



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

Half-yearly Report 2000/2001



HIGHLIGHTS

- Revenue up 67.3% to approximately HK\$381,312,000 on strong growth in advertising
- Launch on 1st January, 2001, Phoenix InfoNews Channel is the only 24 hour foreign satellite television channel delivering financial news and current affairs in Putonghua to Greater China
- Successful launch on 1st January, 2001 of the Phoenix North America Chinese Channel, further expanding the internationalisation of our Chinese programming operations



Forging ahead with multi-
technology, the Phoenix vis
Chinese community, glo ba

Multi-media content and
vision reaches out to the
globe.



The directors ("the Directors") of Phoenix Satellite Television Holdings Limited ("the Company") have the pleasure of presenting the unaudited consolidated income statements of the Company and its subsidiaries (collectively referred to as "the Phoenix Group") for the three months and six months ended 31st December, 2000 ("the periods") and the consolidated balance sheet of the Phoenix Group as at 31st December, 2000, together with the comparative figures for the corresponding periods and relevant date in 1999.

The first half of the financial year ending 30th June, 2001 was highly satisfactory for the Phoenix Group, with a very successful Initial Public offering ("IPO"), strong growth in revenues from our well established Phoenix Chinese Channel together with the launch of two new channels on 1st January, 2001. We have taken great strides towards our goal of becoming a unique broadcast media group providing Chinese television programming to the 1.3 billion global Chinese population.

FINANCIAL REVIEW

Revenue of the Phoenix Group for the six months ended 31st December, 2000 rose sharply, by 67.3% over the same period last year. Profit from operations increased more modestly to approximately HK\$65,750,000 affected as forecast by investments in new operations. Earnings per share were HK cents 2.00 and we are not recommending any interim dividend.

Advertising contributed 95.3% of revenues or approximately HK\$363,383,000. Subscription revenue accounted for 3.8% or approximately HK\$14,397,000. Magazine advertising and subscriptions, a new source of revenue, contributed 0.9% or approximately HK\$3,457,000.

Geographically, the Phoenix Group's revenues continued to depend on mainland China, which provided 87.9% or approximately HK\$335,092,000. The remainder came mainly from the Hong Kong SAR and Taiwan.

Operating costs increased by 36.3% over the same period of last year to approximately HK\$315,562,000. Though smaller than the increase in revenue, this rate of increase is much greater than before, and reflects the additional costs involved in establishing the new channels. However, in the long-term our operating costs should continue to fall relative to revenue, as economies of scale allow us to produce more programming internally at an ever cheaper cost.

BUSINESS REVIEW

Television Broadcasting

The IPO and the success of our five-year old operations have given the Phoenix Group sufficient investment capital to expand into areas of broadcasting that complete our vision to be a global provider of high quality Chinese language programming.

1. Phoenix Chinese Channel

The Phoenix Chinese Channel continues to provide the Phoenix Group with the bulk of cash flow and revenue growth. The first half of this financial year saw revenue from this channel contribute strongly to the overall rise. Both higher rates and growth in airtime utilisation contributed to the improvement in revenue and cash flow. Despite raising our rates in July 2000, we have continued to see robust demand, with prime time slots almost fully booked. As always, we have continued to enrich content. This has involved paying close attention to viewer preferences for existing offerings and the launch of new programmes.

2. Phoenix InfoNews Channel

Much effort during the year was devoted to the launch of our two new channels. The InfoNews Channel, which began broadcasting on 1st January, 2001, is the first ever foreign satellite channel delivering independent financial news and current affairs 24 hours a day in Putonghua to most Asian countries including mainland China. As such, it represents another vehicle to access our growing viewer base in Greater China. More distantly, it will form the basis of an Asian-based news and information channel providing a unique perspective on world events that will grow to rival the major US-based networks.

Currently, the InfoNews channel offers live news on the hour daily in *News on the Hour*. The prime 8:00 - 9:00 pm evening slot is served by *Phoenix World Report*. Anchored by well-known presenter Sally Wu, this offers live financial and other news and is also aired simultaneously on our Phoenix CNE Channel and the Phoenix North America Chinese Channel.

The channel is the only broadcaster televising the weekly briefing of the State Council – arguably the world's most important regular press briefing apart from the Whitehouse briefings. We expect this to excite interest from well beyond the region.

3. Phoenix North America Chinese Channel

The Phoenix North America Chinese Channel started broadcasting over DIRECTV, the largest direct satellite television broadcasting platform in the United States in November 2000 in a soft launch. After completing market testing and preparation, the channel was officially launched on 1st January, 2001.



This new channel marks a new milestone in our business development. Since launch, the channel has received an overwhelming response from the Chinese communities in the United States and sales have exceeded projections.

The channel's content reflects Phoenix's successful programming strategy, being a combination of the best television talent and entertainment programming from Hong Kong, Taiwan and mainland China. About 30% of the programming is drawn from Hong Kong-based channels and our own in-house production. The remainder is selected to meet the specific needs of the Chinese community in the United States.

The synergy of content sources not only reduces costs for the new channel, but enhances the awareness and value of the Phoenix brand. The presence in the United States also significantly strengthens our news gathering and reporting capability in North America, thus improving the overall quality and quantity of our broadcasting.

International advertising sales should also be strengthened, since we can now work closely with potential clients and potential advertisers will have direct experience in the United States of the Phoenix platform and its potential as an advertising venue.

4. Phoenix Movies Channel

Our other channel for mainland China, the subscriber-based Phoenix Movies Channel posted a solid performance in the first six months. The number of subscribing entities, consisting mainly hotels, high-end residential compounds and government institutions in mainland China, continued to grow steadily.

The content we offer is growing steadily in variety. Starting in February 2001, the channel has added a new time slot, *Hot Premiere*, showing first-run films. We continue to expand the Taiwanese section of our library and have recently acquired some of the latest releases, including *Hidden Whisper* and *Fleeing by Night*, among them are nominees for the prestigious Golden Horse Awards.



We are also taking full advantage of themes to promote interest in our broadcasts. In February, following the Valentine's theme, we are broadcasting the films of Asian superstar Andy Lau, including his heart-warming tale *"Fascination Amour"*, also featuring Japanese star Ishida Hikari. The *Feature of the Month* is *"If the Sun Rises in the West"*, a Korean version of the popular British movie, *Notting Hill*, starring one of the hottest Korean actresses, So-Young Koh.

5. Phoenix CNE Channel

The Phoenix CNE Channel is a free-to-air service that broadcasts to 25 countries in Western Europe, targeting the Chinese population. The channel has increased its programming from six to eight hours a day since 1st January, 2001.

Magazine and Web Site

To enrich the experience of our viewers of the Phoenix Group as a broadcaster, and to provide advertisers with alternative channels to leverage their advertising into non-broadcast media, we launched



the Phoenix Weekly magazine and the www.phoenixtv.com website. These offer high quality editorial about our programming and issues of topical interest that help stimulate interest in our channels.

We will consider expanding our range of traditional print and online publications if we see avenues for expansion that offer profit potential or create considerable synergies with our existing operations.

Liquidity and Financial Resources

The expansion of the Phoenix Group during the six months has been made possible in part by the HK\$732,588,000 in funds raised in our IPO. This and strong operating cash flows have given the Phoenix Group a healthy financial position and we foresee no need to raise further capital in the near future.

At 31st December, 2000, the Phoenix Group had cash in hand of approximately HK\$797,184,000 and debt of approximately HK\$156,127,000, for a net cash position of approximately HK\$641,057,000. These funds are conservatively deposited with banks pending our need to use them for business expansion, either according to our existing strategic plan or in response to opportunities that may arise to add to our core businesses.

PROSPECTS

Every indication is that the high trajectory set in the first half will continue into the second.

Higher Advertising Revenue

We expect advertising revenue once again to show strong growth. Although the penetration rate for prime time slots on our Phoenix Chinese Channel is now very high, suggesting limited potential to increase advertising airtime minutes, we believe some growth will come from lesser slots. With our rates still favourable, we believe there is also considerable room for increasing rates. We have raised these from US\$2,600 for a 30-second slot in 1997 to US\$4,500 in July 2000, despite which, advertising airtime sales continued to increase.

Building the New Channels

The successful implementation of our ambitious plans for the two new channels is clearly a challenge, but we believe we have put in place experienced management teams able to drive the process forward. The operational costs of the two new channels will, however, subdue profit growth, since



being in their start-up phases, they will contribute only marginally to revenue during this period, while operating expenses will continue to rise sharply. However, as our operations grow, we will continue to achieve long-term improvements in operating efficiency, which have seen our average in-house production cost per hour falls from HK\$44,000 in 1999 to HK\$35,000 today.

Digitization

As an experienced broadcaster, we are fully aware of the impact that digitization will have on our industry. The two new channels are broadcast in digital format from inception and we will migrate the Phoenix Chinese Channel to this format as soon as possible.

China's Red-hot Market

We are convinced that mainland China is and will remain a unique opportunity in broadcasting. China GDP growth continues to be high, at around 8% annually, and a substantial middle class is building among the large urban population. Over 300 million households own a television, which is the primary source of information and entertainment, three times the number in the United States.

Given this situation, advertising revenue is growing strongly. According to media consultants AC Nielsen, the total adspend in China rose 42% in the first nine months of 2000 to about US\$7 billion. Television continues to attract the lion's share of the adspend, rising during the same period to 72%. China is the second-largest television advertising market in Asia, after Japan. Yet despite this, the 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 and long-term potential for growth. Besides, WTO entry – or even the promise of WTO entry – will add impetus to this proposition and ensure that China continues for some years to be the fastest-growing television advertising market in the world.

Phoenix's Competitive Advantage

Within this exciting and profitable market, the Phoenix Group has a rare advantage. Currently being one of the China's few foreign satellite broadcasters, even as WTO entry changes the regulatory environment and increases domestic and eventually international competition, we believe we will retain a powerful first mover advantage, with a brand ever more respected by viewers and advertisers.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus dated 21st June, 2000

Actual business progress up to the 1st half of the financial year 2000 – 2001

Channel Development

Prepare and launch the InfoNews Channel

The Phoenix InfoNews Channel is officially launched on 1st January, 2001.

Increase production of programmes for the Phoenix Chinese Channel through additional production support from China.

The channel introduced 23 new programmes, focusing on news and financial affairs, which are areas of growing popularity in China.

Acquire more third-party movies for the Phoenix Movies Channel

The channel has enriched its library by acquiring a number of latest releases in Taiwan from third party.

Prepare for the establishment of a production centre in Shenzhen, the PRC

Phoenix has formed a joint venture and rented a temporary plant in Shenzhen to operate the production business.

Prepare and launch the North America Channel

The Phoenix North America Chinese Channel started broadcasting in November in a soft launch and was officially launched on 1st January, 2001.

Begin publication of the Phoenix Weekly and form partnerships with other companies for its distribution

Phoenix Weekly was officially published on 30th June, 2000 and arrangement has been made with a local company to handle distribution within China.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus dated 21st June, 2000

Actual business progress up to the 1st half of the financial year 2000 – 2001

Internet Strategy

Complete corporate organisation

Consistent with the business objectives described in the Prospectus.

Improve on the Phoenix Website to build an “infotainment” vertical portal linking all relevant Phoenix television and magazine content and personalities with the Internet community

Consistent with the business objectives described in the Prospectus.

Leverage on Phoenix’s brand name to promote the Phoenix portal

Consistent with the business objectives described in the Prospectus.

Develop online fulfilment e-commerce platform

Foreseeing the downturn of Internet business, the Group has scaled down its Internet development to improving and maintaining the existing Phoenix Website only. No further development on e-commerce platform has been made. The Group will continue to explore investment opportunities in other media or related businesses to leverage on Phoenix’s brand name or to create new sources of income.



CONSOLIDATED BALANCE SHEET — UNAUDITED*As at 31st December, 2000*

	<i>Note</i>	As at 31st December, 2000 HK\$'000	As at 30th June, 2000 HK\$'000 (Audited)
ASSETS			
CURRENT ASSETS			
Cash and bank balances		797,184	770,316
Accounts receivable, net		136,012	82,549
Inventories		319	435
Prepayments, deposits and other receivables		164,106	106,747
Amount due from related companies		28,948	20,360
Self-produced programmes		11,919	12,459
Purchased programme rights	2	18,879	16,670
Total current assets		1,157,367	1,009,536
FIXED ASSETS	3	22,900	4,558
PURCHASED PROGRAMME RIGHTS	2	34,977	19,841
Total assets		1,215,244	1,033,935
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Deferred income		8,307	9,163
Advertising revenue received in advance		30,151	43,706
Accounts payable and accruals		93,124	71,531
Amount due to related companies		19,363	21,979
Total current liabilities		150,945	146,379
MINORITY INTERESTS		5,182	7,753
Total liabilities		156,127	154,132
SHAREHOLDERS' EQUITY			
Share Capital	4	493,097	484,706
Reserves	5	566,020	395,097
Total shareholders' equity		1,059,117	879,803
Total liabilities and shareholders' equity		1,215,244	1,033,935

CONSOLIDATED INCOME STATEMENT — UNAUDITED*For the three months and six months ended 31st December, 2000*

	Notes	Three months ended 31st December,		Six months ended 31st December,	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
REVENUE	6	188,989	128,776	381,312	227,917
OPERATING EXPENSES	6, 7	(104,049)	(85,287)	(203,067)	(159,559)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6, 7	(55,585)	(38,863)	(112,495)	(72,016)
PROFIT (LOSS) FROM OPERATIONS		29,355	4,626	65,750	(3,658)
OTHER INCOME					
Exchange gain, net		426	321	1,189	538
Interest income		13,647	186	25,246	655
Other income, net		1,020	188	1,813	557
PROFIT (LOSS) BEFORE TAXATION AND MINORITY INTERESTS		44,448	5,321	93,998	(1,908)
TAXATION	8	—	—	—	—
PROFIT (LOSS) BEFORE MINORITY INTERESTS		44,448	5,321	93,998	(1,908)
MINORITY INTERESTS		1,735	—	3,571	—
PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS		46,183	5,321	97,569	(1,908)
ACCUMULATED DEFICIT, beginning of period		(304,376)	(413,306)	(355,762)	(406,077)
		(258,193)	(407,985)	(258,193)	(407,985)
Dividends	9	—	—	—	—
ACCUMULATED DEFICIT, end of period		(258,193)	(407,985)	(258,193)	(407,985)
EARNINGS (LOSS) PER SHARE	10	1.00 cents	0.13 cents	2.00 cents	(0.05) cents

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

CONSOLIDATED STATEMENT OF CASH FLOWS — UNAUDITED*For the three months and six months ended 31st December, 2000*

	<i>Note</i>	Three months ended		Six months ended	
		31st December, 2000	1999	31st December, 2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		<u>(62,042)</u>	<u>(11,765)</u>	<u>(61,157)</u>	<u>(46,985)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received from bank deposits		<u>13,647</u>	<u>186</u>	<u>25,246</u>	<u>655</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>13,647</u>	<u>186</u>	<u>25,246</u>	<u>655</u>
INVESTING ACTIVITIES					
Purchase of fixed assets		<u>(10,202)</u>	<u>(402)</u>	<u>(20,081)</u>	<u>(458)</u>
Proceeds from disposal of fixed assets		<u>115</u>	<u>—</u>	<u>115</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(10,087)</u>	<u>(402)</u>	<u>(19,966)</u>	<u>(458)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(58,482)</u>	<u>(11,981)</u>	<u>(55,877)</u>	<u>(46,788)</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>(1,589)</u>	<u>—</u>	<u>(8,876)</u>	<u>—</u>
NET CASH (OUTFLOW) INFLOW FROM FINANCING		<u>(1,589)</u>	<u>—</u>	<u>82,745</u>	<u>—</u>
(DECREASE) INCREASE IN CASH AND BANK BALANCES	11	<u>(60,071)</u>	<u>(11,981)</u>	<u>26,868</u>	<u>(46,788)</u>

NOTES TO THE HALF-YEAR REPORT

31st December, 2000

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. Basis of Preparation and Accounting Policies

These half-year 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 21st June, 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 16th June, 2000.

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

2. Purchased Programme Rights

	31st December, 2000 HK\$'000	30th June, 2000 HK\$'000 (Audited)
Cost	159,717	130,002
Accumulated amortisation	<u>(105,861)</u>	<u>(93,491)</u>
	53,856	36,511
Less: Purchased programme rights — current portion	<u>(18,879)</u>	<u>(16,670)</u>
Purchased programme rights — long term portion	<u><u>34,977</u></u>	<u><u>19,841</u></u>

3. Fixed Assets

	31st December, 2000 HK\$'000	30th June, 2000 HK\$'000 (Audited)
Net book value, beginning of six months period/year	4,558	2,948
Additions	20,081	2,747
Disposals	(121)	—
Depreciation	<u>(1,618)</u>	<u>(1,137)</u>
Net book value, end of six months period/year	<u><u>22,900</u></u>	<u><u>4,558</u></u>

4. Share Capital

	31st December, 2000		
	Note	No. of shares	HK\$'000
Issued and fully paid (HK\$0.10 each)			
Beginning of six months period		4,847,060,000	484,706
Exercise of over-allotment option	a	<u>83,908,000</u>	<u>8,391</u>
End of six months period		<u><u>4,930,968,000</u></u>	<u><u>493,097</u></u>

Note:

- a. On 21st July, 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 20th June, 2000.

5. Reserves

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

	Three months ended 31st December, 2000			1999
	Accumulated		Total	Total
	Share premium	deficit		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of three months period	825,802	(304,376)	521,426	(413,306)
Profit attributable to shareholders	—	46,183	46,183	5,321
Placements and public offering expenses	<u>(1,589)</u>	<u>—</u>	<u>(1,589)</u>	<u>—</u>
End of three months period	<u><u>824,213</u></u>	<u><u>(258,193)</u></u>	<u><u>566,020</u></u>	<u><u>(407,985)</u></u>
	Six months ended 31st December, 2000			1999
	Accumulated		Total	Total
	Share premium	deficit		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of six months period	750,859	(355,762)	395,097	(406,077)
Profit (loss) attributable to shareholders	—	97,569	97,569	(1,908)
Proceeds from over-allotment	82,230	—	82,230	—
Placements and public offering expenses	<u>(4,336)</u>	<u>—</u>	<u>(4,336)</u>	<u>—</u>
Over-allotment expenses	<u>(4,540)</u>	<u>—</u>	<u>(4,540)</u>	<u>—</u>
End of six months period	<u><u>824,213</u></u>	<u><u>(258,193)</u></u>	<u><u>566,020</u></u>	<u><u>(407,985)</u></u>

6. Segment Information

	Three months ended 31st December,			
	2000		1999	
	Revenue	Profit from	Revenue	Profits from
	HK\$'000	operations	HK\$'000	operations
		HK\$'000	HK\$'000	HK\$'000
By nature of revenue:				
Advertising	179,341	179,341	122,888	122,888
Subscription	7,476	7,476	5,888	5,888
Magazine advertising and subscription	2,172	2,172	—	—
Technical services	—	—	—	—
	<u>188,989</u>	<u>188,989</u>	<u>128,776</u>	<u>128,776</u>
Less:				
Operating expenses		(104,049)		(85,287)
Selling, general and administrative expenses		<u>(55,585)</u>		<u>(38,863)</u>
		<u>29,355</u>		<u>4,626</u>
By geographical regions:				
China	159,656		111,657	
International	<u>29,333</u>		<u>17,119</u>	
	<u>188,989</u>		<u>128,776</u>	

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

	Six months ended 31st December,			
	2000		1999	
	Revenue <i>HK\$'000</i>	Profit from operations <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Loss from operations <i>HK\$'000</i>
By nature of revenue:				
Advertising	363,383	363,383	216,238	216,238
Subscription	14,397	14,397	11,679	11,679
Magazine advertising and subscription	3,457	3,457	—	—
Technical services	75	75	—	—
	<u>381,312</u>	<u>381,312</u>	<u>227,917</u>	<u>227,917</u>
Less:				
Operating expenses		(203,067)		(159,559)
Selling, general and administrative expenses		<u>(112,495)</u>		<u>(72,016)</u>
		<u>65,750</u>		<u>(3,658)</u>
By geographical regions:				
China	335,092		199,185	
International	<u>46,220</u>		<u>28,732</u>	
	<u>381,312</u>		<u>227,917</u>	

No analysis of profit attributable to shareholders 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:

	<i>Notes</i>	Three months ended		Six months ended	
		31st December, 2000	1999	31st December, 2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Office premises rental paid to Satellite Television Asian Region Limited	a, b	1,897	1,763	3,793	3,712
Service charges paid to Satellite Television Asian Region Limited	a, c	19,517	19,601	39,707	38,401
Commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited	a, d	4,660	2,654	7,261	4,468
Commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited	a, e	360	245	655	401
Film licence fees paid to Star TV Filmed Entertainment Limited	a, f	5,093	9,654	10,192	17,945
Programmes license fees paid to ATV Enterprises Limited	g, h	673	86	4,414	6,833

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 11th July, 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 — 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 — 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 31st December, 2000.

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 — nil).

There was no other significant unprovided deferred taxation for the periods ended 31st December, 2000 (1999 — nil).

9. Dividends

The Board has resolved that no interim dividend for the six months ended 31st December, 2000 should be distributed to the shareholders (1999 — nil).

10. Earnings (Loss) Per Share

Earnings per share for the three months ended 31st December, 2000 and 1999 is calculated based on consolidated profits of HK\$46,182,506 (1999 — HK\$5,321,409) and the 4,930,968,000 weighted average number of shares in issue during the period (1999 — 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 21st June, 2000 was completed as at 1st July, 1998).

Earnings (loss) per share for the six months ended 31st December, 2000 and 1999 is calculated based on consolidated profit attributable to shareholders of HK\$97,569,015 (1999: loss of HK\$1,907,779) and the 4,921,847,565 weighted average number of shares in issue during the period (1999 — 4,120,000,000).

No diluted earnings per share for the three months and six months ended 31st December, 1999 and 2000 has been presented because there were no dilutive potential ordinary shares in existence during the periods.

11. Notes to Consolidated Statement of Cash Flows

	Three months ended		Six months ended	
	31st December,		31st December,	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis of changes in cash and bank balances:				
Cash and bank balances, beginning of three/six months period	857,255	21,219	770,316	56,026
(Decrease) Increase in cash and bank balances	<u>(60,071)</u>	<u>(11,981)</u>	<u>26,868</u>	<u>(46,788)</u>
Cash and bank balances, end of three/six months period	<u>797,184</u>	<u>9,238</u>	<u>797,184</u>	<u>9,238</u>

12. Commitments

a. *Film rights and programme acquisition*

As at 31st December, 2000, the Phoenix Group had aggregate outstanding film rights and programmes related commitments of approximately \$1,291,000 (30th June, 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:

	31st December, 2000 <i>HK\$'000</i>	30th June, 2000 <i>HK\$'000</i> <i>(Audited)</i>
Expiring in the first year	232	421
Expiring in the second to fifth years inclusive	1,059	5,410
Expiring after the fifth year	<u>—</u>	<u>—</u>
	<u><u>1,291</u></u>	<u><u>5,831</u></u>

b. *Operating lease commitment*

Save as disclosed in the most recent annual financial statements, as at 31st December, 2000, the Phoenix Group had additional operating lease commitments of approximately \$1,886,000 in respect of office for the Taiwan branch and the Phoenix North America Chinese Channel under various operating lease extending to November 2003. The amounts payable in the next twelve months, analysed according to the period in which the leases expire, are as follows:

	31st December, 2000 <i>HK\$'000</i>
Expiring in the first year	45
Expiring in the second to fifth years inclusive	618
Expiring after the fifth year	<u>—</u>
	<u><u>663</u></u>

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 31st December, 2000:

Details of commitments	Payee	Total commitment	Amount payable
			within the next twelve months
		HK\$'000	HK'000
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 HKTI Limited	3,647	3,647
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 HKTI Limited	2,033	2,033
Provision of downlink services	McKibben Communications	817	817
Provision of WNI Weather Services	Weathernews Inc.	606	324
Provision of technical support and leasing of office space in Europe	Studio Hamburg Fernseh Allianz	186	186
Provision of financial news services	Bridge Information Systems (HK) Ltd.	470	161
Provision of financial news services	The Associated Press Television News Ltd.	1,306	394
Provision of new headlines services	Dow Jones Acr Company Inc.	85	85
Licence fee for the use of the AP Graphics Bank/Internet full-screen images	The Associated Press	139	139
Subscription of Cable TV	Hong Kong Cable Television Limited	138	71
Provision of programme production services	東森華榮傳播事業 股份有限公司	9,676	9,676

13. Subsequent Event

The Phoenix Group and Techvast Limited are currently in the process of negotiating the acquisition of Phoenix Chinese News and Entertainment Limited ("PCNE"). 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.

DIRECTORS' INTERESTS

As at 31st December, 2000, 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:

<u>Name</u>	<u>Type of interest</u>	<u>Number of ordinary shares</u>
LIU, Changle	Corporate interests (<i>Note</i>)	1,854,000,000

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 31st December, 2000.

Mr. LIU, Changle and Mr. CHUI, Keung, being the executive Directors of the Company have been granted certain share options under the Pre-IPO Share Option Plan. Details of such options are set out in the following paragraph headed "Share Option Schemes".

Save as disclosed herein, as at 31st December, 2000, 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 7th June, 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.

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 14th February, 2001. The Stock Exchange has also approved the proposed amendments on 7th February, 2001. The summary of the revised Share Option Scheme is set out in the Appendix hereto. 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 hereto shall replace the corresponding paragraphs of the summary of the Pre-IPO Share Option Plan set out in Appendix VI of the Prospectus.

As at 31st December, 2000, the Company had granted the following share options under the Pre-IPO Share Option Plan to the Directors of the Company and employees of the Phoenix Group to acquire 1,000,000 shares or more:

Name	Number of options	Date of grant	Exercise price Per share <i>HK\$</i>
LIU, Changle*	5,320,000	14th June, 2000	1.08
CHUI, Keung*	3,990,000	14th June, 2000	1.08
WANG, Ji Yan [#]	3,990,000	14th June, 2000	1.08
YU, Tung Ho [#]	3,990,000	14th June, 2000	1.08
LEUNG, Noong Kong [#]	3,990,000	14th June, 2000	1.08
YEUNG, Ka Keung [#]	3,990,000	14th June, 2000	1.08
WU, Hsiao Li (Sally) [△]	1,596,000	14th June, 2000	1.08
XU, Gehui [△]	1,064,000	14th June, 2000	1.08
CHEN, Luyu [△]	1,064,000	14th June, 2000	1.08
DOU, Wentao [△]	1,064,000	14th June, 2000	1.08
HO, Nai Yin Howard [△]	1,064,000	14th June, 2000	1.08
SHI, Ningning [△]	1,064,000	14th June, 2000	1.08
WU, Xiaoyong [△]	1,064,000	14th June, 2000	1.08
LI, Ji Rui [△]	1,064,000	14th June, 2000	1.08
138 other employees (holding less than 1,000,000 shares) [△]	<u>25,428,000</u>	14th June, 2000	1.08
Total	<u><u>59,742,000</u></u>		

Notes:

* Being the executive Directors of the Company.

Being the senior management of the Phoenix Group.

△ Being the employees of the Phoenix Group.

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

The options are exercisable at any time commencing twelve months from the date of grant of the options in accordance with the following schedule and the other terms of the Pre-IPO Share Option Plan:

- (i) During the period starting from 15th June, 2000 to 14th June, 2001, no option may be exercised.
- (ii) During the period starting from 15th June, 2001 to 14th June, 2002, the options may be exercised up to 25% of such shares.
- (iii) During the period starting from 15th June, 2002 to 14th June, 2003, the options may (to the extent not exercised in accordance with (ii) above) be exercised up to 50% of such shares.
- (iv) During the period starting from 15th June, 2003 to 14th June, 2004, the options may (to the extent not exercised in accordance with (ii) and (iii) above) be exercised up to 75% of such shares.
- (v) Starting from 15th June, 2004, the options may (to the extent not exercised in accordance with (ii), (iii) and (iv) above) be exercised in full.

The expiry dates of the options are ten years after the date of grant of the options.

No options have been exercised, cancelled or lapsed during the period from the date of grant to 31st December, 2000.

As at 31st December, 2000, no options have been granted under the Share Option Scheme.

On 7th June, 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 31st December, 2000, 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 7th June, 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 31st December, 2000, 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:

<u>Name of shareholders</u>	<u>Number of ordinary shares held</u>
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 (formerly known as Star Multimedia 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 Television Limited are all deemed to be interested in the 1,854,000,000 shares held by Star Television Holdings Limited.

2. 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 thirteen 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
- Binji Overseas Limited
- 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 (Taiwan) 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 ("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 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 20th June, 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 20th June, 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, 14th February, 2001

APPENDIX

The following is a summary of the principal terms of the revised Share Option Scheme (the "Scheme"):

1. Who may join

The Directors may, at their discretion, invite employees of any member of the Company, including any executive Directors of any member of the Phoenix Group, in the full-time employment of the Company (or its subsidiaries) ("Eligible Person"), to take up options to subscribe for Shares at a price calculated in accordance with paragraph 3 below. The new definition of "Eligible Person" has dropped the reference to the length of time that such person has to work for the Phoenix Group before he is entitled to the offer of the option. Upon acceptance of the option, the option holder shall pay HK\$1 to the Company as consideration for the grant.

2. Grant of options to connected persons or any of their associates

Any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive Directors of the Company.

Where options are proposed to be granted to a connected person who is also a substantial shareholder of the Company or its Associates and the proposed grant of options, when aggregated with the options already granted to that connected person in the preceding 12-month period, would entitle him to receive more than 0.1% of the total issued Shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders in general meeting. Apart from the connected person involved, all other connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant.

3. Price for Shares

The subscription price for the Shares under the Scheme shall be determined by the Committee and will be no less than the highest of (a) the closing price of Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the letter of offer of the grant of option is issued by the Company ("Offer Date") which must be a business day, (b) the average closing price per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date and (c) the nominal value of the Share.

4. Maximum number of Shares

- (a) The total number of Shares available for issue under options which may be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company from time to time unless shareholders' approval has been obtained pursuant to paragraphs (b) and (c) below.
- (b) The Company may seek approval by shareholders in general meeting to refresh such limit.
- (c) The Company may seek separate shareholders' approval in general meeting to grant options beyond the limit as referred to in the above paragraph (a) provided that (i) the total number of Shares subject to the Scheme and any other schemes does not in aggregate exceed 30% of the total issued share capital of the Company and (ii) the options in excess of the said limit are granted only to participants specified by the Company before such approval is sought.

- (d) For the purpose of the above paragraph (a), there shall be excluded from the calculation (i) any Shares issued upon the exercise of any options under the Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further securities issued in respect of those securities mentioned in (i) above. Options that have been lapsed under the terms of the Scheme and any cancellation of options granted but not exercised will not be counted as part of the total number of Shares subject to the Scheme and any other schemes.

No option may be granted to any one person which, if at the relevant time exercised in full, would result in the total number of shares the subject of such option, when added to the number of Shares which may be subscribed by that Eligible Person under any outstanding options granted to that Eligible Person and to the number of Shares previously subscribed by the Eligible Person under any options granted to the Eligible Person under the Scheme exceeding 25% of the aggregate number of Shares available for subscription under the Scheme at that time.

5. Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing one year from the date of grant of the option and expiring 10 years after the date of the grant of the option (the "Option Period") in accordance with the following schedule (the "Schedule"):

<u>Date of exercise of an option</u>	<u>Percentage of Shares comprised in options which is exercisable</u>
between the date of grant of an option and less than 12 months following date of grant of an option	zero
between the period falling 12 months or more but less than 24 months from date of grant of an option	up to 25%
between the period falling 24 months or more but less than 36 months from date of grant of an option	up to 50%
between the period falling 36 months or more but less than 48 months from date of grant of an option	up to 75%
any time falling 48 months from the date of granting an option and thereafter	100%

For the avoidance of doubt, the life of the Scheme shall be limited to ten years from the date of its adoption.

6. Rights are personal to the option holder

An option may not be transferred or assigned and is personal to the option holder.

7. Rights on cessation of employment, death and dismissal

If the option holder of an option ceases to be an employee of any member of the Phoenix Group by reason of:

- (a) having been dismissed on grounds including, but not limited to, misconduct, or other breach of the material terms of his employment, bankruptcy, insolvency, conviction for a criminal offence or has made any arrangements or composition with his creditors generally;

- (b) death; or
- (c) resignation, retirement, expiry of employment contract or termination of employment contract on grounds other than those set out in (a) and (b) above.

Then

- (A) in the case of (a) above, all option of the employee shall automatically lapse on the date of such dismissal.
- (B) in the case of (b) above, the employees' personal representatives may, subject to and to the extent exercisable in accordance with the provisions of the Schedule, exercise all his options up to the entitlement of such employee as at the date of his death (to the extent not already exercised) within a period of 12 months after the date of his death.
- (C) in the case of (c) above, the employee may (if the date of cessation of employment is on or after the date of grant of the option) exercise the option at any time on or before the date which is one (1) month after the date of cessation up to his entitlement at the date of cessation subject to and to the extent exercisable in accordance with the provisions of the Schedule at the date of cessation and to the extent not already exercised.

8. Cancellation of options

Any cancellation of options granted but not exercised must be approved by the shareholders of the Company in general meeting, with the option holders and their associates abstaining from voting. The votes at the general meeting will be taken by poll. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued option shall only be granted in compliance with their terms of the Scheme.

9. Administration of the Scheme

The Scheme will be administered by a committee constituted by four directors of which two are independent non-executive Directors of the Company and of any holding company of the Company which is also listed on the Main Board or on GEM, one is a non-executive Director and one is an executive Director of the Company.

10. Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable including by way of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital while any option remains exercisable, (but excluding any alteration in the capital structure of the Company as a result of an issue of shares as consideration in a transaction to which the Company is a party), or in the event of any distribution of the Company's capital assets to shareholders pro rata, (but excluding dividend paid out of the net profits attributable to the shareholders for each financial year of the Company) such corresponding adjustments (if any) will be made to the number or nominal amount of Shares subject to the option so far as unexercised, and/or the subscription price, and/or the method of exercise of the option provided that any such adjustments will be on the basis that the proportion of the issued share capital to which a option holder is entitled after such adjustments will remain the same as that to which he was entitled before such alteration and that no share will be issued at less than its nominal value. Save in the case of a capitalisation issue, an independent financial adviser or the auditors for the time being of the Company must confirm to the Committee in writing that the such adjustments satisfy the aforesaid requirements.

11. Rights on agreement offer by way of takeover

In the event of a general offer by way of takeover is made to all the shareholders of the Company (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, notwithstanding the provisions of the Schedule the option holder (or his or her legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised even though this is prior to the time periods prescribed in the Schedule or the Option Period has not come into effect during the occurrence of the general offer) at any time within one month after the date on which the offer becomes or is declared unconditional.

12. Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement is made to all the shareholders (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer having been approved by the necessary number of shareholders of the Company at the requisite meetings, the Company shall use its best endeavours to procure that such offer is extended to all the option holders. Notwithstanding the provisions of the Schedule, the option holder (or his or her personal representative(s)) may within 14 days after the date on which such general offer becomes or is declared unconditional, by written notice to the Company exercise the option (to the extent not already exercised even though this is prior to the time periods prescribed in the Schedule or the Option Period has not come into effect) to its full extent or to the extent specified in such notice.

13. Rights on winding-up

In the event a notice is given by the Company to its shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all option holders and thereupon, notwithstanding the provisions of the Schedule, each option holder (or his or her legal personal representative(s)) may by notice in writing to the Company (such notice to be received by the Company not later than 2 business days prior to the proposed general meeting of the Company) exercise the option (to the extent not already exercised even through this is prior to the time periods prescribed in the Schedule or the Option Period has not come into effect) either to its full extent or to the extent specified in such notice, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the option holder credited as fully paid.

14. Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holders on the same date as it despatches the notice which is sent to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon notwithstanding the provisions of the Schedule, each option holder (or where permitted, his or her personal representative(s)) may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than two business day prior to the proposed meeting) exercise the option (to the extent not already exercised even through this is prior to the time periods prescribed in the Schedule or the Option Period has not come into effect) either to its full extent or to the extent specified in such notice provided that the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective and as soon as possible thereafter the Company shall allot and issue such number of Shares to the option holder which falls to be issued on such exercise credited as fully paid and register the option holder as holder of such Shares. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised as aforesaid. The Company may thereafter require each option holder to

transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option holder in the same position as nearly as would have been the case had such shares been subject to such compromise or arrangement.

15. Lapse of Option

Notwithstanding anything to the contrary herein, an option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the periods referred to in paragraphs 7(B), 7(C) and 13;
- (c) subject to the High Court of Hong Kong not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph 11;
- (d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph 12;
- (e) the date of the commencement of the winding-up of the Company;
- (f) the date on which the option holder ceases to be an Eligible Person by reason of paragraph 7(A). A resolution of the board of Directors or the board of Directors of the relevant subsidiary to the effect that the employment of an option holder has or has not been terminated on one or more of the grounds specified in paragraph 7(A) shall be conclusive evidence thereof; or
- (g) the date on which the option holder commits a breach of the provisions that an option shall not be sold, transferred, charged, mortgaged, assigned, encumbered or otherwise disposed of and shall be personal to the option holder who shall not create any interest over or in relation thereto in favour of any third party.

16. Price sensitive developments

Any grant of options will not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the date of the preliminary announcement of final results of the Company for any financial year or the date of the publication of interim results, no offer of the grant of any option will be made until such information has been so announced.

17. Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank equally with the fully paid Shares in issue on the date of exercise of the option and accordingly will entitle the option holders to participate in all dividends or other distributions paid or made by reference to a record date on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made to holders of Shares on the register of members on a date prior to the date of exercise of the option.

18. Alterations to terms and conditions

The majority of the provisions of the Scheme cannot be altered to the advantage of option holders or prospective option holders of options except with the prior approval of the shareholders of the Company in general meeting and, if the alteration is of material nature, the approval of the Stock Exchange.

19. Conditionality of the Scheme

The Scheme is conditional upon (a) the GEM Listing Committee of the Stock Exchange granting approval of (i) the Scheme and any options which may be granted thereunder, (ii) the listing of and permission to deal in the Shares to be issued as mentioned herein and any shares falling to be issued pursuant to the exercise of the options, and (iii) the obligations of Underwriters (as defined in the Prospectus) under the Underwriting Agreements (as defined in the Prospectus) becoming unconditional and not being terminated in accordance with the terms of those agreements.

20. Period of the Scheme

The Scheme will remain in force for a period of 10 years commencing on the date of the adoption of the Scheme. Upon termination, no further options may be granted under the Scheme.

21. Termination

The Committee may terminate the Scheme at any time and in such event no further options will be offered, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms and conditions of the Scheme.

22. General

Unless the context otherwise requires, references to "Shares" in this summary include shares in the Company of any other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time.

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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.