



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

# First Quarterly Report 2001/2002

**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.

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## EXECUTIVE SUMMARY

- *In line with expectations shaped by the global economic downturn and Phoenix's operational expansion, revenue fell and operating costs increased during this period*
- *Phoenix's comprehensive coverage of the tragic events caused by the terrorist attacks on the United States has attracted enormous attention to Phoenix, both in China and internationally*
- *The continuing growth of the Chinese economy, coupled with Phoenix's expanding access to the Chinese television market, augurs well for Phoenix's future prospects*

The directors (the "Directors") of Phoenix Satellite Television Holdings Limited (the "Company") have pleasure in presenting the unaudited consolidated income statement and statement of cash flows of the Company and its subsidiaries (collectively referred to as the "Phoenix Group" or "Phoenix") for the three months ended 30 September 2001 (the "period") and the consolidated balance sheet of the Phoenix Group as at 30 September 2001, together with the comparative figures for the corresponding period and relevant date in 2000.

## FINANCIAL REVIEW

The revenue of the Phoenix Group for the three months ended 30 September 2001 fell by 18.9% compared with the same period last year.

Operating costs increased by HK\$38,822,000 to HK\$194,750,000. Loss from operations amounted to HK\$38,728,000 and the loss per share was HK cents 0.71. The board has not recommended an interim dividend for the quarter.

This outcome is broadly in line with expectations shaped by the global economic downturn and Phoenix's operational expansion.



## BUSINESS REVIEW

The increase of operating expenses relative to the same period last year is primarily due to the launch of the new channels in January 2001. Our operating costs are relatively stable as compared with the last quarter. Thus, as a whole, the performance of this quarter was very similar to the last quarter.

	<b>Three months ended 30 September 2001 HK\$'000</b>	Three months ended 30 June 2001 HK\$'000
Revenue	<b>156,022</b>	170,882
Operating Expenses	<b>(152,131)</b>	(165,033)
Selling, General and Administrative Expenses	<b>(42,619)</b>	(45,245)
Loss From Operations	<b><u>(38,728)</u></b>	<u>(39,396)</u>

91.5% of the revenue was contributed by Phoenix Chinese Channel. The table below shows the operating profit/(loss) of our businesses for this quarter:

	<b>Three months ended 30 September 2001 HK\$'000</b>
Phoenix Chinese & Movies channels	<b>54,228</b>
Phoenix InfoNews & North America Chinese channels	<b>(49,571)</b>
Other businesses	<b>(4,239)</b>
Management overheads	<b><u>(39,146)</u></b>
Loss From Operations	<b><u>(38,728)</u></b>

## Television Broadcasting

The Phoenix Group has been acclaimed by a wide range of media commentators, intellectuals and senior government officials for its outstanding performance in reporting the September 11th terrorist attacks in the United States. Phoenix's coverage of the disastrous events in New York and Washington demonstrated its capacity to react immediately to breaking news of international significance. Regular programming on the Phoenix Chinese Channel and the Phoenix InfoNews Channel was suspended and replaced by a well-organised, continuous stream of on-air broadcasting, providing live coverage of the tragedy as it unfolded over a 36-hour period.



Utilising live feed from several sources, including US affiliate Fox News Network L.L.C., Phoenix's correspondents in New York, Washington and Los Angeles co-ordinated with their colleagues in Hong Kong to deliver instant, accurate and comprehensive news and commentary to our various audiences worldwide. Instant translation was also made available by anchors during live broadcasts.

The Phoenix Group will continue its efforts to maintain and enhance even further the top-quality services offered through each of its channels.

### **Other Businesses**

The Phoenix website ([www.phoenixtv.com](http://www.phoenixtv.com)) saw a significant increase in the number of pageviews during and after the September 11th attacks on the World Trade Center and the Pentagon. Normal traffic levels surged several times, reaching over 6,000,000 pageviews per day, reflecting both the tremendous level of interest and desire for news among the public and the popular realization that Phoenix could provide this news. These statistics underscore the fact that the website secures greater exposure for Phoenix and reinforces the Phoenix brand among the Chinese speaking community.

The Phoenix Weekly Magazine continues to offer high quality editorial comment and further background information about the programmes broadcast by the Phoenix Group. The magazine also carries other feature articles about a wide array of historical, cultural and political developments, thereby serving to encourage readers' interest in our channels.

The Phoenix Group is currently putting into place a joint venture arrangement with partners in China to develop Phoenix's production facilities in Shenzhen. This will involve the construction of a building to house the production centre. The completion of this project will enable Phoenix to produce in house a greater volume of high quality programming while at the same time reducing our production costs.

### **Business Strategy**

We will build upon the great growth in popular recognition of the Phoenix brand name – especially in mainland China where Phoenix is increasingly seen as a key source of news and information about the outside world – to increase our audience size and secure more advertisers in order to build up revenue.

Besides maintaining the high standards of content on Phoenix's channels, we will also seek to negotiate cooperative arrangements with Chinese partners that give us greater access to the Chinese television audience.

Where feasible, and as opportunities arise, we will also explore investment opportunities in other media and related businesses in order to further popularize the Phoenix brand name and at the same time generate greater revenue.



## Prospects

Despite the negative trends in the regional and global economies, we are optimistic about the prospects for revenue growth over the coming year. The Chinese economy is continuing to grow at a rate in excess of six per cent per year, and Phoenix's access to the Chinese audience continues to expand. The combination of these two factors should significantly improve Phoenix's commercial performance in the future.

Our confidence in the future expansion of Phoenix's access to the mainland Chinese television audience has been reinforced by several recent developments of considerable significance.

Firstly, on 18 October 2001 we were advised by the head of State Administration of Radio, Film and Television ("SARFT") that SARFT had decided to give official approval for the Phoenix Chinese Channel and the Phoenix Movies Channel to be carried on the cable system in Guangdong's Pearl River Delta area. This is seen as a great milestone for the Phoenix Group, as such official approval had never before been granted to any foreign broadcaster. On the same day, we were also advised that SARFT would "proactively and seriously consider" our application for Phoenix InfoNews Channel to be granted specific landing rights in China.

Secondly, on 29 October 2001 Phoenix entered into a preliminary agreement with China International Television Corp. to set up a joint venture that would facilitate the distribution of CCTV-4 programming by satellite in the United States. This will be done in conjunction with the distribution of the Phoenix North American Chinese Channel. This development signals the formation of a long-term cooperative relationship between Phoenix and China Central Television. This arrangement has the full support of the SARFT and demonstrates the growing value that the Chinese authorities attach to Phoenix as a corporate entity that can advance their own interests in expanding the capacity of the Chinese state media to reach the Chinese audience world-wide.

Thirdly, following the announcement relating to Phoenix's access to the Pearl River Delta cable system, another foreign broadcaster has also been granted similar landing rights. Rather than viewing this as a negative development, Phoenix regards this as further evidence that the Chinese market will continue to open up in a measured but steady way and that Phoenix will be both a pioneer and a primary beneficiary of this process. Phoenix is also confident that the success that it has experienced in developing a sizeable and loyal audience in China over the last five years means that it has the capacity to outperform newer arrivals in the Chinese television market and that it will remain the premier foreign television broadcaster in China for the foreseeable future.

Based on these developments, Phoenix remains confident that its access to the Chinese audience will continue to expand and that its current strategy will deliver significant commercial growth as its market expands both globally and on the Chinese mainland.



The Directors (“the Directors”) of Phoenix Satellite Television Holdings Limited (“the Company”) have the pleasure of presenting the unaudited consolidated income statement and statement of cash flows of the Company and its subsidiaries (collectively referred to as “the Phoenix Group”) for the three months ended September 30, 2001 (“the period”) and the consolidated balance sheet of the Phoenix Group as at September 30, 2001, together with the comparative figures for the corresponding period and relevant date in 2000.

### **DIRECTORS’ INTERESTS IN SECURITIES**

As at September 30, 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 of Hong Kong Limited (the “Stock Exchange”) were as follows:

#### **(1) Ordinary shares**

<b>Name</b>	<b>Number of Type of interest</b>	<b>ordinary shares</b>
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 capital of Today’s Asia Limited, which in turn is interested in approximately 37.6% of the issued share capital of the Company as at September 30, 2001.

#### **(2) Share options**

As at September 30, 2001, the Company had granted the following share options under the Pre-IPO Share Option Scheme to the Directors of the Company to subscribe for ordinary shares of the Company.

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

\* Being the Executive Directors of the Company.

No such options have been exercised during the period from the date of grant to September 30, 2001.



Save as disclosed herein, as at September 30, 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 Scheme and Share Option Scheme. The summary of the Pre-IPO Share Option Scheme and the Share Option Scheme is set out in Appendix VI of the prospectus of the Company dated June 21, 2000 (the "Prospectus") under the section headed "Share Option Schemes".

In order to enhance the flexibility in the implementation of the Pre-IPO Share Option Scheme and the Share Option Scheme, the committee of four Directors established for the administration of the share option schemes (the "Committee") approved certain amendments to the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme on February 14, 2001. The Stock Exchange 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 were made to the Pre-IPO Share Option Scheme and paragraphs 7, 11, 12, 13, 14 and 15 set out in the Appendix of the Half-yearly Report 2000/2001 replaced the corresponding paragraphs of the summary of the Pre-IPO Share Option Scheme set out in Appendix VI of the Prospectus.

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

As at September 30, 2001, the following share options granted by the Company under the Pre-IPO Share Option Scheme to the employees of the Phoenix Group to acquire shares were outstanding:

<b>Total number of employees</b>	<b>Number of share options</b>	<b>Date of grant</b>	<b>Exercise price per share</b> <i>HK\$</i>	<b>Exercise period</b> <i>(Note a)</i>
135	56,418,000	June 14, 2000	1.08	June 14, 2001 to June 13, 2010

No options have been granted to Non-Executive Directors and Independent Non-Executive Directors under the Pre-IPO Share Option Scheme.

762,000 options have been exercised during the period from the date of grant to September 30, 2001. As at September 30, 2001, 2,562,000 options granted to 17 employees were lapsed when they ceased their employment with the Phoenix Group.

## (2) Share Option Scheme

As at September 30, 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 number of employees	Number of share options	Date of grant	Exercise price per share HK\$	Exercise period (Note a)
2	1,700,000	February 15, 2001	1.99	February 15, 2002 to February 14, 2011
21	13,860,000	August 10, 2001	1.13	August 10, 2002 to August 9, 2011

As at September 30, 2001, 1,200,000 options granted to 1 employee were lapsed when he ceased employment with the Phoenix Group. Save as stated above, no options have been exercised, cancelled or lapsed during the period from the respective dates of grant to September 30, 2001.

No options have been granted to the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors under the Share Option Scheme.

*Note a:* 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 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 are set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes".

As at September 30, 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 schemes 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 schemes may not exceed 10% of the issued share capital of the Company.



The Company has applied for a waiver from strict compliance with Rule 23.02(2) of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM Listing Rules”) so that the total number of shares available for issue under the options granted 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 herein, 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 period 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 period or at any time during the period.

### **SUBSTANTIAL SHAREHOLDERS**

As at September 30, 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) were, directly or indirectly, interested in 10% or more of the Company’s issued share capital:

<b>Name</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 approximately 75% by News Cayman Holdings Limited and approximately 25% by STAR Group Limited. STAR Group Limited is a wholly-owned subsidiary of News Cayman Holdings Limited. News Publishers Investments Pty. Limited holds 100% of the ordinary voting shares of News Cayman Holdings Limited. News Publishers Investments Pty. Limited is a wholly-owned subsidiary of News Publishers Holdings Pty. Limited, which in turn is a wholly-owned subsidiary of The News Corporation Limited, a listed company in New Zealand, Australia, London and New York.

By virtue of the SDI Ordinance, The News Corporation Limited, News Publishers Holdings Pty. Limited, News Publishers Investments Pty. Limited, News Cayman Holdings Limited, STAR Group Limited and STAR Television 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 period.

## **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. One of the Non-Executive Directors of the Company, Mr. XU, Gang, who is also a Director of Bank of China Group Investment Limited and China Wise International Limited, 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
- 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

Mr. GONG, Jianzhong, who is a director of China Wise International Limited, has been nominated by China Wise International Limited and appointed as Alternate Director to Mr. XU, Gang of the Company and the above fourteen subsidiaries of the Phoenix Group.

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);



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- (ii) no Director or employee or their 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 of the Company 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 interested in approximately 37.6%, 37.6% and 8.4% of the Company respectively. Today's Asia Limited, together with its shareholders, Mr. LIU, Changle and CHAN, Wing Kee, STAR Television Holdings Limited and China Wise International Limited are deemed to be the initial management shareholders of the Company as defined under the GEM Listing Rules.

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 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 Holdings, Inc. (formerly known as 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, owns and operates 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]. The broadcasting coverage of Channel [V] includes China, Taiwan, Hong Kong, countries in South East Asia, the Indian sub-continent and the Middle East. STAR Group Limited confirmed on September 5, 2001 that it is in advanced discussions with the State Administration of Radio, Film and Television (SARFT) of China and China International Television Corporation (CITV) concerning landing rights in Guangdong province for a new service.

Mr. LIU, Changle and Mr. CHAN Wing Kee, who beneficially own 93.3% and 6.7% respectively of Today's Asia Limited, 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 audience in Hong Kong, Asia Television Limited broadcasts its programmes via terrestrial transmission through two channels, one in Cantonese and the other in English. Signals of such two channels can also be received in certain 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, semi-annual 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, November 8, 2001



**CONSOLIDATED BALANCE SHEET – UNAUDITED**

AS AT SEPTEMBER 30, 2001

	<i>Notes</i>	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and bank balances		<b>603,254</b>	665,403
Accounts receivable, net		<b>132,274</b>	122,645
Inventories		<b>1,710</b>	372
Prepayments, deposits and other receivables		<b>153,314</b>	166,091
Amounts due from related companies	8	<b>26</b>	825
Self-produced programmes		<b>12,205</b>	11,165
Purchased programme and film rights	2	<b>13,653</b>	10,645
		<hr/>	<hr/>
Total current assets		<b>916,436</b>	977,146
NON-CURRENT ASSETS			
Fixed assets	3	<b>80,852</b>	79,156
Purchased programme and film rights	2	<b>37,785</b>	36,515
Land deposit	4	<b>29,177</b>	29,177
Loan to a related company	5	<b>47,308</b>	41,093
		<hr/>	<hr/>
Total non-current assets		<b>195,122</b>	185,941
		<hr/>	<hr/>
Total assets		<b><u>1,111,558</u></b>	<b><u>1,163,087</u></b>





		<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short term bank loan, secured		<b>779</b>	779
Accounts payable and accruals		<b>81,866</b>	80,866
Deferred income		<b>11,586</b>	12,355
Advertising revenue received in advance		<b>6,105</b>	28,462
Amounts due to related companies	8	<b>21,880</b>	17,913
Tax payable		<b>3,458</b>	1,356
Total current liabilities		<b>125,674</b>	141,731
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		<b>252</b>	252
Minority interests		<b>4,279</b>	5,019
Total non-current liabilities		<b>4,531</b>	5,271
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	<b>493,173</b>	493,159
Reserves	7	<b>488,180</b>	522,926
Total shareholders' equity		<b>981,353</b>	1,016,085
Total liabilities and shareholders' equity		<b>1,111,558</b>	1,163,087

**CONSOLIDATED INCOME STATEMENT – UNAUDITED**

For the three months ended September 30, 2001

	<i>Notes</i>	<b>For the 3 months ended September 30, 2001 \$'000</b>	For the 3 months ended September 30, 2000 \$'000 <i>(Note 16)</i>
REVENUE	13	<b>156,022</b>	192,323
OPERATING EXPENSES	8, 13	<b>(152,131)</b>	(113,004)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8, 13	<b>(42,619)</b>	(42,924)
(LOSS) PROFIT FROM OPERATIONS		<b>(38,728)</b>	36,395
OTHER INCOME			
Exchange (loss) gain, net		<b>(516)</b>	763
Interest income, net		<b>4,695</b>	11,599
Other income, net		<b>1,057</b>	793
(LOSS) PROFIT BEFORE TAXATION AND MINORITY INTERESTS		<b>(33,492)</b>	49,550
TAXATION	9	<b>(2,129)</b>	–
(LOSS) PROFIT BEFORE MINORITY INTERESTS		<b>(35,621)</b>	49,550
MINORITY INTERESTS		<b>740</b>	1,836
(LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>(34,881)</b>	51,386
ACCUMULATED DEFICIT, beginning of period		<b>(301,778)</b>	(355,762)
		<b>(336,659)</b>	(304,376)
DIVIDENDS	10	–	–
ACCUMULATED DEFICIT, end of period		<b>(336,659)</b>	(304,376)
(LOSS) EARNINGS PER SHARE	11	<b>(0.71) cents</b>	1.05 cents
DILUTED (LOSS) EARNINGS PER SHARE	11	<b>N/A</b>	N/A

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 STATEMENT OF CASH FLOWS – UNAUDITED

For the three months ended September 30, 2001

	<i>Note</i>	<b>For the 3 months ended September 30, 2001 \$'000</b>	For the 3 months ended September 30, 2000 \$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES		<u>(54,120)</u>	<u>6,674</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from bank deposits		<b>4,715</b>	11,599
Interest paid on short term bank loan		<u>(20)</u>	<u>–</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u><b>4,695</b></u>	<u>11,599</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		<b>(6,631)</b>	(9,879)
Loan to a related company		<u>(6,215)</u>	<u>(5,789)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(12,846)</u>	<u>(15,668)</u>
OVERSEAS TAXATION PAID		<u>(27)</u>	<u>–</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		<u>(62,298)</u>	<u>2,605</u>
FINANCING ACTIVITIES			
Capital contributions from minority shareholders		–	1,000
Proceeds from exercise of share options		<b>149</b>	–
Proceeds from over-allotment of shares		–	90,621
Over-allotment and public offering expenses paid		<u>–</u>	<u>(7,287)</u>
NET CASH INFLOW FROM FINANCING		<u><b>149</b></u>	<u>84,334</u>
(DECREASE) INCREASE IN CASH AND BANK BALANCES	12	<u><b>(62,149)</b></u>	<u>86,939</u>



## NOTES TO THE QUARTERLY REPORT – UNAUDITED

September 30, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 1. Basis of preparation and accounting policies

These quarterly financial statements should be read in conjunction with the 2000/2001 annual financial statements and comply with Statement of Standard Accounting Practice Number 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The Phoenix Group underwent a reorganisation to rationalise its structure in preparation for the listing of the Company’s Shares on the GEM. Details of the Group Reorganisation have been set out in the section headed “Corporate Reorganisation” in Appendix VI of the prospectus issued by the Company on June 21, 2000 (the “Prospectus”).

The Phoenix Group after the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Phoenix Group have been prepared on the basis of merger accounting as if the Company had always been the holding company of the Phoenix Group.

The accounting policies adopted by the Phoenix Group are consistent with those followed in the annual financial statements for the year ended June 30, 2001, except for the adoption of certain new accounting standards issued by HKSA as described below.

In the current period, the Phoenix Group has adopted, for the first time, the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

For the three month period ended September 30, 2001, the adoption of the new SSAPs has no material impact on the reported financial position or results of the Phoenix Group.

### 2. Purchased programme and film rights

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
Cost	<b>185,377</b>	171,727
Accumulated amortisation	<b>(133,939)</b>	(124,567)
	<b>51,438</b>	47,160
Less: Purchased programme and film rights – current portion	<b>(13,653)</b>	(10,645)
Purchased programme and film rights – non-current portion	<b>37,785</b>	36,515

### 3. Fixed assets

	<b>Three months ended September 30, 2001 \$'000</b>	Twelve months ended June 30, 2001 \$'000 <i>(Audited)</i>
Net book value, beginning of period/year	<b>79,156</b>	4,558
Additions	<b>6,631</b>	82,242
Disposals	<b>(542)</b>	(215)
Depreciation	<b>(4,393)</b>	(7,429)
Net book value, end of period/year	<b><u>80,852</u></b>	<u>79,156</u>

### 4. Land deposit

On June 11, 2001, a subsidiary of the Company entered into an agreement with 深圳市規劃國土局 (The Shenzhen National Land Planning Bureau) to acquire a land use right on a parcel of land situated in Shenzhen, the PRC for the development of premises including a production centre for the Phoenix Group. Pursuant to the payment terms of the agreement, an amount of approximately \$29,177,000 has been paid to the 深圳市規劃國土局 (The Shenzhen National Land Planning Bureau) as the first installment. The Phoenix Group is committed to pay approximately \$28,177,000 as the final installment no later than June 13, 2003. The land use right will be granted when full payment is made. As at September 30, 2001, the Phoenix Group has yet to obtain the land use right from 深圳市規劃國土局 (Shenzhen National Land Planning Bureau) as the final installment has not due for payment.

### 5. Loan to a related company

The amount represents an unsecured and interest-free loan to Phoenix Chinese News and Entertainment Limited ("PCNE") pursuant to a conditional acquisition agreement entered into between Techvast Limited, the existing shareholder of PCNE, and the Phoenix Group on July 11, 1999. Pursuant to this agreement, it is envisaged that Phoenix Satellite Television (Europe) Limited and Techvast Limited will subscribe for 70% and 30%, respectively, of the share capital of a newly established company which will acquire 100% of the share capital of PCNE from Techvast Limited. Pursuant further to such agreement, the Phoenix Group is committed to provide aggregate funding of not less than US\$8.4 million to PCNE for three years starting from August 1999 with annual funding of not less than US\$2.8 million in the form of an unsecured interest-free loan. The loan is repayable by PCNE only after PCNE generates a net profit. The recoverability of this loan amount is, therefore, dependent on the expected future benefits from the synergy of PCNE and the Phoenix Group. Management is of the opinion that the full amount of the loan will be recoverable.

The acquisition of PCNE by the Phoenix Group was completed on November 1, 2001 when the final agreement was signed by both parties (Note 15) and PCNE has become a 70% owned subsidiary of the Phoenix Group. Goodwill arising from the acquisition of PCNE will be subject to amortisation and a periodic assessment of any potential impairment in value, based on an evaluation of the recoverable amount.



## 6. Share capital

	Three month ended September 30, 2001		Twelve months ended June 30, 2001	
	Number of shares	Amount \$'000	Number of shares	Amount \$'000 <i>(Audited)</i>
Issued and fully paid (HK\$0.10 each)				
Beginning of period/year	4,931,592,000	493,159	4,847,060,000	484,706
Exercise of over-allotment options	—	—	83,908,000	8,391
Exercise of share options	138,000	14	624,000	62
End of period/year	<u>4,931,730,000</u>	<u>493,173</u>	<u>4,931,592,000</u>	<u>493,159</u>

## 7. Reserves

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

	Three months ended September 30,			2000 Total \$'000
	Share premium \$'000	Accumulated deficit \$'000	Total \$'000	
Beginning of period	824,704	(301,778)	522,926	395,097
(Loss) Profit attributable to shareholders	—	(34,881)	(34,881)	51,386
Proceeds from over-allotment of shares	—	—	—	82,230
Placements and public offering expenses	—	—	—	(2,747)
Over-allotment expenses	—	—	—	(4,540)
Exercise of share options	135	—	135	—
End of period	<u>824,839</u>	<u>(336,659)</u>	<u>488,180</u>	<u>521,426</u>

## 8. Related party transactions

As at September 30, 2001, the outstanding balances with related companies were unsecured, non-interest bearing and have no fixed repayment terms.

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

		<b>Three months ended September 30,</b>	
		<b>2001</b>	2000
	<i>Notes</i>	<b><i>\$'000</i></b>	<i>\$'000</i>
Office premises rental paid/payable to Satellite Television Asian Region Limited	a, b	<b>1,593</b>	1,896
Service charges paid/payable to Satellite Television Asian Region Limited	a, c	<b>34,999</b>	20,190
Commission for advertising sales and marketing services paid/payable to Satellite Television Asian Region Limited	a, d	<b>1,349</b>	2,601
Commission for international subscription sales and marketing services paid/payable to Satellite Television Asian Region Limited	a, e	<b>476</b>	295
Film licence fees paid/payable to Star TV Filmed Entertainment Limited	a, f	<b>5,101</b>	5,099
Programme licence fees paid/payable to other Star TV group companies	a, g	<b>675</b>	–
Programme licence fees paid/payable to ATV Enterprises Limited	g, i	<b>225</b>	3,741
Service charges paid/payable to Asia Television Limited	h, i	<b>302</b>	–
Service charges paid/payable to Fox News Network L.L.C.	j, k	<b><u>1,039</u></b>	<u>–</u>

The Phoenix Group has provided certain film rights and programmes to Phoenix Chinese News and Entertainment Limited ("PCNE") at no charge since the date of the conditional agreement disclosed in Note 5.



*Notes:*

The Directors have confirmed that all of the above related party transactions have been carried out in the normal course of business of the Phoenix Group.

- a. Satellite Television Asian Region Limited, Star TV Filmed Entertainment Limited and other Star TV group companies are wholly-owned subsidiaries of Star TV Group.
- b. Office premises rental paid/payable 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/payable to Satellite Television Asian Region Limited cover the following services provided to the Phoenix Group which are charged based on the terms as specified under various service agreements. Either fixed fees or variable fees are charged depending on the type of facilities utilised including the following:
  - 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, management information system and commercial traffic).
- d. The commission for advertising sales and marketing services paid/payable to Satellite Television Asian Region Limited is based on 4% – 20% (2000 – 20%) of the net advertising income generated and received by it on behalf of the Phoenix Group after deducting third party agency fees.
- e. The commission for international subscription sales and marketing services paid/payable to Satellite Television Asian Region Limited is based on 15% (2000 – 15%) of the subscription fees generated and received by it on behalf of the Phoenix Group.
- f. The film licence fees are charged in accordance with a film rights acquisition agreement with Star TV Filmed Entertainment Limited.
- g. The programme licence fees paid/payable to other Star TV group companies and ATV Enterprises Limited are negotiated on a case-by-case basis.
- h. Service charges paid/payable to Asia Television Limited cover news footages and data transmission services provided to the Phoenix Group which are charged based on terms mutually agreed upon between both parties.
- i. ATV Enterprises Limited is a wholly owned subsidiary of Asia Television Limited. Mr. LIU, Changle and Mr. CHAN, Wing Kee, indirectly own approximately 14% and 18% respectively of Asia Television Limited as at September 30, 2001.
- j. Fox News Network L.L.C. ("Fox") is an associate of STAR Television Holdings Limited, which owns approximately 37.6% of the Company.



k. Service charges paid/payable to Fox cover the following services provided to the Phoenix Group which are charged based on the terms specified in a service agreement:

- granting of non-exclusive and non-transferable licence to subscribe for Fox's news service;
- leasing of office space; and
- accessing Fox's camera hook up at the United Nations, interview positions in various places in the United States and live shots from Fox's satellite truck positions for events that Fox is already covering, subject to availability.

## 9. Taxation

Taxation in the consolidated income statement consisted of:

	<b>Three months ended September 30,</b>	
	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
Current taxation		
– Hong Kong profits tax	<b>2,102</b>	–
– United States Federal and State tax	<b>27</b>	–
	<u><b>2,129</b></u>	<u>–</u>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the respective jurisdictions.

As at September 30, 2001, certain subsidiaries of the Phoenix Group had estimated cumulative tax losses for Hong Kong profits tax purposes which, subject to the agreement of the Inland Revenue Department, can be carried forward indefinitely to offset future taxable profits. The potential deferred tax asset has not been recognised in the financial statements of the Phoenix Group.

## 10. Interim dividends

The Board does not recommend the payment of an interim dividend for the three months ended September 30, 2001 (2000 – nil).

## 11. (Loss) earnings per share

(Loss) Earnings per share is calculated based on consolidated (loss) profit attributable to shareholders for the three months ended September 30, 2001 of \$34,880,905 (three months ended September 30, 2000 – profit of \$51,386,509) and the 4,931,646,913 (2000 – 4,912,727,130) weighted average number of ordinary shares outstanding during the period ended September 30, 2001.

No diluted (loss) earnings per share has been presented as the exercise of the Company's outstanding share options would have no dilutive effect on (loss) earnings per share during the three months ended September 30, 2001 and 2000 respectively.





## 14. Commitments

### a. Film rights and programme acquisition

As at September 30, 2001, the Phoenix Group had aggregate outstanding film rights and programmes related commitments of approximately \$153,985,000 (as at June 30, 2001 – \$163,664,000) of which approximately \$153,320,000 (as at June 30, 2001 – \$158,783,000) was in respect of a film rights acquisition agreement with STAR TV Filmed Entertainment Limited extending to August 27, 2008 and approximately \$665,000 (as at June 30, 2001 – \$4,881,000) was in respect of other programme acquisition agreements with third parties. Total film rights and programme related commitments are analysed as follows:

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
Total committed purchase costs of film rights and programmes payable:		
– not later than one year	<b>22,549</b>	24,559
– later than one year and not later than five years	<b>89,124</b>	91,187
– later than five years	<b>42,312</b>	47,918
	<b><u>153,985</u></b>	<u>163,664</u>

### b. Service charges

As at September 30, 2001, the Phoenix Group had total committed service charges payable to Satellite Television Asian Region Limited of approximately \$98,634,000 (as at June 30, 2001 – \$112,485,000) in respect of a service agreement expiring on June 30, 2003. Total committed service charges payable to Satellite Television Asian Region Limited are analysed as follows:

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
Total committed service charges payable:		
– not later than one year	<b>56,150</b>	55,913
– later than one year and not later than five years	<b>42,484</b>	56,572
– later than five years	<b>–</b>	–
	<b><u>98,634</u></b>	<u>112,485</u>



As at September 30, 2001, the Phoenix Group had committed service charges payable to Fox News Network L.L.C. of approximately \$11,133,000 (as at June 30, 2001 – 11,540,000) in respect of service agreements expiring on July 25, 2002 and July 25, 2004 respectively. Total committed service charges payable to Fox News Network L.L.C. are analysed as follows:

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
Total committed service charges payable:		
– not later than one year	<b>4,054</b>	3,420
– later than one year and not later than five years	<b>7,079</b>	8,120
– later than five years	–	–
	<b><u>11,133</u></b>	<b><u>11,540</u></b>

c. *Office premises rental*

As at September 30, 2001, the Phoenix Group had total committed office premises rental payable to Satellite Television Asian Region Limited of approximately \$11,390,000 (as at June 30, 2001 – \$13,010,000) in respect of a licence expiring on July 14, 2003. Total committed office premises rental payable to Satellite Television Asian Region Limited is analysed as follows:

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 <i>(Audited)</i>
Total committed office premises rental payable:		
– not later than one year	<b>6,372</b>	6,372
– later than one year and not later than five years	<b>5,018</b>	6,638
– later than five years	–	–
	<b><u>11,390</u></b>	<b><u>13,010</u></b>

d. *Funding commitment*

Pursuant to a conditional agreement signed on July 11, 1999, the Phoenix Group committed to provide funding of not less than US\$8,400,000 (equivalent to approximately \$64,932,000) to PCNE for three years starting from August 1999 with annual funding of not less than US\$2,800,000 (equivalent to approximately \$21,644,000) in the form of an unsecured, interest-free loan with no fixed term of repayment. The Group has provided funding of approximately US\$6,073,000 (equivalent to approximately \$47,308,000) as of September 30, 2001. The remaining amount of funding commitment is therefore approximately \$17,624,000.

e. *Operating lease*

As at September 30, 2001, the Phoenix Group had rental commitments of approximately \$12,612,000 (as at June 30, 2001 – \$11,774,000) in respect of a Director's residence and a production centre under various operating leases extending to September 2002. Total future minimum lease payments under non-cancelable operating leases are analysed as follows:

	<b>As at September 30, 2001 \$'000</b>	As at June 30, 2001 \$'000 (Audited)
Total future minimum lease payments payable:		
– not later than one year	<b>5,040</b>	5,128
– later than one year and not later than five years	<b>7,572</b>	6,646
– later than five years	–	–
	<b><u>12,612</u></b>	<b><u>11,774</u></b>

f. *Land use right*

Pursuant to an agreement entered into on June 11, 2001 between a subsidiary of the Company and 深圳市規劃國土局 (The Shenzhen National Land Planning Bureau), the Phoenix Group has committed to pay a final balance of approximately \$28,177,000 no later than June 13, 2003 to obtain a land use right in Shenzhen, the PRC (see also Note 4).

g. *Other commitments*

Save as disclosed above and in the most recent annual financial statements, the Phoenix Group had the following additional significant operating and capital commitments as at September 30, 2001:

Details of commitment	Payee	<b>As at September 30, 2001 Total future minimum payments payable</b>			As at June 30, 2001
		<b>Not later than one year \$'000</b>	<b>Later than one year and not later than five years \$'000</b>	<b>Total commitment \$'000</b>	Total commitment \$'000 (Audited)
Purchase of computer hardware	北京中科大洋 科技發展 有限責任公司	2,337	–	2,337	2,001
Leasing of space capacity from International Telecommunications Satellite Organisation ("INTELSAT")	Cable & Wireless HKT Limited	365	–	365	1,459
Provision of programme production services	東森華榮傳播事業 股份有限公司	2,132	–	2,132	4,645
Provision of sports news services	Sports News Television	456	620	1,076	1,181
Provision of market datafeed services	Stock Exchange Information Services Limited	1,000	1,167	2,167	2,417
		<b><u>6,290</u></b>	<b><u>1,787</u></b>	<b><u>8,077</u></b>	<b><u>11,703</u></b>



### **15. Subsequent event**

The Phoenix Group completed its acquisition of Phoenix Chinese News and Entertainment Limited ("PCNE") on November 1, 2001 upon signing of the final agreement.

Prior to the acquisition of PCNE on November 1, 2001, each of Phoenix Satellite Television (Europe) Limited ("PSTL"), a wholly-owned subsidiary of the Company, and Techvast Limited were issued one share of US\$1 each at par of a newly established company, PCNE Holdings Limited. On November 1, 2001, pursuant to the acquisition agreement, PCNE Holdings Limited issued 699 new shares of US\$1 each to PSTL at a consideration of US\$699 and 299 new shares of US\$1 each to Techvast Limited in exchange for the entire share capital of PCNE. Consequently, PSTL and Techvast Limited hold 70% and 30% of the issued share capital of PCNE Holdings Limited respectively. In addition, PCNE has become a wholly-owned subsidiary of PCNE Holdings Limited.

The excess of the cost of the acquisition over the Phoenix Group's interest in the fair value of the net identifiable liabilities acquired as at the date of the acquisition will be recorded as goodwill and will be recognised as an asset in the balance sheet. Management is in the process of assessing the fair value of the identifiable assets and liabilities of PCNE at the date of the acquisition. The goodwill will be amortised on a straight-line basis over its expected useful life, subject to a periodic assessment of any potential impairment in value, based on an evaluation of the recoverable amount.

### **16. COMPARATIVE FIGURES**

Certain affiliated company charges in 2000 have been reclassified from selling, general and administrative expenses to operating expenses.

