535 ordinary shares in issue during the year, as adjusted for the Share Sub-divison as defined and disclosed in the section headed "Event After the End of the Reporting Period" below as if it had occurred on 1 January 2009 (2009: 2,346,500,000 ordinary shares, restated for the Share Sub-divison).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of HK$13,495,642 (2009: HK$10,298,393) and the weighted average of 2,664,170,657 ordinary shares (2009: 2,383,278,740 ordinary shares, restated for the Share Sub-division), calculated as follows:

	2010	2009
		(Restated)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,513,317,535**	2,346,500,000
Effect of deemed issue of shares under the Company's share option scheme	**6,101,260**	5,118,940
Effect of deemed issue of shares on exercise of warrants	**144,751,862**	31,659,800
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,664,170,657**	2,383,278,740

11. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$	*HK$*
Trade Receivables – From third parties *(note a)*	**47,247,846**	35,896,851
Loan Receivable *(note b)*	**5,268,493**	–
Other receivables, deposits and prepayment	**5,005,650**	5,586,661
	57,521,989	41,483,512

Notes:

(a) The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days. Based on the invoice dates, the ageing analysis of the Group's trade receivables is as follows:

	2010	2009
	HK$	*HK$*
0 – 30 days	**19,687,499**	13,304,669
31 – 90 days	**20,995,587**	20,375,613
Over 90 days	**6,564,760**	2,216,569
	47,247,846	35,896,851

The ageing analysis of trade receivables that are past due but not impaired, based on due date is as follows:

	2010	2009
	HK$	*HK$*
Neither past due nor impaired	**26,879,419**	23,976,580
1 – 30 days past due	**10,223,260**	7,825,085
31 – 90 days past due	**6,955,878**	2,505,379
Over 90 days past due	**3,189,289**	1,589,807
	47,247,846	35,896,851

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) The loan is due from a third party company which is unsecured, interest-bearing at 10% per annum and repayable on demand.

The directors of the Company consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

12. TRADE AND OTHER PAYABLES

	2010	2009
	HK$	*HK$*
Trade payables – To third parties	**18,717,582**	20,511,904
Other payables and accrual	**7,815,347**	5,705,851
	26,532,929	26,217,755

Credit periods granted by suppliers normally range from 30 – 90 days. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	2010	2009
	HK$	*HK$*
0 – 30 days	**12,852,597**	6,025,760
31 – 60 days	**4,824,956**	6,288,049
61 – 90 days	**255,244**	4,767,120
Over 90 days	**784,785**	3,430,975
	18,717,582	20,511,904

Due to short maturity period, the carrying values of the Group's trade and other payables are considered to be reasonable approximation of their fair values.

13. BORROWINGS

	At 31 December 2010	At 31 December 2009	At 1 January 2009
	HK$	*HK$*	*HK$*
			(Restated)
Current liabilities			
Secured bank loans *(note a)*	**18,661,304**	1,454,874	8,274,604
Obligations under finance leases *(note b)*	**2,295,547**	4,066,775	3,946,730
	20,956,851	5,521,649	12,221,334
Non-current liabilities			
Secured bank loans *(note a)*	**–**	–	–
Obligations under finance leases *(note b)*	**–**	2,295,545	6,362,321
	–	2,295,545	6,362,321
Total borrowings	**20,956,851**	7,817,194	18,583,655

(a) Secured bank loans

The analysis of the carrying amounts of bank loans is as follows:

	At 31 December 2010 *HK$*	At 31 December 2009 *HK$*	At 1 January 2009 *HK$* (Restated)
Current liabilities			
Portion of term loans due for repayment within one year	**12,388,215**	1,454,874	6,819,730
Portion of term loans due for repayment after one year which contain a repayment on demand clause	**6,273,089**	–	1,454,874
Total bank loans	**18,661,304**	1,454,874	8,274,604

The analysis of bank loans by scheduled repayment is as follows:

	At 31 December 2010 *HK$*	At 31 December 2009 *HK$*	At 1 January 2009 *HK$*
Current liabilities			
Portion of term loans due for repayment within one year	**12,388,215**	1,454,874	6,819,730
Non-current liabilities			
Portion of term loans due for repayment after one year *(note)*			
In the second year	**5,076,324**	–	1,454,874
In the third to fifth year	**1,196,765**	–	–
	6,273,089	–	1,454,874
Total bank loans	**18,661,304**	1,454,874	8,274,604

Note:

The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The bank loans at the end of the reporting period were denominated in HKD and were arranged at floating effective rate of 3.00% (2009: 4.01%) per annum. The interest-bearing bank loans, including the term loans repayable on demand, are carried at amortised cost. None of the portion of term loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

(b) Obligations under finance leases

The analysis of the obligations under finance leases is as follows:

	Total minimum Lease payments		**Present value of minimum lease payments**	
	2010	2009	**2010**	2009
	HK$	*HK$*	***HK$***	*HK$*
Amount payable:				
Within one year	**2,317,577**	4,202,029	**2,295,547**	4,066,775
In the second year	**–**	2,317,559	**–**	2,295,545
	2,317,577	6,519,588	**2,295,547**	6,362,320
Future finance charges	**(22,030)**	(157,268)	**–**	–
Finance lease obligations	**2,295,547**	6,362,320	**2,295,547**	6,362,320

The Group has entered into finance leases for certain of plant and machinery. The lease period is three years in general and the average effective borrowing rate is 3.00% (2009: 3.12%) per annum. All leases are repayable in fixed monthly principal installments plus interest and no arrangements have been entered into for contingent rental payments. The above leases were secured by corporate guarantees provided by the Company and its subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

During the year under review, the Group was principally engaged in the manufacturing and sales of smart cards and plastic cards. The Group was also engaged in the provision of customised smart card application systems.

The Group faced a difficult and competitive business environment in the year of 2010, characterized by on-going price pressures and rising costs in China. Nonetheless, given the Group's focus on ensuring that its customers receive superior contract manufacturing service and quality, we have managed to achieve a fifth straight year of record turnover in the core business of manufacturing and sales of smart cards and plastic cards. Despite industry-wide price pressure, the Group grew turnover in the year by 7.8% to HK$152.6 million (2009: HK$141.5 million). We believe Phoenitron has increased its market share through greater volume, thanks to our highly automated smart card production facilities, distribution networks, and strong sales and marketing teams in Hong Kong, Shenzhen and Beijing which enable us to offer best-quality, new smartcard product innovations and convenient and speedy delivery services to our customers, as well as to target new customer verticals in addition to our primary telecom smartcard base.

In terms of geographic breakdown, Asian sales (not including China) became the single largest market for the Group. Revenue derived from this market accounted for 36.3% of the Group's total revenue, and up by 14.0% from HK$48.6 million in 2009 to HK$55.4 million. The PRC market (excluding Hong Kong) was the second largest market for the Group. Revenue generated from this market amounted to HK$52.1 million, rising by a significant 21.8%, and accounted for 34.1% of the Group's total revenue. The European market ranked the third largest for the Group and accounted for 29.1% of the Group's total revenue. Revenue generated from this market dropped by 9.2%, from HK$48.9 million in 2009 to HK$44.3 million.

On the other hand, revenue generated from the sales of smart card application systems was less than in the previous years, and management expects that there is unlikely to be upside changes in this market in the coming year.

During the year under review, the Group's share of losses of Hota (USA) and its subsidiaries amounted to HK$0.35 million. Hota's loss in 2010 is comprised of start-up operating expenses. Hota is now in its final phase of plant construction and has began equipment installation. We expect Hota will start operations in Zhangjiagang with initial revenue contributions by the second quarter of 2011. Overseas operations will begin by the end of the first quarter of 2011 and will comprise mostly of 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.

Subsequent to the year end, the Company has completed the Share Subdivision and the Open Offer (as defined and disclosed in the section headed "Event After the End of the Reporting Period" below).

The Share Subdivision 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 Subdivision 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, the Open Offer allows the Group to strengthen its balance sheet at the lowest cost and to reduce the Group's exposure to potential rising interest rates in the future. The Board considers that the Open Offer is 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 would be 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.

Financial Review

Revenue

The Group's revenue was HK$152.6 million in 2010, representing an increase of 7.8% from HK$141.5 million in 2009. The increase in revenue was, however, achieved through offering price-cuts to select customers in exchange for greater sales volume.

Cost of Sales and Gross Profit

During the year under review, cost of sales increased by 19.2%, up from HK$94.3 million in 2009 to HK$112.4 million. This was due primarily to the increase in various direct costs, such as direct material costs, direct labor costs and factory 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 during the year. As a result, gross profit dropped to HK$40.2 million, down by HK$7.0 million, or 14.9%, as compared to last year of HK$47.2 million. The decrease in gross profit was also partly due to the price-cuts as mentioned above and also a less favorable sales mix as compared to last year. Due to the aforesaid, gross profit margin for the year ended 31 December 2010 dropped to 26.3%, 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.

Other Income

Other income of HK$8.4 million (2009: HK$0.5 million) mainly comprised interest income arising from amount due from a jointly controlled entity of HK$1 million and interest income arising from amortisation of available-for-sale financial assets of HK$5.8 million, as well as bank interest income and gain on disposal of fixed assets.

Selling and Distribution Costs

Selling and distribution costs decreased by 13.4% over last year to HK$5.5 million (2009: HK$6.3 million), was mainly due to the reduction in commission paid after restructuring of the sales team, and was also partly attributable to the drop in freight charges and other relating expenses as those costs were borne by 3rd party subcontractors when orders were subcontracted out.

Administrative Expenses

Administrative expenses recorded an increase of HK$1.5 million or 6.2% over last year to HK$24.8 million (2009: HK$23.3 million). The increase was attributable to the fair value loss on the derivative arising from the conversion right to the common shares of Hota (USA) of HK$3 million but was offset by the decreases in various expenses such as exchange loss and office salary due to restructuring of the management team.

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 only 48.9% during the period to HK$0.53 million (2009: HK$0.35 million) despite a 2.7 times higher loan balance.

Share of Results of a Jointly Controlled Entity

Share of losses of a jointly controlled entity after tax was HK$0.35 million (2009: HK$1.2 million). This was derived from the start-up losses incurred by the jointly controlled entity, Hota (USA), that is engaged in the recycling of metals and materials from scrapped automobiles and sale of recovered parts. Hota has secured its business licenses and land, and is nearly in its final stage of plant and facility construction now. Hota should start manufacturing operations with initial revenue contributions by the end of the first quarter of 2011. 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.

Income Tax Expense

Income tax expense of the Group in 2010 was HK$3.9 million, representing a drop of 36.8% as compared with HK$6.2 million in 2009. This was due mainly to:

(i) an under-provision of approximately HK$1.2 million was made during 2009 as a revised tax ruling in respect of the financial year ended 31 December 2008 was issued to Beijing Tecsun Venus Technology Limited, an indirect wholly-owned subsidiary of the Company, by the tax authority in Beijing.; and

(ii) the decrease in estimated taxable profits for the subsidiaries of the Company in Hong Kong and Beijing.

As a result of the foregoing, profit attributable to the owners of the Company in 2010 amounted to HK$13.5 million, representing an increase of 31.0% as compared to HK$10.3 million in 2009.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the year 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 upon exercise of unlisted warrants. As at 31 December 2010, the Group had cash and bank balances of HK$48.3 million, finance leases payable of HK$2.3 million and a secured bank loan of HK$18.7 million.

As at 31 December 2010, the Group had current assets of HK$179.2 million and current liabilities of HK$47.9 million. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.7.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group employed a total of 597 employees, of which 14 were located in Hong Kong and the rest were located in the PRC. Employee cost, including directors' remuneration, was HK$29.6 million for the year under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

With the exception of the investments in Hota (USA) and 力欣房地產經紀(上海)有限公司, there were no other significant investments for the year ended 31 December 2010. Details of investment in Hota (USA) have been set out in "Business and Operation Review".

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2010.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2010, there were no future plans for material investments or capital assets.

SEGMENTAL INFORMATION

Details have been set out in note 3 and are further elaborated under "Business and Operation Review" of this section.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

At 31 December 2010, a bank deposit and certain plant and machinery with the carrying amounts of HK$927,117 and HK$6,518,811 respectively were pledged by the Company's subsidiaries as collaterals to secure general banking facilities granted to the Group.

The Company and certain subsidiaries have provided guarantees of repayment in respect of the facilities for bank loans and finance leases of the Group amounting to HK$56,406,776 (2009: HK$36,837,280) of which HK$20,956,851 (2009: HK$7,817,194) was utilised and outstanding as at 31 December 2010.

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings to total assets of the Group, was 7.2% as at 31 December 2010 (2009: 4.0%). Accordingly, the financial position of the Group remains very liquid.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 0.4 HK cents per share (2009: 1.5 HK cents) for the year ended 31 December 2010.

Upon approval by the shareholders, the final dividend will be paid on or about 17 May 2011 to shareholders whose names appear on the register of members of the Company on 9 May 2011.

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. Four audit committee meetings were held during the financial year 2010.

The Group's results for the year ended 31 December 2010 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 year of 2010, 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.

COMPETING INTERESTS

As at 31 December 2010, 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 year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENT AFTER THE END OF THE REPORTING PERIOD

(a) 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.

(b) In February 2011, the Company proposed to raise fund by way of 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.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the shareholders of the Company will be held at 2:00 p.m., on Monday, 9 May 2011, at Unit 302, 3rd Floor, Seapower Centre, 73 Lei Muk Road, Kwai Chung, New Territories, Hong Kong and the notice of AGM will be published and dispatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4 May 2011 to Monday, 9 May 2011, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the proposed final dividend to be approved at the AGM and attending the AGM, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 3 May 2011.

By order of the Board
Lily Wu
Chairman

Hong Kong, 21 March 2011

As at the date of this announcement, the Board comprises four executive Directors, Ms. Lily Wu (Chairman and Chief Executive Officer), Ms. Leung Quan Yue, Michelle, Mr. Chang Wei Wen, Mr. Yang Meng Hsiu, and three independent non-executive Directors, Ms. Wong Ka Wai, Jeanne, Mr. Leung Ka Kui, Johnny and Mr. Chan Siu Wing, Raymond.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's website at www.phoenitron com.