



Phoenix Satellite Television Holdings Limited  
*(Incorporated in the Cayman Islands with limited liability)*

# Third Quarterly Report 2000/2001

## **Phoenix Satellite Television Holdings Limited**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.



# HIGHLIGHTS

- Compare with last year's corresponding nine-month period, revenue up 46.6% to a approximately HK\$542,805,000 on steady growth in advertising income
- Improve program quality by securing rights to Hollywood movies and awards shows such as the 73rd Annual Academy Awards, as well as high-quality Chinese movies
- Launched on January 1, 2001, the Phoenix InfoNews Channel remains the only 24-hour foreign satellite television channel delivering financial news and current affairs in Putonghua to Greater China
- The Phoenix North America Chinese Channel, successfully launched on January 1, 2001, continues to further expand the international reach of our Chinese programming operations

Forging ahead with m  
technology, the Phoenix  
Chinese community, glo

ulti-media content and  
vision reaches out to the  
bally.



The directors (“the Directors”) of Phoenix Satellite Television Holdings Limited (the “Company”) have pleasure in presenting the unaudited consolidated income statements of the Company and its subsidiaries (collectively referred to as the “Phoenix Group”) for the third quarter and nine months ended March 31, 2001 (the “periods”) and the consolidated balance sheet of the Phoenix Group as at March 31, 2001, together with the comparative figures for the corresponding periods and relevant date in 1999/2000.

## **FINANCIAL REVIEW**

Revenue of the Phoenix Group for the nine months ended March 31, 2001 grew by 46.6% over the same period last year. The first three quarters of the financial year 2000-2001 were satisfactory for the Phoenix Group despite an overall operating loss for the third quarter, primarily due to the start-up expenditures related to the Phoenix InfoNews Channel and the Phoenix North America Chinese Channel. Operating costs increased by 41.5% over the same period last year, to approximately HK\$501,937,000.

Earnings per share were HK cents 1.78 and the Directors have not recommended an interim dividend for the quarter.

## **BUSINESS REVIEW**

### **Television Broadcasting**

In the third quarter, the Group focused its efforts on improving programming. We have made significant progress in becoming a unique broadcast media group providing Chinese television programming to a potential 1.25 billion audience in China as well as the estimated 50 million overseas Chinese.

#### ***1. Phoenix Chinese Channel***

By providing a uniquely Chinese perspective on entertainment and information to the global Chinese-speaking audience, the Phoenix Chinese Channel’s increase in advertising rates has been well received by a growing number of advertisers during the previous nine months. The channel continues to be the key driver of Phoenix Group’s cash flow and revenue growth. With an even greater emphasis on improving programming in the third quarter, Phoenix Chinese Channel continues to draw a steady stream of viewers.

These efforts include major music shows such as the 43rd Annual Grammy Awards, Andrea Bocelli’s Sacred Arias and the Centennial Verdi Gala. The rights to other popular programmes, such as the documentary Heroes of the High Frontier, and the magic special Penn & Teller’s Home Invasion, illustrate the efforts of Phoenix Chinese Channel in satisfying the diverse range of viewers’ tastes.

The Channel also produced and presented European Odyssey, consisting of reports by a Phoenix production team visiting 22 European cities. This tour of Europe was presented from a Chinese perspective, including interviews with second- and third-generation of the Chinese immigrants, and was modeled on last-year's highly successful Millennium Odyssey within China. A Pole-to-Pole Odyssey is planned for production in the latter half of 2001.

The Green Wall in China presented insight into the rapid expansion of the Gobi desert, which threatens the perimeter of Beijing, and its related preventive measures taken. The programme was so well received it is currently being produced on VCD for distribution across China.

The emphasis on producing more original programming and depending less on acquisition will continue.

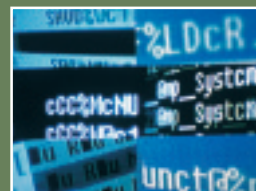
## **2. Phoenix InfoNews Channel**

As a Hong Kong-based channel, the Phoenix InfoNews Channel continues to gain a favourable position as a provider of an interesting mix of information and general/financial news to Chinese viewers from an angle which is more liberal than local broadcasters in the mainland.

As such, the channel analysed and reported in detail China's relationship with Taiwan such as the initiation of "3 Small Links" in January 2001 between Xiamen, Fujian Province, and the Taiwanese islands of Luemoy and Matsu. It also provided on-site coverage by Phoenix teams on the election of the new President of the United States and the presidential succession in the Philippines.

In May 2001, we entered into a commercial agreement with Fox News Network L.L.C. ("Fox"), a 24-hour all news cable channel currently available to some 54 million US households through cable and direct broadcast service, whereby the channel acquired a licence for the use of the Fox News Edge service and for the airing of the Fox News Channel. The agreement includes use of Fox bureau facilities in major US centres, and means that the Phoenix Group will be able to enhance its news production standard.

The Phoenix InfoNews Channel's strategy is to maintain a uniquely Chinese perspective while steadily moving to a more pan-Asian and global focus from mainly Hong Kong and China.



### 3. Phoenix North America Chinese Channel

The Phoenix North America Chinese Channel began broadcasting on January 1, 2001 over DIRECTV, the largest direct satellite television broadcasting platform in the United States.

Targeted at the estimated 2.6 million Chinese audience in the US – the largest Chinese community market outside the Greater China and Asia regions – the channel features 24 hours of news, drama, infotainment and lifestyle programming.

In addition to content from Hong Kong's Phoenix Chinese and Phoenix InfoNews Channels, and from Beijing TV and Shanghai TV, the Phoenix North America Chinese Channel offers programmes originating from Zhejiang, Sichuan, Jiangsu and Guangdong Provinces, as well as locally-produced US programming. The channel provides dual-sound-track Mandarin and Cantonese broadcasting on selected programs every day.



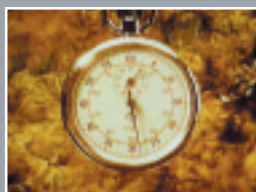
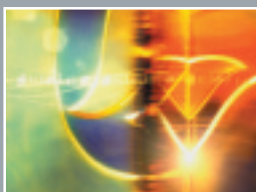


Early indications are favourable and coverage on world events concerning China's relations with the US and the Beijing 2008 Olympic bid have had a positive impact on viewership.

#### ***4. Phoenix Movies Channel***

By securing the broadcast rights for the two most prestigious Hollywood awards shows, the Phoenix Movies Channel continues to make progress in becoming a major movie-broadcasting player in China. The channel proudly presented the 73rd Annual Academy Awards, where Chinese filmmakers and actors were featured prominently, and the 7th Annual Screen Actors Guild Awards. These are among the highest-rated shows in the world.

Three recent movie releases by renowned director, Wong Kar-Wai, who received wide acclaim at the Cannes Film Festival 2000 for *In the Mood For Love*, have been acquired, along with award-winning movies such as *Dancer in the Dark*, starring Bjork, the winner of the Best Actress award. *Dancer in the Dark* will be premiered exclusively in China on the channel.



### **5. Phoenix CNE Channel**

This channel provides an expanded opportunity to distribute existing content such as news, entertainment, cartoons and drama serials to the Chinese audience in 25 countries in Europe.

Since January 1, 2001, the channel has increased its programming to eight hours a day from six, and added a new time slot, Select Theatre, which screens the finest drama series in Mandarin from China. Showbiz Tycoon, a popular 67-hour serial with a production budget in excess of HK\$30 million, will appear on Phoenix Drama after mid-May.

In addition, the channel will explore the possibility of 24-hour broadcasting and offering multi-dialect services to appeal to a wider Chinese audience.

### **Magazine and Web Site**

The Phoenix Group continues to explore the business potential of non-broadcast media such as the Phoenix Weekly Magazine and the [www.phoenixtv.com](http://www.phoenixtv.com) web site. All relevant Phoenix television programmes, magazine content and personalities can be seen by the Internet community worldwide. As television viewership grows in China and internationally, the Phoenix brand will become more recognised and, in turn, this should increase the number of visitors to the Web site.

### **Business Strategy**

We will maintain our overall strategy of producing tailored content, expanding distribution, increasing viewership and securing more advertisers in order to build up revenue, while continuing to explore investment opportunities in other media and related businesses to leverage on Phoenix's brand name and to create new sources of income.

### **PROSPECTS**

Advertising revenue grew steadily throughout Asia last year. By far the biggest increase for the region was recorded in the mainland, which spent close to HK\$75.6 billion (US\$9.6 billion) in

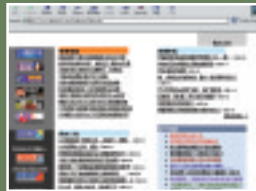


advertising last year, up 57% on the previous year, of which 36% was attributed to real growth and 21% to service expansion.

China is now the second-largest television advertising market in Asia, after Japan. Yet, television adspend as a percentage of GDP is estimated to be one of the lowest in the region, less than half that of Japan. As such, rising GDP and an increasing spend relative to GDP suggests considerable potential for long-term growth. Moreover, prospects for WTO entry and the Beijing 2008 Olympics add impetus to this proposition.

However, the downturn in the US economy and changes in Chinese law, which imposed a limit of 2% of turnover as tax-deductible for advertising expenditures, are expected to have a negative impact on all market players. In addition, the operating costs of the two new channels will invariably be higher in the start-up phase, while they will contribute only marginally to revenue in the near-term. Even so, the management is confident, that as our operations grow, we will achieve long-term improvements in operating efficiency which will mitigate this situation.

To enhance our competitiveness, the management will continue its efforts to develop the new channels, provide top-quality programming, produce original content and explore investment opportunities in other media or related businesses.



**CONSOLIDATED BALANCE SHEET – UNAUDITED***As at March 31, 2001*

	<i>Note</i>	<b>As at March 31, 2001 HK\$'000</b>	<b>As at June 30, 2000 HK\$'000 (Audited)</b>
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and bank balances		<b>731,884</b>	770,316
Accounts receivable, net		<b>136,029</b>	82,549
Inventories		<b>372</b>	435
Prepayments, deposits and other receivables		<b>173,255</b>	106,747
Amounts due from related companies		<b>34,869</b>	20,360
Self-produced programmes		<b>12,177</b>	12,459
Purchased programme rights	2	<b>11,977</b>	16,670
Total current assets		<b>1,100,563</b>	1,009,536
FIXED ASSETS	3	<b>60,186</b>	4,558
PURCHASED PROGRAMME RIGHTS	2	<b>34,476</b>	19,841
Total assets		<b>1,195,225</b>	1,033,935
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
CURRENT LIABILITIES			
Short-term bank loan		<b>779</b>	–
Subscription revenue received in advance		<b>11,115</b>	9,163
Advertising revenue received in advance		<b>29,425</b>	43,706
Accounts payable and accruals		<b>90,307</b>	71,531
Amounts due to related companies		<b>11,393</b>	21,979
Total current liabilities		<b>143,019</b>	146,379
MINORITY INTERESTS		<b>2,943</b>	7,753
Total liabilities		<b>145,962</b>	154,132
SHAREHOLDERS' EQUITY			
Share capital	4	<b>493,097</b>	484,706
Reserves	5	<b>556,166</b>	395,097
Total shareholders' equity		<b>1,049,263</b>	879,803
Total liabilities and shareholders' equity		<b>1,195,225</b>	1,033,935

**CONSOLIDATED INCOME STATEMENT – UNAUDITED**

For the three months and nine months ended March 31, 2001

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
REVENUE	6	<b>161,493</b>	142,352	<b>542,805</b>	370,269
OPERATING EXPENSES	6, 7	<b>(140,729)</b>	(96,728)	<b>(371,271)</b>	(280,514)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6, 7	<b>(45,646)</b>	(26,324)	<b>(130,666)</b>	(74,114)
(LOSS) PROFIT FROM OPERATIONS		<b>(24,882)</b>	19,300	<b>40,868</b>	15,641
OTHER INCOME					
Exchange gain, net		<b>831</b>	485	<b>2,020</b>	1,023
Interest income		<b>11,782</b>	195	<b>37,028</b>	850
Other income, net		<b>296</b>	1,707	<b>2,109</b>	2,265
(LOSS) PROFIT BEFORE TAXATION AND MINORITY INTERESTS		<b>(11,973)</b>	21,687	<b>82,025</b>	19,779
TAXATION	8	–	–	–	–
(LOSS) PROFIT BEFORE MINORITY INTERESTS		<b>(11,973)</b>	21,687	<b>82,025</b>	19,779
MINORITY INTERESTS		<b>2,239</b>	4	<b>5,810</b>	4
(LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>(9,734)</b>	21,691	<b>87,835</b>	19,783
ACCUMULATED DEFICIT, beginning of period		<b>(258,193)</b>	(407,985)	<b>(355,762)</b>	(406,077)
		<b>(267,927)</b>	(386,294)	<b>(267,927)</b>	(386,294)
Dividends	9	–	–	–	–
ACCUMULATED DEFICIT, end of period		<b>(267,927)</b>	(386,294)	<b>(267,927)</b>	(386,294)
(LOSS) EARNINGS PER SHARE	10	<b>(0.20) cents</b>	0.53 cents	<b>1.78 cents</b>	0.48 cents

A separate statement of recognised gains and losses is not presented because there were no recognised gains and losses other than the loss/profit attributable to shareholders for the periods.

**CONSOLIDATED CASH FLOWS STATEMENT – UNAUDITED***For the three months and nine months ended March 31, 2001*

	Note	Three months ended March 31,		Nine months ended March 31,	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES		<u>(38,671)</u>	<u>12,370</u>	<u>(99,828)</u>	<u>(34,615)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received from bank deposits		<u>11,782</u>	<u>195</u>	<u>37,028</u>	<u>850</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>11,782</u>	<u>195</u>	<u>37,028</u>	<u>850</u>
INVESTING ACTIVITIES					
Purchase of fixed assets		<u>(39,281)</u>	<u>(1,743)</u>	<u>(59,362)</u>	<u>(2,201)</u>
Proceeds from disposal of fixed assets		<u>211</u>	<u>–</u>	<u>326</u>	<u>–</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(39,070)</u>	<u>(1,743)</u>	<u>(59,036)</u>	<u>(2,201)</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		<u>(65,959)</u>	<u>10,822</u>	<u>(121,836)</u>	<u>(35,966)</u>
FINANCING ACTIVITIES					
Capital contributions from minority shareholders		<u>–</u>	<u>–</u>	<u>1,000</u>	<u>–</u>
Proceed from over-allotment of shares		<u>–</u>	<u>–</u>	<u>90,621</u>	<u>–</u>
Over-allotment, placement and public offering expenses paid		<u>(120)</u>	<u>–</u>	<u>(8,996)</u>	<u>–</u>
New secured loan repayable within five years		<u>779</u>	<u>–</u>	<u>779</u>	<u>–</u>
NET CASH INFLOW FROM FINANCING		<u>659</u>	<u>–</u>	<u>83,404</u>	<u>–</u>
(DECREASE) INCREASE IN CASH AND BANK BALANCES	11	<u>(65,300)</u>	<u>10,822</u>	<u>(38,432)</u>	<u>(35,966)</u>

## NOTES TO THE THIRD QUARTERLY REPORT

March 31, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 1. Basis of Preparation and Accounting Policies

These third quarter financial statements have been prepared in accordance with the principal accounting policies set out in the Company's 1999/2000 annual report and comply with Statement of Standard Accounting Practice Number 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules").

The Phoenix Group, after the Phoenix Group Reorganisation as set out in the section headed "Corporate Reorganisation" in Appendix VI of the prospectus issued by the Company on June 21, 2000 (the "Prospectus"), is regarded as a continuing entity. Accordingly, the financial statements of the Phoenix Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Phoenix Group. The Group Reorganisation was completed on June 16, 2000.

All material intra-group transactions and balances have been eliminated on consolidation.

### 2. Purchased Programme Rights

	<b>March 31, 2001 HK\$'000</b>	June 30, 2000 HK\$'000 (Audited)
Cost	<b>161,338</b>	130,002
Accumulated amortisation	<b>(114,885)</b>	(93,491)
	<b>46,453</b>	36,511
Less: Purchased programme rights – current portion	<b>(11,977)</b>	(16,670)
Purchased programme rights – long term portion	<b>34,476</b>	19,841

### 3. Fixed Assets

	<b>March 31, 2001 HK\$'000</b>	June 30, 2000 HK\$'000 (Audited)
Net book value, beginning of nine months period/ year	<b>4,558</b>	2,948
Additions	<b>59,362</b>	2,747
Disposals	<b>(215)</b>	–
Depreciation	<b>(3,519)</b>	(1,137)
Net book value, end of nine months period/ year	<b>60,186</b>	4,558

#### 4. Share Capital

	Note	March 31, 2001	
		No. of shares	HK\$ '000
Issued and fully paid (HK\$0.10 each)			
Beginning of nine months period		4,847,060,000	484,706
Exercise of over-allotment option	a	83,908,000	8,391
End of nine months period		<u>4,930,968,000</u>	<u>493,097</u>

*Note:*

- a. On July 21, 2000, the underwriters have exercised the over-allotment option for the issuance of 83,908,000 ordinary shares of \$0.10 each at \$1.08 per share in accordance with the underwriting agreement entered into by it, the Company and others on June 20, 2000.

#### 5. Reserves

Movements in reserves of the Phoenix Group during the periods were as follows:

	Three months ended March 31, 2001			March 31, 2000 Total HK\$ '000
	Share premium HK\$ '000	Accumulated deficit HK\$ '000	Total HK\$ '000	
Beginning of three months period	824,213	(258,193)	566,020	(407,985)
(Loss) Profit attributable to shareholders	–	(9,734)	(9,734)	21,691
Placements and public offering expenses	<u>(120)</u>	<u>–</u>	<u>(120)</u>	<u>–</u>
End of three months period	<u>824,093</u>	<u>(267,927)</u>	<u>556,166</u>	<u>(386,294)</u>
	Nine months ended March 31, 2001			March 31, 2000 Total HK\$ '000
	Share premium HK\$ '000	Accumulated deficit HK\$ '000	Total HK\$ '000	
Beginning of nine months period	750,859	(355,762)	395,097	(406,077)
Profit attributable to shareholders	–	87,835	87,835	19,783
Proceeds from over-allotment	82,230	–	82,230	–
Placements and public offering expenses	<u>(4,456)</u>	<u>–</u>	<u>(4,456)</u>	<u>–</u>
Over-allotment expenses	<u>(4,540)</u>	<u>–</u>	<u>(4,540)</u>	<u>–</u>
End of nine months period	<u>824,093</u>	<u>(267,927)</u>	<u>556,166</u>	<u>(386,294)</u>



## 6. Segment Information

	Three months ended			
	March 31, 2001		March 31, 2000	
	Revenue	Loss from	Revenue	Profit from
	HK\$'000	operations	HK\$'000	operations
		HK\$'000		HK\$'000
By nature of revenue:				
Advertising	152,006	152,006	135,993	135,993
Subscription	7,755	7,755	6,359	6,359
Magazine advertising and subscription	1,732	1,732	–	–
Technical services	–	–	–	–
	<u>161,493</u>	<u>161,493</u>	<u>142,352</u>	142,352
Less:				
Operating expenses		(140,729)		(96,728)
Selling, general and administrative expenses		<u>(45,646)</u>		<u>(26,324)</u>
		<u>(24,882)</u>		<u>19,300</u>
By geographical regions:				
China	149,263		129,124	
International	<u>12,230</u>		<u>13,228</u>	
	<u>161,493</u>		<u>142,352</u>	

No analysis of (loss) profit from operations by geographical regions is presented as operating and other expenses are generally centralised and not separated by geographical regions.

	Nine months ended			
	March 31, 2001		March 31, 2000	
	Revenue	Profit from	Revenue	Profit from
	HK\$'000	operations	HK\$'000	operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By nature of revenue:				
Advertising	515,389	515,389	352,231	352,231
Subscription	22,152	22,152	18,038	18,038
Magazine advertising and subscription	5,189	5,189	-	-
Technical services	75	75	-	-
	<u>542,805</u>	<u>542,805</u>	<u>370,269</u>	<u>370,269</u>
Less:				
Operating expenses		(371,271)		(280,514)
Selling, general and administrative expenses		(130,666)		(74,114)
		<u>40,868</u>		<u>15,641</u>
By geographical regions:				
China	484,355		328,309	
International	58,450		41,960	
	<u>542,805</u>		<u>370,269</u>	

No analysis of profit from operations by geographical regions is presented as operating and other expenses are generally centralised and not separated by geographical regions.

## 7. Related Party Transactions

In the normal course of business, the Phoenix Group had the following significant transactions with the related parties:

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Office premises rental paid to Satellite Television Asian Region Limited	a, b	<b>1,897</b>	1,866	<b>5,690</b>	5,578
Service charges paid to Satellite Television Asian Region Limited	a, c	<b>35,297</b>	18,491	<b>75,004</b>	56,892
Commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited	a, d	<b>1,593</b>	1,971	<b>8,854</b>	6,439
Commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited	a, e	<b>412</b>	289	<b>1,067</b>	690
Film licence fees paid to Star TV Filmed Entertainment Limited	a, f	<b>5,097</b>	6,482	<b>15,289</b>	24,427
Programmes license fees paid to ATV Enterprises Limited	g, h	<b>444</b>	374	<b>4,858</b>	7,207

The Phoenix Group provided certain film rights and programmes to Phoenix Chinese News and Entertainment Limited (formerly known as Chinese News and Entertainment Limited) ("PCNE") at no charge since July 11, 1999, the date of the conditional agreement (see Note 13).

### Notes:

The Directors of the Company confirmed that all of the above related party transactions were carried out in the normal course of business of the Phoenix Group and that these transactions will be continued in the future.

- a. Satellite Television Asian Region Limited and Star TV Filmed Entertainment Limited are wholly-owned subsidiaries of the Star TV group.
- b. Office premises rental paid to Satellite Television Asian Region Limited was determined by reference to the area of space occupied by the Phoenix Group and was proportional to the rental payable by Satellite Television Asian Region Limited in respect of the area occupied by it under its lease with the landlord.

- c. Service charges paid to Satellite Television Asian Region Limited covered the following services provided to the Phoenix Group which were charged based on the terms as specified under a service agreement. A fixed fee and/or variable fees were charged depending on the type of facilities utilised:
- Transponder capacity;
  - Network;
  - Broadcast operations and engineering;
  - Uplink and downlink; and
  - General administrative and other support (including access to, and the use of, general office facilities, human resources, management information system, commercial traffic and insurance).
- d. The commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited was based on 20% (1999/2000 – 20%) of the net advertising income generated and received by it on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it.
- e. The commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited was based on 15% (1999/2000 – 15%) of the subscription fees received by it on behalf of the Phoenix Group.
- f. The film licence fees were charged in accordance with a film rights acquisition agreement with Star TV Filmed Entertainment Limited.
- g. The programme licence fees paid to ATV Enterprises Limited were negotiated on a case-by-case basis.
- h. Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at March 31, 2001.

## **8. Taxation**

No Hong Kong profits tax has been provided as the Phoenix Group has no estimated assessable profits taxable in Hong Kong for the periods (1999/2000 – nil).

There was no other significant unprovided deferred taxation for the periods ended March 31, 2001 (1999/2000 – nil).

## **9. Dividends**

The Board has resolved that no interim dividend for the nine months ended March 31, 2001 should be distributed to the shareholders (1999/2000 – nil).

## 10. (Loss) Earnings Per Share

(Loss) earnings per share for the three months ended March 31, 2001 and 2000 is calculated based on consolidated loss of \$9,734,179 (1999/2000 – profit of \$21,691,045) and the 4,930,968,000 weighted average number of shares in issue during the period (1999/2000 – 4,120,000,000 being the weighted average number of share that would have been in issue throughout the period on the assumption that the Phoenix Group Reorganisation as set out in the section headed “Corporate Reorganisation” in Appendix VI of the Prospectus issued by the Company on June 21, 2000 was completed as at July 1, 1998).

Earnings per share for the nine months ended March 31, 2001 and 2000 is calculated based on consolidated profit attributable to shareholders of \$87,834,836 (1999/2000 – \$19,783,263) and the 4,924,843,328 weighted average number of shares in issue during the period (1999/2000 – 4,120,000,000).

No diluted earnings per share for the three months and nine months ended March 31, 2001 and 2000 has been presented because there were no dilutive potential ordinary shares in existence during the periods.

## 11. Note to Consolidated Cash Flows Statement

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysis of changes in cash and bank balances:				
Cash and bank balances, beginning of three/ nine months period	<b>797,184</b>	9,238	<b>770,316</b>	56,026
(Decrease) Increase in cash and bank balances	<b>(65,300)</b>	10,822	<b>(38,432)</b>	(35,966)
Cash and bank balances, end of three/ nine months period	<b>731,884</b>	20,060	<b>731,884</b>	20,060

## 12. Commitments

### a. *Film rights and programme acquisition*

As at March 31, 2001, the Phoenix Group had aggregate outstanding film rights and programmes related commitments of approximately \$2,153,000 (June 30, 2000 – \$5,831,000) in respect of programmes acquisition agreements with third parties. The amount of commitments which are payable within the next twelve months, analyzed according to the period in which the agreements expire, are as follows:

	<b>March 31, 2001 HK\$'000</b>	June 30, 2000 HK\$'000 <i>(Audited)</i>
Expiring in the first year	–	421
Expiring in the second to fifth years inclusive	<b>2,153</b>	5,410
Expiring after the fifth year	–	–
	<b><u>2,153</u></b>	<b><u>5,831</u></b>

### b. *Operating lease commitment*

Save as disclosed in the most recent annual financial statements, as at March 31, 2001, the Phoenix Group had additional operating lease commitments of approximately \$12,367,000 under various operating lease extending to March 2005. The amounts payable in the next twelve months, analysed according to the period in which the leases expire, are as follows:

	<b>March 31, 2001 HK\$'000</b>
Expiring in the first year	<b>35</b>
Expiring in the second to fifth years inclusive	<b>4,505</b>
Expiring after the fifth year	–
	<b><u>4,540</u></b>

c. *Other commitments*

Save as disclosed above and in the most recent annual financial statements, the Phoenix Group had the following additional commitments as at March 31, 2001:

Details of commitments	Payee	Total commitment <i>HK\$'000</i>	Amount payable within the next twelve months <i>HK\$'000</i>
Purchase of computer hardware	北京中科大洋科技 發展有限責任公司	2,334	2,334
Leasing of space capacity from International Telecommunications Satellite Organisation ("INTELSAT")	Cable & Wireless HKT Limited	2,553	2,553
Design and development of a news operating system	北京中科大洋科技 發展有限責任公司	1,167	1,167
Provision of satellite digital uplink service	Cable & Wireless HKT Limited	1,423	1,423
Provision of news and data services	The Associated Press Television News Ltd.	1,207	404
Provision of programme production services	東森華榮傳播事業 股份有限公司	7,161	7,161
Provision of sports news services	Sports News Television	1,287	434
Provision of market datafeed services	Stock Exchange Information Services Limited	2,667	1,000

### 13. Acquisition of PCNE

The Phoenix Group and Techvast Limited are continuing their negotiation with respect to the acquisition of Phoenix Chinese News and Entertainment Limited ("PCNE") by the Phoenix Group. Each of the Phoenix Group and Techvast Limited has been issued one share at par of a newly established company, PCNE Holdings Limited. It is proposed that PCNE Holdings Limited shall acquire 100% of the share capital of PCNE from Techvast Limited and then issue new shares so that its total issued share will be held as to 70% by the Phoenix Group and as to 30% by Techvast Limited.

### 14. Subsequent Event

Pursuant to a public announcement made on May 2, 2001, the Phoenix Group entered into an agreement with Fox News Network L.L.C. ("Fox"), an associate of Star Television Holdings Limited which owns 37.6% interest in the Company, for the provision of news feed service, office space in New York and Washington D.C. for Phoenix InfoNews Channel and other ancillary services for one year at an annual charge of US\$550,000. Given that the consideration is less than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, according to GEM Listing Rule 20.24, no independent shareholders' approval is required for such transaction.

## DIRECTORS' INTERESTS IN SECURITIES

As at March 31, 2001, the interests of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange were as follows:

### (A) Ordinary Shares

Name	Type of interest	Number of ordinary shares
LIU, Changle	Corporate interests <i>(Note)</i>	1,854,000,000
CHEUNG, Chun On, Daniel	Personal interests	110,000

*Note:* Mr. LIU, Changle is the beneficial owner of approximately 93.3% of the issued share of Today's Asia Limited, which in turn owns approximately 37.6% of the issued share capital of the Company as at March 31, 2001.

### (B) Share Options

As at March 31, 2001, the Company had granted the following share options under the Pre-IPO Share Option Plan to the Directors of the Company to subscribe for ordinary shares in the Company. Details of such options are set out in the following paragraph headed "Share Option Schemes".

Name	Number of options	Date of grant	Exercise price per share <i>HK\$</i>
LIU, Changle*	5,320,000	June 14, 2000	1.08
CHUI, Keung*	3,990,000	June 14, 2000	1.08

*Note:*

\* Being the executive directors of the Company.

Save as disclosed herein, as at March 31, 2001, none of the Directors or chief executives of the Company, had any personal, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.



## SHARE OPTION SCHEMES

On June 7, 2000, two share option schemes of the Company were approved by the shareholders of the Company, namely Pre-IPO Share Option Plan and Share Option Scheme. The summary of the Pre-IPO Share Option Plan and the Share Option Scheme is set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes".

In order to enhance the flexibility in the implementation of the Pre-IPO Share Option Plan and the Share Option Scheme, the committee of four directors established for the administration of the share option schemes (the "Committee") had approved certain amendments to the terms of the Pre-IPO Share Option Plan and the Share Option Scheme on February 14, 2001. The Stock Exchange has also approved the proposed amendments on February 7, 2001.

The summary of the revised Share Option Scheme is set out in the Appendix of the Half-yearly Report 2000/2001. Similar amendments for administrative purposes are made to the Pre-IPO Share Option Plan and paragraphs 7, 11, 12, 13, 14 and 15 set out in the Appendix of the Half-yearly Report 2000/2001 shall replace the corresponding paragraphs of the summary of the Pre-IPO Share Option Plan set out in Appendix VI of the Prospectus.

### (1) Pre-IPO Share Option Plan

As at March 31, 2001, the following share options granted by the Company under the Pre-IPO Share Option Plan to the employees of the Phoenix Group to acquire shares were outstanding:

<b>Total no. of employees</b>	<b>Number of share options</b>	<b>Date of grant</b>	<b>Exercise price per share</b> <i>HK\$</i>	<b>Option period</b> <i>(Note 1)</i>
150	50,432,000	June 14, 2000	1.08	June 14, 2000 to June 13, 2010

No options have been granted to non-executive Directors and independent non-executive Directors under the Pre-IPO Share Option Plan.

No options have been exercised or cancelled during the period from the date of grant to March 31, 2001. As at March 31, 2001, 1,542,000 options granted to 9 employees were lapsed when they ceased to be employed by the Phoenix Group.

## (2) Share Option Scheme

As at March 31, 2001, the following share options granted by the Company under the Share Option Scheme to the employees of the Phoenix Group to acquire shares were outstanding:

Total no. of employees	Number of share options	Date of grant	Exercise price per share HK\$	Option period (Note 1)
3	2,900,000	February 15, 2001	1.99	February 15, 2001 to February 14, 2011

No options have been granted to the Directors, non-executive Directors and independent non-executive Directors under the Share Option Scheme.

No options have been exercised, cancelled or lapsed during the period from the date of grant to March 31, 2001.

*Note 1:* No options may be exercised within 12 months after the date of grant of the options. Details of the time and the percentage of shares comprised in the options that may be exercised are set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes".

### PHOENIXi Plan

On June 7, 2000, PHOENIXi Investment Limited ("PHOENIXi"), a member of the Phoenix Group had adopted the PHOENIXi 2000 Stock Incentive Plan (the "PHOENIXi Plan"). Under the PHOENIXi Plan, the employees of PHOENIXi, including any executive Directors, in the full-time employment of PHOENIXi or its subsidiaries or the Company are eligible to take up options to subscribe for shares in PHOENIXi. The summary of the terms of the PHOENIXi Plan has been set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes".

As at March 31, 2001, no options have been granted under the PHOENIXi Plan.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's Share Option Scheme approved by the shareholders on June 7, 2000, the Committee may, at their discretion, invite any employee of the Company or any of the Phoenix Group companies, including any executive Directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company from time to time.

The Company has applied for a waiver from strict compliance with Rule 23.02(2) of the GEM Listing Rules so that the total number of shares available for issue under the options may increase up to 30% of the issued share capital of the Company from time to time. Please refer to the paragraph "Share Option Schemes" in the section of the Prospectus headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance".

Save as disclosed above, and other than those in connection with the Phoenix Group reorganisation scheme prior to the Company's listing of shares, at no time during the periods was the Company or any of the companies comprising the Phoenix Group a party to any arrangement to enable the Company's Directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance in relation to the Phoenix Group's business to which the Company or any of the companies comprising the Phoenix Group was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the periods or at any time during the periods.

### **SUBSTANTIAL SHAREHOLDERS**

As at March 31, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following persons (other than a Director or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the Company's issued share capital were as follows:

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>
Star Television Holdings Limited <i>(Note 1)</i>	1,854,000,000
Today's Asia Limited <i>(Note 2)</i>	1,854,000,000

*Notes:*

- Star Television Holdings Limited is a wholly-owned subsidiary of Star Television Limited, which in turn is owned 75% by News Cayman Holdings Limited and 25% by Star Group Limited. Star Group Limited is a wholly-owned subsidiary of News Cayman Holdings Limited, which in turn is a wholly-owned subsidiary of News Publishers Investments Pty Ltd. News Publishers Investments Pty Ltd is a wholly-owned subsidiary of News Publishers Holdings Pty Ltd, which in turn is a wholly-owned subsidiary of The News Corporation Limited, a listed company in Australia, London and New York.

By virtue of the SDI Ordinance, The News Corporation Limited, News Publishers Holdings Pty Ltd., News Publishers Investments Pty Ltd., News Cayman Holdings Ltd. and Star Group Limited are all deemed to be interested in the 1,854,000,000 shares held by Star Television Holdings Limited.

- Today's Asia Limited is beneficially owned by Mr. LIU, Changle and Mr. CHAN, Wing Kee as to 93.3% and 6.7% interests, respectively.

### **PRE-EMPTIVE RIGHTS**

No pre-emptive rights exist under the Company's Articles of Association and the law in the Cayman Islands in relation to the issue of new shares by the Company.

## **PURCHASE, SALE OR REPURCHASE OF SHARES**

Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company's shares during the periods.

## **SPONSORS' INTERESTS**

Bank of China Group Investment Limited, beneficially owned by Bank of China, the ultimate holding company of BOCI Asia Limited, indirectly owns the entire issued share capital of China Wise International Limited which in turn owns 412,000,000 shares (approximately 8.35%) of the Company. Mr. LUO, Jiansheng has been nominated by China Wise International Limited and appointed as a Director of fourteen subsidiaries of the Phoenix Group, namely:

- Phoenix Satellite Television Company Limited
- Phoenix Satellite Television (Chinese Channel) Limited
- Phoenix Satellite Television (Movies) Limited
- Phoenix Satellite Television (Europe) Limited
- Phoenix Satellite Television Trademark Limited (formerly known as "Binji Overseas Ltd.")
- Phoenix Satellite Television Information Limited
- Phoenix Satellite Television (B.V.I.) Holding Limited
- Phoenix Satellite Television (InfoNews) Limited
- Phoenix Weekly Magazine (BVI) Limited
- Phoenix Satellite Television Development (BVI) Limited
- Phoenix Satellite Television (Universal) Limited
- Phoenix Satellite Television Development Limited
- Phoenix Satellite Television Investments (BVI) Limited
- Phoenix Glow Limited

One of the non-executive Directors of the Company, Mr. XU Gang, is a director of BOCI Asia Limited.

Save as disclosed above, each of BOCI Asia Limited and Merrill Lynch Far East Limited has confirmed:

- (i) neither itself nor its associates has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Phoenix Group (including options or rights to subscribe such securities);
- (ii) no director or employee or the associates of BOCI Asia Limited or Merrill Lynch Far East Limited who are involved in providing advice to the Company has or may have, any interest in any class of securities of the Company or any other company within the Phoenix Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such directors or employee pursuant to the Public Offer);
- (iii) neither itself nor its associates accrued any material benefit as a result of the successful outcome of the listing of the shares on the GEM; and
- (iv) no director or employee or their associates of BOCI Asia Limited or Merrill Lynch Far East Limited has a directorship in the Company or any other company within the Phoenix Group.

### **COMPETING INTERESTS**

Today's Asia Limited, Star Television Holdings Limited and China Wise International Limited are shareholders of the Company holding 1,854,000,000, 1,854,000,000 and 412,000,000 shares, and are entitled respectively to exercise or control the exercise of 37.60%, 37.60% and 8.35% of the voting power at general meetings of the Company.

Star Television Holdings Limited, together with its parent company, The News Corporation Limited (the "News Corporation"), are active in the television broadcasting industry worldwide. News Corporation's diversified global operations in the United States, the United Kingdom, Australia, Latin America and Asia include the production and distribution of motion pictures and television programming; television, satellite and cable broadcasting; the publication of newspapers, magazines and books; the production and distribution of promotional and advertising products and services; the development of digital broadcasting; the development of conditional access and subscriber management systems and the creation and distribution of popular on-line programming. Pursuant to a press release issued on June 20, 2000, News Corporation announced that it would restructure its worldwide satellite platforms and certain related assets into one umbrella entity to be called Sky Global Networks, Inc ("Sky Global"). It was announced that Sky Global would comprise News Corporation's equity interests in satellite distribution platforms around the world including Star Group Limited and its subsidiaries. On June 20, 2000, Sky Global filed a registration statement with the U. S. Securities and Exchange Commission relating to securities to be offered for sale in an initial public offering ("IPO") of Sky Global. The expected IPO has been delayed and News Corporation is exploring alternatives which may or may not include an IPO. Currently, Star Group Limited, the ultimate holding company of Star Television Holdings Limited, engages in the ownership and operation of multimedia digital platforms, including satellite television, in the Asia Pacific region. Star Group Limited and its subsidiaries (including Star Television Holdings Limited) operate and broadcast a range of channels, such as Star Movies and Star Chinese Channel (which presently only broadcasts in Taiwan) and Channel [V]. Its broadcasting coverage includes China, Taiwan, Hong Kong, countries in South East Asia, the Indian sub-continent and the Middle East.

Mr. LIU, Changle and Mr. CHAN Wing Kee hold through several intermediate companies at different levels approximately 14% and 18% of Asia Television Limited, a Hong Kong based television broadcasting company. Asia Television Limited is deemed to be a connected person of the Company pursuant to the GEM Listing Rules. Primarily aiming at audiences in Hong Kong, Asia Television Limited broadcasts its programmes via terrestrial transmission through two channels, one in Cantonese and the other in English. The Directors understand that the business of the Phoenix Group may have direct competition with Asia Television Limited in Hong Kong and certain other areas covered by Asia Television Limited's broadcasts, such as parts of Guangdong Province of the PRC.

#### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises one non-executive Director, namely Mr. LAU, Yu Leung John and two independent non-executive Directors, namely Dr. LO, Ka Shui and Mr. KUOK, Khoon Ean.

By Order of the Board

**Liu Changle**

*Chairman*

Hong Kong, May 14, 2001