

# Management Discussion and Analysis



## Comments on Segmental Information

	Year ended 31 December			
	2015		2014	
	Revenue HK\$'000	Segment result HK\$'000	Revenue HK\$'000	Segment result HK\$'000
Television broadcasting	<b>1,598,095</b>	<b>521,704</b>	1,997,976	883,658
New media	<b>1,920,708</b>	<b>153,634</b>	1,989,680	453,100
Outdoor media	<b>571,521</b>	<b>63,806</b>	553,604	42,410
Real estate	<b>14,650</b>	<b>1,106</b>	3,713	164,561
Other businesses	<b>95,921</b>	<b>(92,057)</b>	73,392	(52,031)
Group's total revenue and segment results	<b>4,200,895</b>	<b>648,193</b>	4,618,365	1,491,698
Unallocated income		<b>51,047</b>		27,219
Unallocated expenses		<b>(369,990)</b>		(335,909)
Profit before share of results of joint ventures and associates, income tax and non-controlling interests		<b>329,250</b>		1,183,008

Revenue from television broadcasting, comprising of advertising, subscription and other revenue sources, which accounted for 38.0% of the total revenue of the Group for the year ended 31 December 2015, decreased by 20.0% to approximately HK\$1,598,095,000 (year ended 31 December 2014: HK\$1,997,976,000). The decline in the demand for luxury goods in China has led to a decrease in the advertising income of the television broadcasting business. The segmental result for the television broadcasting business recorded a profit of approximately HK\$521,704,000 for the year ended 31 December 2015 (year ended 31 December 2014: HK\$883,658,000).

Revenue from Phoenix Chinese Channel and Phoenix InfoNews Channel, which accounted for 34.5% of the total revenue of the Group for the year ended 31 December 2015, decreased by 20.3% to approximately HK\$1,451,302,000 (year ended 31 December 2014: HK\$ 1,821,051,000).

The total revenue of Phoenix Hong Kong Channel, Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others for the year ended 31 December 2015 decreased by 17.0% as compared to the previous year to approximately HK\$146,793,000 (year ended 31 December 2014: HK\$176,925,000).

## Management Discussion and Analysis



Reduction in paid service revenues has led to a 3.5% decrease in the revenue of the new media business for the year ended 31 December 2015 to approximately HK\$1,920,708,000 (year ended 31 December 2014: HK\$1,989,680,000). The segmental profit for the year ended 31 December 2015 decreased by 66.1% to approximately HK\$153,634,000 (year ended 31 December 2014: HK\$453,100,000) due to increase in operating costs, primarily attributable to the increase in revenue sharing fees, expenses associated with mobile traffic acquisition and bad debt provision. Increase in impairment loss from available-for-sale financial assets and amounts due from joint ventures, decrease in net gain related to subsequent measurement of the investment in Particle Inc. and decrease in gain on disposal of subsidiaries also decreased the segmental profit of the new media businesses.

The revenue of outdoor media business for the year ended 31 December 2015 increased by 3.2% to approximately HK\$571,521,000 (year ended 31 December 2014: HK\$553,604,000). The segmental profit of outdoor media business for the year ended 31 December 2015 increased by 50.5% to approximately HK\$63,806,000 (year ended 31 December 2014: HK\$42,410,000).

The segmental profit for real estate business for the year ended 31 December 2015 was approximately HK\$1,106,000 (year ended 31 December 2014: HK\$164,561,000), which included the net fair value gain for the investment properties of approximately HK\$98,939,000 (year ended 31 December 2014: HK\$175,777,000), recognized during the year.

Please refer to Note 5 to the consolidated financial statements for a detailed analysis of segmental information and the section entitled "Business Overview and Prospects" in this report for commentary on the core business of the Group.

### Dividends

After considering the sustainable profitability of the Group's core television broadcasting business, the Board recommends the payment of a final dividend of 1 Hong Kong cent per ordinary share of the Company (final dividend for 2014: 4 Hong Kong cents), totalling approximately HK\$50,010,000, equivalent to approximately 45.3% of profit attributable to owners of the Company, to be payable to shareholders of the Company (the "Shareholder(s)") whose names appear on the register of members of the Company on 15 June 2016, Wednesday. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, the final dividend will be payable on or around 30 June 2016, Thursday.

### Annual General Meeting

The annual general meeting of the Company will be held at No. 2-6 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 6 June 2016, Monday at 3:00 p.m.

# Management Discussion and Analysis



## Closure of Register of Members

The register of members of the Company will be closed from 2 June 2016, Thursday to 6 June 2016, Monday (both dates inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 1 June 2016, Wednesday.

The register of members of the Company will also be closed from 13 June 2016, Monday to 15 June 2016, Wednesday (both dates inclusive), during which period no share transfer will be effected. In order to qualify for the proposed final dividend (subject to Shareholders' approval at the forthcoming annual general meeting), all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 10 June 2016, Friday.

## Acquisitions and Disposals of Subsidiaries and Affiliated Companies

### Investments in Particle Inc.

Subsequent to the acquisition of shares of Particle Inc. ("Particle") by Phoenix New Media Limited ("PNM"), a non-wholly owned subsidiary of the Company, in November 2014, in February 2015, PNM entered into an agreement with the founders of Particle to purchase acquired Series C preferred shares of Particle, representing approximately 21.98% of the total equity interests in Particle, on an as-if converted basis, for an aggregate purchase price of US\$30,000,000. On the same date, PNM also entered into another agreement to purchase a number of ordinary shares and Class A ordinary shares of Particle, representing approximately 14.41% of the total equity interests in Particle, on an as-if converted basis, from certain existing shareholders for an aggregate purchase price of US\$27,547,000, and each ordinary share and each Class A ordinary share held by PNM were repurchased by Particle, and one Series C preferred share for each such ordinary share or Class A ordinary share was issued to PNM. Upon completion of the aforesaid transactions on 29 April 2015, PNM owned approximately 49.02% equity interests in Particle on an as-if converted basis. For details, please refer to Note 43 to the consolidated financial statements.

### Acquisition of 20% equity interest in Phoenix Oriental (Beijing) Properties Company Limited

On 19 August 2015, Phoenix Pictures Limited, a wholly owned subsidiary of the Company, entered into: (i) an equity transfer agreement with the then existing shareholders ("Vendors") of 鳳凰東方(北京)置業有限公司 (Phoenix Oriental (Beijing) Properties Company Limited) ("Phoenix Oriental") in relation to the acquisition of 20% of equity interest in Phoenix Oriental for a cash consideration of RMB145,734,660; and (ii) a shareholders' loan agreement with Phoenix Oriental in relation to advance of a shareholders' loan in the amount of RMB99,665,340 to Phoenix Oriental, which shall be used by Phoenix Oriental solely for the purposes of repaying, on a pro-rata basis, the shareholders' loans which had previously been advanced to Phoenix Oriental by the Vendors. Following these transactions, Phoenix Pictures Limited owned 70% equity interest in Phoenix Oriental. For details, please refer to the Company's announcement dated 19 August 2015.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries and associated companies for the year ended 31 December 2015.

# Management Discussion and Analysis



## Liquidity and Financial Resources

The liquidity and financial resources of the Group as at 31 December 2015 remained solid as recurring cash flows from the businesses of the Group continued to remain steady and strong. As at 31 December 2015, the Group had cash and current bank deposits totalling approximately HK\$3,004,839,000 (as at 31 December 2014: HK\$3,701,792,000). The aggregate outstanding borrowings of the Group were approximately HK\$1,513,826,000 (as at 31 December 2014: HK\$1,131,366,000), comprising non-interest bearing loans, non-interest bearing loans from non-controlling shareholders of subsidiaries, secured and interest bearing bank borrowings to fund the investment in Phoenix International Media Centre in Beijing, and secured and interest bearing bank borrowings.

The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 60.2% as at 31 December 2015 (as at 31 December 2014: 49.0%).

Save as disclosed above, the financial position of the Group remained liquid. Most of the Group's monetary assets, liabilities and transactions are denominated in Hong Kong dollars, US dollars ("USD") and Renminbi ("RMB"), with minimal balances in Pound Sterling and New Taiwan dollars. The Group is therefore exposed to foreign exchange risk arising from currency exposures, in particular, the depreciation of RMB. The Group manages its foreign exchange risks by performing regular reviews and monitoring its foreign exchange exposure. The Group may consider using forward currency contracts as a tool to manage and reduce such risks if and when the need arises. However, taking into account the Group's current operational and capital requirements, the directors of the Company (the "Director(s)") do not consider the Group is significantly exposed to any foreign currency exchange risk.

## Charge on Assets

As at 31 December 2015, the land in Chaoyang Park, Beijing, together with the building with carrying value of approximately HK\$112,000,000, HK\$487,000,000 and HK\$1,534,000,000 (as at 31 December 2014: HK\$121,000,000, HK\$547,000,000 and HK\$1,504,000,000) recorded in lease premium for land, property, plant and equipment and investment properties respectively were pledged with a bank to secure a bank borrowing to fund the investment in the Phoenix International Media Centre in Beijing. Bank deposits of approximately HK\$655,192,000 (as at 31 December 2014: HK\$283,006,000) were pledged with banks to secure bank borrowings to optimize return through interest differential and arrangement of external security within the loan. The property in the United States with carrying value of approximately HK\$2,810,000 (as at 31 December 2014: HK\$2,851,000) was pledged with a bank to secure a bank borrowing. Deposits of approximately HK\$1,505,000 were pledged with banks to secure banking guarantees given to the landlord of a subsidiary (as at 31 December 2014: HK\$1,603,000).

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2015 and 31 December 2014.

## Capital Structure

During the year ended 31 December 2015, other than the exercise of share options granted by the Company, there was no change in the share capital of the Company. As at 31 December 2015, the operations of the Group were mainly financed by owners' equity, bank borrowings, loans from non-controlling shareholders of subsidiaries and banking facilities.

# Management Discussion and Analysis



## Staff

As at 31 December 2015, the Group employed 3,033 full-time staff (as at 31 December 2014: 3,352) at market remuneration supplemented with employee benefits such as comprehensive medical coverage, insurance plan, defined contribution pension schemes and employee share option schemes. Staff costs for the year ended 31 December 2015 decreased to approximately HK\$1,254,732,000 (year ended 31 December 2014: HK\$1,263,057,000).

The Group determines the remuneration packages of the employees with reference to the performance of the Group and individual employees. The Group also provides benefits to employees, such as insurance and share option schemes, to attract and retain competent employees.

## Significant Investments Held

As at 31 December 2015, the Group invested in listed security investments with estimated fair market value of approximately HK\$18,896,000 (as at 31 December 2014: HK\$22,590,000) recognised as “financial assets at fair value through profit and loss” and unlisted preferred shares of Particle recognised as “available-for-sale financial assets” and “derivate financial instruments” with estimated fair value of approximately HK\$390,200,000 (as at 31 December 2014: HK\$32,770,000) and HK\$216,742,000 (as at 31 December 2014: HK\$56,105,000) respectively. Save as disclosed above, the Group had not held any other significant investment for the year ended 31 December 2015.

## Future Plans for Material Investments and Expected Source of Funding

The Group will continue to consolidate its existing businesses while exploring new business opportunities that will complement and enhance its existing businesses, including but not limited to exploring the possibility to expand its television business in Hong Kong.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2015.

## Purchase, Sale or Redemption of Securities

The Company had not redeemed any shares of the Company (the “Share(s)”) during the year ended 31 December 2015. Neither the Company nor any of its subsidiaries had purchased or sold any of the Shares during the year ended 31 December 2015.

## Other Important Events and Subsequent Event

### Cessation of operation of Phoenix U Radio Limited

On 6 November 2015, Phoenix U Radio Limited, in which the Group held 22.73% of equity interest as at 6 November 2015, ceased operation subsequent to the surrender of its digital sound broadcasting licence.



## **Continuing Connected Transactions with China Mobile Communications Corporation and its associates**

On 31 October 2015, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granted to the Company a waiver from strict compliance with the requirement under Rules 14A.34 and 14A.51 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to enter into a framework agreement with CMCC Group at the outset covering all of the expected continuing connected transactions (“New Media CCT”) in relation to provision of website portal, value-added telecommunications, promotional and ancillary services between PNM and its subsidiaries (“collectively PNM Group”) and China Mobile Communications Corporation (“CMCC”) and its subsidiaries (collectively, “CMCC Group”) for the three years ending 31 December 2018, subject to the conditions disclosed in the announcement and the circular of the Company dated 6 November 2015 and 17 November 2015 respectively.

On 4 December 2015, the independent shareholders of the Company (“Independent Shareholders”) approved and confirmed the New Media CCT between the PNM Group and the CMCC Group for the three years ending 31 December 2018 and the relevant annual caps of RMB260,000,000 (approximately HK\$316,758,000), RMB286,000,000 (approximately HK\$348,433,800) and RMB315,000,000 (approximately HK\$383,764,500) for each year ending 31 December 2016, 2017 and 2018 respectively at the extraordinary general meeting of the Company.

## **Continuing Connected Transactions in respect of an advertising contract in relation to sale of advertising airtime at the Group’s channels**

On 28 December 2015, Phoenix Satellite Television Company Limited (“Phoenix HK”), through 神州電視有限公司 (Shenzhou Television Company Limited, “Shenzhou”), entered into an advertising contract (the “2016 Phoenix HK Contract”) with CNHK Media Limited relating to the purchase of advertising airtime at the Phoenix Chinese Channel and Phoenix InfoNews Channel for the period from 1 January 2016 to 31 December 2016 for the sum not exceeding RMB30,000,000 (equivalent to approximately HK\$36,351,000) for promoting the CMCC Group.

Since the CMCC Group are connected persons of the Company, the transactions under the 2016 Contract constituted continuing connected transaction of the Company under the Listing Rules. For details, please refer to the announcement of the Company dated 28 December 2015.