鳳凰衛視

PHOENIX SATELLITE TELEVISION HOLDINGS LIMITED

鳳 凰 衛 視 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED JUNE 30, 2001

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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

The directors of Phoenix Satellite Television Holdings Limited (the "Directors") collectively and individually accept full responsibility for this announcement which includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Phoenix Satellite Television Holdings Limited. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the announcement are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this announcement have been arrived at after due and careful consideration on the bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

HIGHLIGHTS

Turnover up 39.6% to approximately $713,687,000

A significant increase in revenue for Phoenix's flagship Chinese Channel, from HK$490,437,000 to HK$670,569,000 approximately, up 36.7%

Consolidated profit attributable to shareholders for the year ended June 30, 2001 was approximately HK$53,984,000, an increase of 7.3% from last financial year

The successful launches of Phoenix InfoNews and North America Chinese channels

China's relaxation of tax-deductible limits of advertising expenditure from 2% to 8%, alleviating concerns regarding growth of advertising expenditure in the coming financial year

Year 2000-2001 marked the first full financial year for the Company after listing. The Directors of the Group are pleased to report the launch of the various new channels as planned, as well as the establishment of alliances with major news suppliers. With the launch of Phoenix North America Chinese Channel, we are now closer to positioning our brand-name globally and to providing entertainment and news to the Chinese-speaking audience around the world.

We have made an excellent start this year. We will maintain our strategic focus and concentrate our efforts on our audience, to ensure that the new channels will be as successful as our Phoenix Chinese Channel.

RESULTS

Turnover for the year ended June 30, 2001 was approximately HK$713,687,000, an increase of 39.6% from last year, which was attributable mainly to the increase in advertising revenue.

Advertising revenue grew by 38.9%, from HK$485,654,000 to HK$674,350,000 approximately. 98.2% of this revenue was contributed by Phoenix Chinese Channel, which itself demonstrated a significant 36.7% increase in advertising revenue, growing from HK$484,631,000 to HK$662,370,000 approximately. Total revenue of Phoenix Chinese Channel increased from HK$490,437,000 to HK$670,569,000 approximately. As expected, revenues from the new channels and other new businesses such as the web-site and the magazine were relatively low, while staffing, programming and other operational costs inevitably increased due to the establishment of these new channels and businesses. In addition, the expansion from being a single company to becoming a conglomerate of over twenty companies triggered a 26.4% increase in management overheads.

The table below shows the comparison of operating profit (loss) of our businesses for the financial years ended June 30, 2000 and 2001, respectively:

OPERATING PROFIT (LOSS) BY BUSINESS

	Year ended June 30, 2001 *HK$'000*	Year ended June 30, 2000 *HK$'000*
Phoenix Chinese & Movies channels	**295,197**	157,689
Phoenix InfoNews & North America Chinese channels	**(104,368)**	–
Other businesses	**(42,644)**	(893)
Management Overheads	**(146,713)**	(116,028)
Profit from Operations	**1,472**	40,768

Audited consolidated profit attributable to shareholders for the year ended June 30, 2001 was approximately HK$53,984,000, an increase of 7.3% from last financial year.

Earnings per share was recorded at HK1.10 cents.

DIVIDEND

The Board does not recommend a dividend payment, in order to allow for cash for future business development.

BUSINESS OVERVIEW

Television Broadcasting

In 2001, the Group focused its efforts on launching new channels and improving programming on all Phoenix channels. We have made significant strides in both securing and producing top-rated programmes, and we are pleased to note recent gains in audience and ranking as well.

The quality of programming was raised significantly during the period by a number of self-productions such as *European Odyssey* and *Green Wall in China*. We featured a number of high-quality Chinese and Hollywood movies, along with awards shows such as the *73rd Annual Academy Awards*.

The Channels

Phoenix Chinese Channel

Phoenix Chinese Channel continues to be the flagship channel for the Group. 94.0% of the Group's revenue was contributed by this channel. Our continued effort to improve programming was recognized in a nationwide TV audience survey conducted by China Central Television ("CCTV").

In the CCTV-commissioned survey for the first quarter of 2001, covering 44 local and foreign satellite channels which can be seen in the PRC, Phoenix Chinese Channel was ranked fifth in terms of audience satisfaction and popularity, and sixth in terms of programme competitiveness and degree of audience expectation. We are pleased to note that our rankings in these areas have improved in the same survey for the second quarter of 2001. Audience satisfaction and popularity advanced from fifth to third place. Programme competitiveness and degree of audience expectation improved from sixth to fourth and fifth, respectively. In both surveys, our loyalty rating ranked second only to CCTV.

Phoenix Movies Channel

Revenue from the Phoenix Movies Channel increased by 36.8% for the 12 months ended June 30, 2001. This shows that our audience is very supportive of our high quality movies and our efforts at promoting the channel.

Phoenix Movies Channel proudly celebrated its 3rd Anniversary in August 2001 with the showing of the widely-acclaimed *Crouching Tiger, Hidden Dragon*, the movie that hit box office records for Chinese movies and swept numerous awards including the Oscar®. This generated notable interest for title sponsorship among advertisers.

Phoenix InfoNews Channel

Launched in January 2001, Phoenix InfoNews is the first foreign satellite channel to deliver news and financial information 24 hours a day in Putonghua to most Asian countries. We have acquired news sources from various suppliers, notably securing a service agreement with Fox News Network L.L.C. to provide global news to the Group. The channel continues to expand its news coverage globally through establishing news bureaux around the world. Phoenix InfoNews Channel will be carried by cable TV network in Hong Kong in early 2002 and this will significantly increase its stature in the area.

Phoenix Chinese News and Entertainment Channel ("Phoenix CNE Channel")

Phoenix CNE Channel has extended its daily broadcast time to 8 hours, with Mandarin news and Cantonese news coverage and a weekly magazine programme called PCNE Express accounting for 22% of the total content. The channel is constantly enhancing its news content and major events coverage in Europe for the Group. We are looking at ways to further extend the channel's service in Europe, including the possible expansion of daily broadcast time to 24 hours in the near future to increase advertising income.

Phoenix North America Chinese Channel

Phoenix North America Chinese Channel is another Phoenix channel targeting the overseas Chinese audience. It broadcasts 24 hours a day, 7 days a week through DIRECTV, the largest direct satellite television broadcasting platform in the United States. Relying on the strong content base of the Group's multiple-channel platform in Hong Kong, the channel packages the best of dynamic news, general entertainment and other programming such as drama series, and variety and talk shows. The channel has also launched "US News", a locally-produced news programme featuring US news, market reviews, in-depth reports and live interviews on topics and issues concerning the Chinese community.

Shenzhen Production Centre

The Group produces tailor-made programmes for its own channels and also markets them to others. As part of the effort to reduce programming costs, the Group has plans to establish a production centre in Shenzhen. We have acquired a prime site in Shenzhen city centre and are now at the stage of soliciting design proposals from architectural firms for the construction of a new production centre.

Internet Development

The Group continues to operate a corporate web-site at www.phoenixtv.com and the number of visitors is increasing. The landscape in the technology and Internet arena is constantly shifting, however, with business viability in this area being limited at this time. We will adjust our investment scale according to changes in the circumstances and will explore areas that will complement and enhance our core business.

Phoenix Weekly

This is a comprehensive magazine with permission to distribute in the PRC. The main focus of the magazine is to cover television programmes and artistes appearing on the Group's channels. It comprises mainly three genres: current affairs and financial news, culture and lifestyle, and fashion and entertainment.

PROSPECTS

Our focus continues to be on the Chinese community, which is the largest in the world. This target group is still relatively unprovided for in terms of quality programming and we believe there is significant potential to be tapped. Phoenix Chinese Channel has achieved very satisfactory viewer ratings, which attest to its popularity in the PRC. As mentioned, we will concentrate our efforts on the new channels, as we believe the success of the Phoenix Chinese Channel can be repeated.

We will continue to produce our own programmes and to secure high-quality, popular shows and films from different sources so as to provide our viewers with entertainment which will draw more advertising revenue.

China's recent adjustment of tax-deductible limits of advertising expenditure from 2% to 8% for certain sectors such as the pharmaceutical, food, health protection products, household chemicals and information technology-related industries, will alleviate concerns regarding advertising expenditures of these PRC companies. The adjustment takes effect from January 2001 retrospectively. We have formed a marketing group to attract advertising from high-tech companies, for which spending is fully tax deductible.

The competition between PRC television broadcasters has always been keen. Although we have achieved high rankings in various aspects of the CCTV-commissioned surveys, our viewership penetration rate is relatively low as compared with the local channels. The opening up of the China market coupled with the awarding of the 2008 Olympics to Beijing and China's accession to the WTO are expected to impact positively on our industry and on our Group's plans for growth.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank our staff for their endeavours in raising and maintaining the standards of our productions and for their efforts to produce the maximum return for the Group.

MEMORIAL

Our Deputy Head of Phoenix Chinese Channel and Deputy CEO of Phoenix Film and Television (Shenzhen) Company Ltd, Mr Zhao Qun Li, died when his mini-aircraft crashed on September 2, 2001 while filming our new series *Seeking the Lost Homeland* in Wenzhou, PRC. Mr Zhao was known and respected as the first aerial photographer in China, having created many television series masterpieces such as *Deng Xiao Ping* and *Green Wall in China*. He will be remembered for his many achievements and his spirit will remain an inspiration for all of us.

Liu Changle
Chairman

Hong Kong, September 11, 2001

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus of the Company dated June 21, 2000 ("the Prospectus") for the period January – June 2001	Actual business progress for the period January – June 2001
Channel Development	
Establish alliances with content providers for Phoenix InfoNews Channel	InfoNews acquired news sources from various suppliers, notably securing a three-year deal with USA's Fox News Network L.L.C.
Increase broadcasting hours of Phoenix CNE Channel	Broadcasting hours of Phoenix CNE Channel have been increased from 6 to 8 hours a day, effective January 1, 2001
Subject to obtaining the relevant regulatory approval, begin construction of the production centre in Shenzhen	The Group has acquired a prime site in Shenzhen city centre and is now at the stage of soliciting design proposals from architectural firms for the construction of a new production centre. Documentation for the formation of the project company to monitor the development of the production centre is being prepared.
Conduct feasibility study and prepare development plan for Cantonese broadcasting capabilities and begin preparation for the launch of a Cantonese channel	The Cantonese channel project will not be activated for the time being. This will enable the Group to concentrate its efforts for the short term on building up the two recently-established channels instead of starting a new one.

Internet Strategy

Identify loyal sub-communities to facilitate e-commerce opportunities Explore new services that strengthen the tie between the Group's television and Internet communities Expand content and features Complete initial trial for broadband platform	Investment in the Internet has been reduced so as to lower development costs because of limited business viability in this area. The global landscape of the Internet has shifted tremendously during the past year and we are constantly evaluating business opportunities. Apart from maintaining the existing operation of our corporate web-site, no material financial commitments have been made in this sector. We will adjust our investment scale according to changes in the circumstances and will explore areas that will complement and enhance our core business.

USE OF PROCEEDS

The Group raised approximately HK$732,588,000 upon the listing of the Company and approximately HK$83,726,000 pursuant to the exercise of an over-allotment option.

During the year ended June 30, 2001, the Group has incurred the following expenses to achieve the business objectives as set out in the Prospectus:

- Approximately HK$15,934,000 for acquisition of equipment and facilities of the production centre in Shenzhen.
- Approximately HK$29,177,000 for deposit and part payment of the land use right in Shenzhen.
- Approximately HK$47,363,000 for capital expenditure of the new channels, including Phoenix InfoNews Channel and Phoenix North America Chinese Channel.
- Approximately HK$110,421,000 for operating expenditure of the new channels.
- Approximately HK$7,676,000 for capital expenditure on the www.phoenixtv.com web-site.
- Approximately HK$38,341,000 for operating expenditure of the web-site.
- Approximately HK$15,842,000 for operating expenditure of the Group's magazine, Phoenix Weekly.
- The remaining net proceeds have been deposited in licensed banks in Hong Kong.

FINANCIAL REVIEW

The Group recorded a net profit attributable to shareholders of approximately HK$53,984,000 for the year ended June 30, 2001 as compared to a net profit attributable to shareholders of approximately HK$50,315,000 for the previous year.

Turnover for the year ended June 30, 2001 was approximately HK$713,687,000, an increase of 39.6% from last year, which mainly was attributed by the increase in advertising revenue. Operating cost increased 44.0% to approximately HK$536,304,000 as our new channels commenced operations. Staffing cost increased 86.0% from HK$73,870,000 to HK$137,427,000 approximately as our number of employees increased from 164 to over 400. In addition, programming cost and other operating cost increased following the expansion of the Group's businesses.

The following table summarises the revenue of the Group for the financial years ended June 30, 2001 and 2000.

	Financial year ended June 30,	
	2001	2000
	HK$'000	*HK$'000*
Television Broadcasting		
Advertising income	**674,350**	485,654
Subscription income	**29,887**	25,182
Total	**704,237**	510,836
Weekly Magazine		
Advertising income	**5,761**	79
Subscription income	**2,060**	427
Total	**7,821**	506
Internet		
Technical services and equipment rental income	**1,284**	–
Others	**345**	–
Analysis by Geographical Regions:		
China	**639,563**	455,559
International	**74,124**	55,783
Total	**713,687**	511,342

The substantial increase in the Group's revenue was attributable to the increase in advertising income of Phoenix Chinese Channel, which was primarily a result of an increase in average advertising rate.

Television Broadcasting. Television broadcasting revenues, composed of advertising income and subscription income, were contributed by Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix InfoNews Channel and Phoenix North America Chinese Channel.

For the year ended June 30, 2001, advertising income of Phoenix Chinese Channel increased 36.7% to approximately HK$662,370,000, representing 94.1% of the total television broadcasting revenue. For the same period, income of Phoenix Movies Channel increased 36.8% to approximately HK$27,896,000 representing 4.0% of the total television broadcasting revenue. Phoenix InfoNews and North America Chinese channels, which are still in their start-up phase, had insignificant contribution to our revenue.

Phoenix Weekly Magazine. Approximately 1.1% of the Group's revenue was generated from the advertising and subscription income of the Phoenix Weekly Magazine.

Internet. Revenue from Internet mainly composed of technical services and equipment rental income. Approximately 0.2% of the Group's revenue was generated from internet operation.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2001, other than the aggregate outstanding borrowings of approximately HK$17,913,000 representing current accounts with related companies which were unsecured and non-interest bearing and approximately HK$779,000 representing short term bank loan which were secured and interest bearing, the Group had neither had any outstanding secured borrowings nor created any mortgage or charge. Accordingly, the financial position of the Group has been very liquid.

STAFF

As at June 30, 2001, the Group had over 400 full-time employees. The number of employees increased by 170.7% resulting from the establishment of new channels and new businesses. The Group had not experienced any significant labour disputes or substantial change in the number of its employees during the past 24 months which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their annual report together with the audited financial statements of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Phoenix Group") for the year ended June 30, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 17 to the financial statements.

An analysis of the Phoenix Group's revenue and profit from operations by nature of revenue and geographical regions is as follows:

	Revenue *HK$'000*	**Profit from operations** *HK$'000*
By nature of revenue:		
Advertising sales	674,350	674,350
Subscription sales	29,887	29,887
Magazine advertising and subscription sales	7,821	7,821
Equipment rental income	1,284	1,284
Others	345	345
	713,687	713,687
Less:		
Operating expenses		(536,304)
Selling, general and administrative expenses		(175,911)
		1,472
By geographical region:		
China	639,563	
International	74,124	
	713,687	

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

MAJOR CUSTOMERS AND PROGRAMMES SUPPLIERS

The Phoenix Group's top five customers accounted for approximately 12% (2000 – 14%) of the total sales for the year. The top five programme suppliers accounted for approximately 63% (2000 – 54%) of the total programme purchases for the year. In addition, the Phoenix Group's largest customer accounted for approximately 4% (2000 – 4%) of total sales and the Phoenix Group's largest programme supplier accounted for approximately 28% (2000 – 26%) of total programme purchases for the year.

Star TV Filmed Entertainment Limited is the largest programme supplier of the Phoenix Group referred to above. Details of the transactions between the Phoenix Group and Star TV Filmed Entertainment Limited are set out in Note 4 to the financial statements. Star TV Filmed Entertainment Limited is an indirect wholly-owned subsidiary of Star Television Holdings Limited, which in turn is a major shareholder of the Company.

ATV Enterprises Limited is one of the five largest programme suppliers of the Phoenix Group referred to above. Details of the transactions between the Phoenix Group and ATV Enterprises Limited are set out in Note 4 to the financial statements. Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at June 30, 2001.

In the opinion of the Directors, such transactions were carried out on terms no more favourable than terms available to independent third parties.

Save as aforementioned, none of the Directors, their associates, or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's share capital has a beneficial interest in any one of the Phoenix Group's top five customers and/or programme suppliers.

RESULTS AND APPROPRIATIONS

The results of the Phoenix Group for the year are set out on page 27 of the annual report.

The Directors do not recommend the payment of a dividend, and recommend that the retained profit of approximately HK$4,352,000 of the Company at June 30, 2001 be carried forward.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Phoenix Group for the last five fiscal years is set out on page 52.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movement in share capital and share options of the Company are set out in Notes 18 and 19, respectively, to the financial statements.

RESERVES

Movements in reserves during the year are set out in Note 20 to the financial statements.

As at June 30, 2001, the Company's retained profit of approximately HK$4,352,000 was available for distribution to its shareholders.

DONATIONS

During the year, charitable and other donations of approximately HK$21,000 (2000 – HK$112,000) were made.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 17 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets are set out in Note 14 to the financial statements.

DIRECTORS

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors:

LIU, Changle	(Alternate Director to CHUI, Keung)
CHUI, Keung	(Alternate Director to LIU, Changle)

Non-Executive Directors:

MURDOCH, James Rupert	
CHURCHILL, Bruce Barrett	(Alternate Director to LAU, Yu Leung John and CHEUNG, Chun On Daniel)
LAU, Yu Leung John	(Alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and CHEUNG, Chun On Daniel)
CHEUNG, Chun On Daniel	(Alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and LAU, Yu Leung John)
XU, Gang	(Appointed on November 13, 2000)
CHEUNG, San Ping	(Appointed on January 2, 2001, Alternate Director to LIU, Changle and CHUI, Keung)
GONG, Jianzhong	(Appointed on April 18, 2001, Alternate Director to XU, Gang)
LIANG, Xiaoting	(Resigned on November 13, 2000)
CHAN, Fung Kit Ching	(Resigned on January 2, 2001)

Independent Non-Executive Directors:

LO, Ka Shui
KUOK, Khoon Ean

In accordance with the Articles of Association of the Company, CHUI, Keung, CHURCHILL, Bruce Barret, CHEUNG, San Ping and XU, Gang, will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has entered into a service contract with the Company commencing from June 30, 2000. The term of each agreement will be for a term of three years commencing from June 30, 2000 and thereafter may be terminated by either party giving to the other not less than three months' written notice.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not terminable by the employing company within one year without payment of compensation other than statutory compensation.

The terms of office of each of the Non-Executive Directors and independent Non-Executive Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SECURITIES

As at June 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

Name	Type of interest	Number of ordinary shares
LIU, Changle	Corporate interests *(Note)*	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 June 30, 2001.

(2) Share options

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

Name	Number of options	Date of grant	Exercise price per share
			HK$
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 June 30, 2001.

Save as disclosed herein, as at June 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.

Save as disclosed herein, no contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEMES

On June 7, 2000, two share option schemes of the Company were approved by the shareholders of the Company, namely Pre-IPO Share Option Plan and Share Option Scheme. The summary of the Pre-IPO Share Option Plan and the Share Option Scheme is set out in Appendix VI of the prospectus 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 Plan and the Share Option Scheme, the committee of four Directors established for the administration of the share option schemes (the "Committee") had approved certain amendments to the terms of the Pre-IPO Share Option Plan and the Share Option Scheme on February 14, 2001. The Stock Exchange had also approved the proposed amendments on February 7, 2001.

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

(1) Pre-IPO Share Option Plan

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

Total number of employees	Number of share options	Date of grant	Exercise price per share	Exercise period
			HK$	*(Note a)*
138	57,336,000	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 Plan.

624,000 options have been exercised during the period from the date of grant to June 30, 2001. As at June 30, 2001, 1,782,000 options granted to 12 employees were lapsed when they ceased their employment with the Phoenix Group.

(2) Share Option Scheme

As at June 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	Exercise period
			HK$	*(Note a)*
3	2,900,000	February 15, 2001	1.99	February 15, 2002 to February 14, 2011

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

No options have been exercised, cancelled or lapsed during the period from the date of grant to June 30, 2001.

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

As at June 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 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 year 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

Save as disclosed herein, 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 year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at June 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:

Name	Number of ordinary shares
Star Television Holdings Limited *(Note 1)*	1,854,000,000
Today's Asia Limited *(Note 2)*	1,854,000,000

Notes:

1. 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 Television Limited and Star Group 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 year.

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 the director of China Wise International Limited, has been nominated 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);

(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.

CONNECTED TRANSACTIONS

(1) The Stock Exchange has granted waivers to the Phoenix Group from the full disclosure requirements under Chapter 20 of the GEM Listing Rules in respect of connected transactions with Satellite Television Asian Region Limited, Star TV Filmed Entertainment Limited and ATV Enterprises Limited:

(a) Satellite Television Asian Region Limited ("STARL") is an indirect wholly-owned subsidiary of Star Television Holdings Limited, a major shareholder of the Company. The connected transactions are:

(i) provision of technical and administrative services for the operations of the Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix InfoNews Channel and Phoenix North America Chinese Channel. For the year ended June 30, 2001, the service charges paid to STARL amounted to approximately HK$113,145,000, which was calculated under normal commercial terms in accordance with the executed service agreements and agreed rates between a subsidiary of the Company and STARL.

(ii) STARL acts as an exclusive advertising agent for the Phoenix Group at all territories outside the People's Republic of China ("PRC"). For the year ended June 30, 2001, advertising sales commission paid to STARL amounted to approximately HK$11,075,000, which was calculated based on 20% of the net advertising income generated and received by STARL on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it.

(iii) STARL acts as an agent to promote subscription sales for the Phoenix Group. For the year ended June 30, 2001, subscription sales commission paid to STARL amounted to approximately HK$1,447,000, which was calculated based on 15% of the subscription fees generated and received by STARL on behalf of the Phoenix Group.

(b) Star TV Filmed Entertainment Limited ("Star Filmed") is an indirect wholly-owned subsidiary of Star Television Holdings Limited, a major shareholder of the Company. The connected transaction relates to the granting of a non-exclusive license to exhibit a selection of movies on Phoenix Movies Channel in the PRC for a term of 10 years commencing from August 28, 1998. For the year ended June 30, 2001, the film license fees paid to Star Filmed amounted to approximately HK$20,388,000, which was charged according to the executed film rights licensing agreement between a subsidiary of the Company and Star Filmed.

(c) During the year ended June 30, 2001, the Phoenix Group acquired programme licences from certain subsidiaries of Star Television Holdings Limited, a major shareholder of the Company. The programme licence fees paid to the subsidiaries of Star Television Holdings Limited in respect of this connected transaction amounted to approximately HK$920,000, which were charged under normal commercial terms and were negotiated on a case-by-case basis.

(d) ATV Enterprises Limited is a connected party by virtue of the fact that Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at June 30, 2001. The connected transaction relates to the acquisition of certain television programme licences from ATV Enterprises Limited. For the year ended June 30, 2001, the programmes purchased from ATV Enterprises Limited amounted to approximately HK$6,125,000, which, in the opinion of the Directors, were charged under normal commercial terms and were negotiated on a case-by-case basis.

(2) Pursuant to a shareholders' resolution passed on July 26, 2001 in compliance with Chapter 20 of the GEM Listing Rules, a subsidiary of the Company has entered into an agreement with Fox News Network L.L.C. ("Fox"), an associate of Star Television Holdings Limited, a major shareholder of the Company. The connected transactions relate to:

(a) granting of non-exclusive and non-transferable license to subscribe Fox's news service;

(b) leasing of office space and access to workspace, subject to availability; and

(c) accessing Fox's camera hook up at the United Nations, interview positions in various places in the Unites States and live shots from Fox's satellite truck positions for events that Fox is already covering, subject to availability.

For the year ended June 30, 2001, the service fees paid to Fox amounted to approximately HK$715,000, which were charged under the licensing agreement between a subsidiary of the Company and Fox.

(3) In addition, a subsidiary of the Company has licenced certain office premises from STARL. For the year ended June 30, 2001, the office premises rental paid to STARL amounted to approximately HK$7,376,000, which was calculated by reference to the area of space occupied by the Phoenix Group and was proportional to the rental payable by STARL in respect of the area occupied by it under its lease with the landlord. This licence is a connected transaction but falls within Rule 20.24 of the GEM Listing Rules as the annual total consideration or value of the transaction (when aggregated or treated on an individual basis) is less than the higher of HK$10,000,000 or 3% of the net tangible assets of the Phoenix Group. Such transaction will be exempted from the reporting, announcement and shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

The independent Non-Executive Directors of the Company have reviewed the above transactions and have considered the procedures performed by the auditors of the Company in reviewing them and confirmed that at the time of the transactions:

(a) the transactions have been entered into by the relevant member of the Phoenix Group in the ordinary and usual course of its business;

(b) the transactions have been entered into on an arm's length basis and on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Phoenix Group than terms available to or from (as the case may be) independent third parties; and

(c) the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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.

AUDITORS

The financial statements were audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors,

Mr. LIU, Changle
Chairman

Hong Kong, September 11, 2001

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PHOENIX SATELLITE TELEVISION HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 52 of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Phoenix Group") which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for preparing financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Phoenix Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Phoenix Group and the Company as at June 30, 2001 and of the profit and cash flows of the Phoenix Group for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong, September 11, 2001

CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2001

(Amounts expressed in Hong Kong dollars)

	Notes	**2001** **$'000**	2000 $'000 (Note 25)
ASSETS			
CURRENT ASSETS			
Cash and bank balances		**665,403**	770,316
Accounts receivable, net	10	**122,645**	82,549
Inventories		**372**	435
Prepayments, deposits and other receivables	11	**166,091**	106,747
Amounts due from related companies	12	**825**	120
Self-produced programmes		**11,165**	12,459
Purchased programme and film rights	13	**10,645**	16,670
Total current assets		**977,146**	989,296
NON-CURRENT ASSETS			
Fixed assets	14	**79,156**	4,558
Purchased programme and film rights	13	**36,515**	19,841
Land deposit	15	**29,177**	–
Loan to a related company	16	**41,093**	20,240
Total non-current assets		**185,941**	44,639
Total assets		**1,163,087**	1,033,935
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short term bank loan, secured		**779**	–
Accounts payable and accruals		**80,866**	71,531
Deferred income		**12,355**	9,163
Advertising revenue received in advance		**28,462**	43,706
Amounts due to related companies	12	**17,913**	21,979
Tax payable		**1,356**	–
Total current liabilities		**141,731**	146,379

NON-CURRENT LIABILITIES			
Deferred taxation		**252**	–
Minority interests		**5,019**	7,753
Total non-current liabilities		**5,271**	7,753
SHAREHOLDERS' EQUITY			
Share capital	18	**493,159**	484,706
Reserves	20	**522,926**	395,097
Total shareholders' equity		**1,016,085**	879,803
Total liabilities and shareholders' equity		**1,163,087**	1,033,935

Approved by the Board of Directors on September 11, 2001 and signed on behalf of the Board by

LIU, Changle
Director

MURDOCH, James Rupert
Director

BALANCE SHEET

AS AT JUNE 30, 2001

(Amounts expressed in Hong Kong dollars)

	Notes	**2001** **$'000**	2000 *$'000*
ASSETS			
CURRENT ASSETS			
Cash and bank balances		**105,560**	–
Prepayments, deposits and other receivables		**1,820**	–
Total current assets		**107,380**	–
NON-CURRENT ASSET			
Interests in subsidiaries	17	**1,214,837**	1,235,619
Total non-current asset		**1,214,837**	1,235,619
Total assets		**1,322,217**	1,235,619
LIABILITY AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITY			
Accruals		**2**	–
Total liability		**2**	–
SHAREHOLDERS' EQUITY			
Share capital	18	**493,159**	484,706
Reserves	20	**829,056**	750,913
Total shareholders' equity		**1,322,215**	1,235,619
Total liability and shareholders' equity		**1,322,217**	1,235,619

Approved by the Board of Directors on September 11, 2001 and signed on behalf of the Board by

LIU, Changle
Director

MURDOCH, James Rupert
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

	Notes	**2001**	2000
		$'000	*$'000*
			(Note 25)
REVENUE	3	**713,687**	511,342
OPERATING EXPENSES	4	**(536,304)**	(372,444)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4	**(175,911)**	(98,130)
PROFIT FROM OPERATIONS		**1,472**	40,768
OTHER INCOME			
Exchange gain, net		**2,091**	1,647
Interest income		**47,106**	1,205
Other income, net		**1,189**	6,288
		50,386	9,140
PROFIT BEFORE TAXATION AND MINORITY INTERESTS	5	**51,858**	49,908
TAXATION	7	**(1,608)**	–
PROFIT BEFORE MINORITY INTERESTS		**50,250**	49,908
MINORITY INTERESTS		**3,734**	407
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	**53,984**	50,315
ACCUMULATED DEFICIT, beginning of year		**(355,762)**	(406,077)
ACCUMULATED DEFICIT, end of year		**(301,778)**	(355,762)
BASIC EARNINGS PER SHARE, Hong Kong cents	9	**1.10**	1.22
DILUTED EARNINGS PER SHARE, Hong Kong cents	9	**1.09**	1.22

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2001

(Amounts expressed in Hong Kong dollars)

	Notes	2001 $'000	2000 $'000 (Note 25)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21a	**(104,135)**	(4,676)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from bank deposits		**47,106**	1,205
Interest paid on short term bank loan		**(15)**	–
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**47,091**	1,205
INVESTING ACTIVITIES			
Loan to a related company		**(20,853)**	(20,240)
Increase in land deposit		**(29,177)**	–
Purchase of fixed assets		**(82,242)**	(2,747)
Proceeds from disposals of fixed assets		**326**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(131,946)**	(22,987)
NET CASH OUTFLOW BEFORE FINANCING		**(188,990)**	(26,458)
FINANCING ACTIVITIES	21b		
Proceeds from placement shares		**–**	706,702
Proceeds from public offering shares		**–**	78,523
Proceeds from exercise of over-allotment of shares by underwriters		**90,621**	–
Share options exercised by employees		**673**	–
Over-allotment, placements and public offering expenses paid		**(8,996)**	(52,637)
Capital contributions from minority shareholders		**1,000**	8,160
NET CASH INFLOW FROM FINANCING		**83,298**	740,748
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(105,692)**	714,290
CASH AND CASH EQUIVALENTS, beginning of year		**770,316**	56,026
CASH AND CASH EQUIVALENTS, end of year	21c	**664,624**	770,316

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Phoenix Satellite Television Holdings Limited (the "Company") was incorporated in the Cayman Islands on February 2, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme ("Group Reorganisaton") in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Phoenix Group on April 17, 2000 (the Company and its subsidiaries shall hereinafter be referred to as the "Phoenix Group"). The shares of the Company became listed on the GEM of the Stock Exchange on June 30, 2000.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 17 to the financial statements.

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 merger accounting basis as if the Company had always been the holding company of the Phoenix Group.

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

2. PRINCIPAL ACCOUNTING POLICIES

a. *Basis of presentation*

The financial statements have been prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In the current year, the Phoenix Group has adopted, for the first time, the Statements of Standard Accounting Practice ("SSAP") Number 14 "Leases" issued by the Hong Kong Society of Accountants. SSAP 14 (revised) is in principle similar to the old SSAP 14 "Accounting for leases and hire purchase contracts". The major change from the old SSAP that is applicable to the Group is in respect of the disclosure requirements of respective leases.

b. *Turnover and revenue recognition*

Turnover mainly represents income from advertising sales and subscription sales.

Provided it is probable that the economic benefits associated with a transaction will flow to the Phoenix Group and the revenue and costs, if applicable, can be measured reliably, revenue and other income are recognised on the following bases:

(i) Advertising revenue represents the gross value of advertisements broadcast and is recognised when the relevant advertisements are broadcast.

(ii) Subscription revenue received or receivable from the cable distributors or agents is amortised on a time proportion basis. Unamortised portion is classified as deferred income.

(iii) Magazine advertising revenue represents the value of advertisements printed on the magazines and is recognised when the magazine is published.

(iv) Magazine subscription revenue represents subscription money received or receivable from magazine customers and is recognised when the respective magazine is published.

(v) Equipment rental income is recognised based on the right to receive rental payment in accordance with the terms of the rental contracts.

(vi) Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

c. *Inventories*

Inventories, comprising decoder devices, are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

d. *Self-produced programmes*

Self-produced programmes are stated at cost less provision for obsolescence where considered necessary by the Directors. Cost comprises the production costs of the programmes which consist of direct expenditure and an appropriate portion of production overheads. The production costs of the self-produced programmes are charged to the income statement upon the first showing of the programmes.

e. *Purchased programme and film rights*

Purchased programme and film rights and the related accruals are recorded at cost. The cost of purchased programmes and films is charged to the income statement either on the first and second showing of such purchased programmes and films or amortised over the license period if the license allows multiple showings within the license period. Programme and film rights with a remaining license period of twelve months or less are classified as current assets.

f. *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Leasehold improvements	15%
Furniture and fixtures	15% – 20%
Office equipment	20%
Broadcast operations and engineering equipment	20%
Motor vehicles	20%

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

g. *Subsidiaries*

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly. In the Company's balance sheet, interests in subsidiaries are carried at cost less provision for impairment in value where considered necessary by the Directors. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends declared by the subsidiaries.

h. *Deferred taxation*

Deferred taxation is provided under the liability method, at the current tax rate, in respect of the timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, including cumulative tax losses which are available to relief future taxable profits. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future. A deferred tax liability is recognised except where it is considered that no liability will arise in the foreseeable future.

i. *Operating leases*

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

j. *Foreign currency*

The books and records of the companies within the Phoenix Group are maintained in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the income statements of the individual companies.

k. Defined contribution plans

The Phoenix Group provides defined contribution plans based on local laws and regulations. The plans cover full-time employees and provide for contribution ranging from 5% to 10% of salary. The Phoenix Group's contributions to defined contribution plans are charged to income in the year to which they relate.

3. REVENUE

An analysis of the Phoenix Group's revenue by nature is as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Advertising sales	**674,350**	485,654
Subscription sales	**29,887**	25,182
Magazine advertising and subscription sales	**7,821**	506
Equipment rental income	**1,284**	–
Others	**345**	–
Total revenue	**713,687**	511,342

4. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Phoenix Group if the Phoenix Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Phoenix Group and the parties are subject to common control or common significant influence. Related parties may be individuals or entities. In the normal course of business, the Phoenix Group had the following significant transactions with the related parties:

		Phoenix Group	
		2001	2000
	Notes	***$'000***	*$'000*
Office premises rental paid to Satellite Television Asian Region Limited	a, b	**7,376**	7,692
Service charges paid to Satellite Television Asian Region Limited	a, c	**113,145**	76,393
Commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited	a, d	**11,075**	8,504
Commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited	a, e	**1,447**	1,025
Film license fees paid to Star TV Filmed Entertainment Limited	a, f	**20,388**	29,402
Programme license fees paid to other Star TV group companies	a, g	**920**	8,144

Programme licence fees paid to ATV Enterprises Limited	g, h	**6,125**	7,236
Programme licence fees received from ATV Enterprises Limited	g, h	**–**	(28)
Commission paid to Shenzhou Television Limited	i, j	**N/A**	10,804
Service charges paid to Shenzhou Television Limited	i, k	**N/A**	31,042
Service charges paid to Sino Television (HK) Limited	l, m	**N/A**	10,054
Service charges paid to Fox News Network L.L.C.	n, o	**715**	–

The Phoenix Group provided certain film rights and programmes to Phoenix Chinese News and Entertainment Limited ("PCNE") at no charge since the date of the conditional agreement as disclosed in Note 16.

Notes:

The Directors confirmed that all of the above related party transactions are 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 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 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 international advertising sales and marketing services paid to Satellite Television Asian Region Limited is based on 20% (2000 – 20%) of the net advertising income generated and received by it on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it.

e. The commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited 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 to and received from other Star TV group companies and ATV Enterprises Limited are 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 June 30, 2001.

i. Mr. CHUI, Keung, a Director of the Company, owned 16% interest and was one of the directors of Shenzhou Television Limited. Mr. CHUI disposed of all of his interest in and resigned as a director of Shenzhou Television Limited on May 11, 2000. Since then, Shenzhou Television Limited is no longer a related party to the Phoenix Group and the transactions with Shenzhou Television Limited in the current year are not disclosed.

j. The commission for collection of advertising sales paid to Shenzhou Television Limited was based on an average of 3% on the sales amount collected for the year ended June 30, 2000.

k. The service charges paid to Shenzhou Television Limited represent the sales and marketing services provided by it and was charged based on 4% of the advertising sales made by it for the year ended June 30, 2000.

l. Sino Television (HK) Limited is a 99.98% owned subsidiary of Shenzhou Television Limited. With the resignation of Mr. CHUI, Keung as a director of Shenzhou Television Limited on May 11, 2000, Sino Television (HK) Limited is no longer a related party to the Phoenix Group and the transactions with Sino Television (HK) Limited in the current year are not disclosed.

m. Service charges paid to Sino Television (HK) Limited were determined based on the actual cost incurred by Sino Television (HK) Limited for recruitment services performed.

n. Fox News Network L.L.C. ("Fox") is an associate of Star Television Holdings Limited, which owns approximately 37.6% interest in the Company.

o. Service charges paid to Fox cover the following services provided to the Phoenix Group which are charged based on the terms as specified under a service agreement:

- granting of non-exclusive and non-transferable licence to subscribe 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.

5. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is determined after crediting and charging the following:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Crediting :		
Gain on disposals of fixed assets	**111**	–
Exchange gain, net	**2,091**	1,647
Interest income on bank deposits	**47,106**	1,205
Charging :		
Programme amortisation costs	**31,076**	32,007
Programme production costs	**81,391**	60,878
Transponder rental	**26,785**	21,331
Licence fees	**22,765**	36,069
Provision for bad debts	**15,598**	15,874
Staffing costs (including Directors' emoluments)		
– salaries and allowances	**131,239**	70,391
– pension fund	**6,188**	3,479
Operating lease rental in respect of:		
– Directors' quarters	**956**	819
– land and buildings of third parties	**4,177**	399
– land and buildings of a related company (Note 4)	**7,376**	7,692
Depreciation of fixed assets	**7,429**	1,137
Interest expenses in respect of short term bank loan	**15**	–
Auditors' remuneration	**1,100**	900

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Directors' emoluments

Details of emoluments paid to the Directors of the Company by the Phoenix Group and disclosed pursuant to Section 161(1) of the Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange were as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Executive Director A:		
Fees	**4,146**	3,713
Salaries	**–**	–
Discretionary bonus	**1,198**	1,165
Quarters	**956**	819
Other allowance	**114**	–
Pension fund	**–**	–
	6,414	5,697
Executive Director B:		
Fees	**–**	–
Salaries	**1,499**	2,046
Discretionary bonus	**761**	485
Housing allowance	**804**	–
Other allowance	**109**	–
Pension fund	**150**	117
	3,323	2,648

During the year, no emoluments were paid to Non-Executive Directors of the Company (2000 – Nil) and approximately $300,000 (2000 – Nil) were paid to two independent Non-Executive Directors of the Company.

The number of Directors whose remuneration fall within the following bands were as follows:

	2001	2000
Up to $1,000,000	**2**	–
$2,500,001 – $3,000,000	**–**	1
$3,000,001 – $3,500,000	**1**	–
$5,500,001 – $6,000,000	**–**	1
$6,000,001 – $6,500,000	**1**	–

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended June 30, 2001.

b. Five highest paid individuals

Details of emoluments paid to the five highest paid individuals including two Directors and three other senior executives (2000 – two Directors and three other employees) were as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Fees	**4,146**	3,713
Salaries	**6,347**	7,928
Discretionary bonus	**4,132**	3,144
Housing allowance	**3,204**	–
Quarters	**956**	819
Other allowance	**223**	–
Pension fund	**636**	446
	19,644	16,050

The number of the five highest paid individuals (including two Directors and three senior executives) whose remuneration fall within the following bands were as follows:

	2001	2000
$2,000,001 – $2,500,000	**–**	1
$2,500,001 – $3,000,000	**1**	3
$3,000,001 – $3,500,000	**2**	–
$3,500,001 – $4,000,000	**1**	–
$5,500,001 – $6,000,000	**–**	1
$6,000,001 – $6,500,000	**1**	–

No incentive payment for joining the Phoenix Group or compensation for loss of office was paid or payable to any Director or the other employees amongst the five highest paid individuals for the year ended June 30, 2001.

7. TAXATION

Taxation in the consolidated income statement consisted of:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Current taxation		
– Hong Kong profits tax	**1,064**	–
– The People's Republic of China (the "PRC") enterprise income tax	**203**	–
– United States Federal and States tax	**89**	–
	1,356	–
Deferred taxation		
– Hong Kong profits tax	**252**	–
	1,608	–

Hong Kong profits tax has been provided at the rate of 16% (2000 – 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.

Deferred taxation represents the taxation effect of timing differences arising from accelerated depreciation allowances.

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

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately $4,298,000 (2000 – $54,000) dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

Earnings per share is calculated based on consolidated profit attributable to shareholders for the year of $53,984,944 (2000 – $50,314,653) and the 4,926,394,652 (2000 – 4,121,991,945) weighted average number of ordinary shares outstanding during the year ended June 30, 2001.

Diluted earnings per share is calculated based on consolidated profit attributable to shareholders for the year of $53,984,944 (2000 – $50,314,653) and the diluted weighted average number of ordinary shares of 4,951,776,317 (2000 – 4,121,991,945) in issue during the year. It has been calculated after taking into account the outstanding share options during the year ended June 30, 2001. The effect of the dilution resulting from the outstanding share options on the weighted average number of ordinary shares in issue during the year is an additional 25,381,665 (2000 – Nil) shares. These shares are deemed to be issued at no consideration on the date when the share options were granted.

The reconciliation of number of ordinary shares is as follows:

	Phoenix Group	
	2001	2000
Weighted average number of ordinary shares used in calculating basic earnings per share	**4,926,394,652**	4,121,991,945
Deemed issue of ordinary shares for no consideration	**25,381,665**	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**4,951,776,317**	4,121,991,945

10. ACCOUNTS RECEIVABLE, NET

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Accounts receivable	**158,580**	102,886
Less: Provision for bad debts	**(35,935)**	(20,337)
	122,645	82,549

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables is an amount of approximately $128,537,000 (2000 – $97,133,000) owing from an advertising agent in the PRC. This advertising agent promotes the sales of the Phoenix Group's advertising air-time and programme sponsorship and collects advertising revenues within the PRC on behalf of the Phoenix Group. The amount represents advertising revenue collected by the advertising agent on behalf of the Phoenix Group.

12. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The outstanding balances with related companies are unsecured, non-interest bearing and have no fixed repayment terms.

13. PURCHASED PROGRAMME AND FILM RIGHTS

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Cost	**171,727**	130,002
Accumulated amortisation	**(124,567)**	(93,491)
	47,160	36,511
Less: Purchased programme and film rights – current portion	**(10,645)**	(16,670)
Purchased programme and film rights – non-current portion	**36,515**	19,841

14. FIXED ASSETS

Movements in fixed assets of the Phoenix Group during the year were as follows:

	2001						2000
	Leasehold improvements $'000	Furniture and fixtures $'000	Office equipment $'000	Broadcast operation and engineering equipment $'000	Motor vehicles $'000	Total $'000	Total $'000
Cost							
Beginning of year	1,492	763	3,822	–	1,750	7,827	5,080
Additions	13,666	2,289	29,416	32,546	4,325	82,242	2,747
Disposals	–	–	–	–	(1,750)	(1,750)	–
Reclassification	–	–	(1,677)	1,677	–	–	–
End of year	15,158	3,052	31,561	34,223	4,325	88,319	7,827
Accumulated depreciation							
Beginning of year	753	302	894	–	1,320	3,269	2,132
Charge for the year	1,053	380	3,160	2,278	558	7,429	1,137
Disposals	–	–	–	–	(1,535)	(1,535)	–
Reclassification	–	–	(140)	140	–	–	–
End of year	1,806	682	3,914	2,418	343	9,163	3,269
Net book value							
End of year	13,352	2,370	27,647	31,805	3,982	79,156	4,558
Beginning of year	739	461	2,928	–	430	4,558	2,948

15. 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 a building 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 (please see Note 22f).

16. LOAN TO A RELATED COMPANY

The amount represents 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 was committed to provide aggregate funding of not less than US$8.4 million to PCNE for three years starting from August 1999 with an annual funding of not less than US$2.8 million in the form of an unsecured interest-free loan (Note 22d). 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. The acquisition of PCNE by the Phoenix Group is expected to be completed within the next couple of months because management of the Phoenix Group believes that the parties to the agreement have resolved all outstanding issues. Upon completion of the acquisition, PCNE will become a subsidiary of the Phoenix Group. Any 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.

In addition, the Phoenix Group is committed to loan a further $23,839,000 to PCNE in order to fund its operation, again on an unsecured and interest-free basis (Note 22d). Should the acquisition transaction not be completed, it is unlikely that the loan will be recoverable, and the full amount will have to be written off. Management is of the opinion that, should the acquisition be completed, the full amount of the loan will be recoverable.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	$'000	*$'000*
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**1,214,837**	1,235,619
	1,214,837	1,235,619

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

The Company has undertaken to provide necessary financial resources to support the future operations of the subsidiaries. The Directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying amount of the subsidiaries as at June 30, 2001.

Details of subsidiaries as at June 30, 2001 were as follows:

Name of subsidiary	Place of incorporation and operations and date of incorporation	Issued and fully paid share capital/ registered capital		Percentage of equity interest attributable to the Phoenix Group	Principal activity
Hong Kong Phoenix Weekly Magazine Limited	Hong Kong November 29, 1999	$	100	55%	Publishing and distribution of periodicals
Phoenix Satellite Television (InfoNews) Limited	British Virgin Islands September 6, 1999	US$	1	100%	Satellite television broadcasting
Phoenix Satellite Television (B.V.I.) Holding Limited	British Virgin Islands April 28, 1998	US$	1	100%	Investment holding
Phoenix Satellite Television (Chinese Channel) Limited	British Virgin Islands June 29, 1998	US$	1	100%	Satellite television broadcasting
Phoenix Satellite Television Company Limited	Hong Kong November 16, 1995	$	20	100%	Provision of management and related services
Phoenix Satellite Television (Europe) Limited	British Virgin Islands July 5, 1999	US$	1	100%	Investment holding
Phoenix Satellite Television Information Limited	British Virgin Islands September 1, 1999	US$	1	100%	Investment holding
Phoenix Satellite Television (Movies) Limited	British Virgin Islands June 26, 1998	US$	1	100%	Satellite television broadcasting

Name of subsidiary	Place of incorporation and operations and date of incorporation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Phoenix Group	Principal activity
Phoenix Satellite Television Trademark Limited (formerly known as Binji Overseas Limited)	British Virgin Islands January 8, 1996	US$ 1	100%	Trademark holding
Phoenix Weekly Magazine (BVI) Limited	British Virgin Islands January 24, 2000	US$ 1	100%	Investment holding
PHOENIXi Investment Limited	British Virgin Islands October 28, 1999	US$ 123,976 (Ordinary Shares) US$ 7,500 (Series A Preferred Shares)	94.3%	Investment holding
PHOENIXi, Inc.	The United States of America June 3, 1999	US$ 0.1	94.3%	Internet services
Phoenix Satellite Television Development (BVI) Limited	British Virgin Islands January 6, 2000	US$ 1	100%	Investment holding
Phoenix Satellite Television Development Limited	Hong Kong April 16, 1999	$ 2	100%	Investment holding
PCNE Holdings Limited	British Virgin Islands January 5, 2000	US$ 2	50%	Investment holding
Phoenix Satellite Television (Taiwan) Limited	British Virgin Islands August 31, 2000	US$ 1	100%	Investment holding
Phoenix Satellite Television (Universal) Limited	British Virgin Islands July 18, 2000	US$ 1	100%	Investment holding
Phoenix Satellite Television (U.S.) Inc.	The United States of America September 7, 2000	US$ 1	100%	Provision of management and promotional related services]
國鳳在線(北京)信息技術有限公司 Guofeng On-line (Beijing) Information Technology Company Limited	PRC April 18, 2000	US$ 500,000	94.3%	Internet services
鳳凰影視(深圳)有限公司 Phoenix Film and Television (Shenzhen) Company Limited	PRC March 6, 2000	$ 10,000,000	60%	Ancillary services for programme production

Note: Phoenix Satellite Television (B.V.I.) Holding Limited is directly held by the Company, while all other subsidiaries are indirectly held by the Company through Phoenix Satellite Television (B.V.I.) Holding Limited.

18. SHARE CAPITAL

	2001		2000	
	Number of shares	**Amount** *$'000*	Number of shares	Amount *$'000*
Authorised:				
Ordinary share of $0.1 each	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid:				
Beginning of year	4,847,060,000	484,706	–	–
Exercise of over-allotment option *(Note a)*	83,908,000	8,391	–	–
Exercise of share options	624,000	62	–	–
Redenomination of ordinary shares of US$1.0 each to $0.1 each	–	–	1,520	–
Capitalisation of amount due to shareholders	–	–	4,119,998,280	412,000
Shares exchange with a subsidiary	–	–	200	–
Public offering shares	–	–	72,706,000	7,271
Placement shares	–	–	654,354,000	65,435
End of year	4,931,592,000	493,159	4,847,060,000	484,706

Note:

a. On July 21, 2000, the underwriters exercised the over-allotment option for the issuance of 83,908,000 ordinary shares of $0.1 each at $1.08 per share in accordance with the underwriting agreement entered into by the underwriters, the Company and others on June 20, 2000.

19. SHARE OPTIONS

The Company has several share option schemes, under which it may grant options to employees of the Phoenix Group (including Executive Directors of the Company) to subscribe for shares of the Company, subject to a maximum of 30% at the nominal value of the issued share capital of the Company from time to time, excluding for this purpose, shares issued on exercise of options. The exercise price will be determined by the Company's Board of Directors, and will not be less than the higher of the closing price of the Company's shares as stated in the GEM daily quotations sheet on the date of grant, and the average closing price of the Company's shares as stated in the GEM daily quotations sheets for the 5 business days immediately preceding the date of grant.

Movements of share options, during the year ended June 30, 2001 were as follows:

			Number of options				
Date of grant	Exercise period	Subscription price	Beginning of year	Granted during the year	Exercised during the year	Lapsed as a result of termination of employment	End of year
June 14, 2000	June 14, 2001 to June 13, 2010	1.08	59,742,000	–	(624,000)	(1,782,000)	57,336,000
February 15, 2001	February 15, 2002 to February 14, 2011	1.99	–	2,900,000	–	–	2,900,000
			59,742,000	2,900,000	(624,000)	(1,782,000)	60,236,000

20. RESERVES

Phoenix Group

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

	2001			2000
	Share premium	**Accumulated deficit**	**Total**	Total
	$'000	***$'000***	***$'000***	*$'000*
Beginning of year	**750,859**	**(355,762)**	395,097	(406,077)
Profit attributable to shareholders	**–**	**53,984**	53,984	50,315
Proceeds from exercise of over-allotment option (Note 18a)	**82,230**	**–**	82,230	–
Proceeds from public offering shares	**–**	**–**	–	71,252
Proceeds from placement shares	**–**	**–**	–	641,267
Over-allotments, placements and public offering expenses paid	**(8,996)**	**–**	(8,996)	(52,637)
Exercise of share options	**611**	**–**	611	–
Premium on shares issued for shareholders' loan capitalisation	**–**	**–**	–	90,977
End of year	**824,704**	**(301,778)**	522,926	395,097

Company

Movements in reserves of the Company during the year were as follows:

	2001 Share premium $'000	2001 Retained profit $'000	2001 Total $'000	2000 Total $'000
Beginning of year	**750,859**	**54**	**750,913**	–
Profit for the year	**–**	**4,298**	**4,298**	54
Proceeds from exercise of over-allotment option *(Note 18a)*	**82,230**	**–**	**82,230**	–
Proceeds from public offering shares	**–**	**–**	**–**	71,252
Proceeds from placement shares	**–**	**–**	**–**	641,267
Over-allotments, placements and public offering expenses paid	**(8,996)**	**–**	**(8,996)**	(52,637)
Exercise of share options	**611**	**–**	**611**	–
Premium on shares issued for shareholders' loan capitalisation	**–**	**–**	**–**	90,977
End of year	**824,704**	**4,352**	**829,056**	750,913

21. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before taxation and minority interests to net cash outflow from operating activities:

	Phoenix Group 2001 $'000	Phoenix Group 2000 $'000 *(Note 25)*
Profit before taxation and minority interests	**51,858**	49,908
Add (Less):		
Interest expense on short term bank loan	**15**	–
Interest income on bank deposits	**(47,106)**	(1,205)
Depreciation of fixed assets	**7,429**	1,137
Gain on disposals of fixed assets	**(111)**	–
Increase in accounts receivable, net	**(40,096)**	(39,373)
Decrease in inventories	**63**	250
Increase in prepayments, deposits and other receivables	**(59,344)**	(90,858)
(Increase) Decrease in amounts due from related companies	**(705)**	34,679
Decrease in self-produced programmes	**1,294**	3,086
Increase in purchased programme and film rights	**(10,649)**	(5,293)
Increase in accounts payable and accruals	**9,335**	12,386
Increase in deferred income	**3,192**	783
(Decrease) Increase in advertising revenue received in advance	**(15,244)**	43,706
Decrease in amounts due to related companies	**(4,066)**	(13,882)
Net cash outflow from operating activities	**(104,135)**	(4,676)

b. Analysis of changes in financing of the Phoenix Group:

	2001				2000
	Share capital *$'000*	**Share premium** *$'000*	**Minority interests** *$'000*	**Total** *$'000*	Total *$'000*
Beginning of year	**484,706**	**750,859**	**7,753**	**1,243,318**	502,977
Proceeds from placement shares	**–**	**–**	**–**	**–**	706,702
Proceeds from public offering shares	**–**	**–**	**–**	**–**	78,523
Proceeds from exercise of over-allotment of shares	**8,391**	**82,230**	**–**	**90,621**	–
Share options exercised by employees	**62**	**611**	**–**	**673**	–
Over-allotment, placements and public offering expenses paid	**–**	**(8,996)**	**–**	**(8,996)**	(52,637)
Capital contributions from minority shareholders	**–**	**–**	**1,000**	**1,000**	8,160
Minority shareholders' share of results	**–**	**–**	**(3,734)**	**(3,734)**	(407)
End of year	**493,159**	**824,704**	**5,019**	**1,322,882**	1,243,318

c. Analysis of the components of cash and cash equivalents:

	Phoenix Group	
	2001 *$'000*	2000 *$'000*
Cash and bank balances	**665,403**	770,316
Short term bank loan, secured *(Note i)*	**(779)**	–
	664,624	770,316

i. The short term bank loan is secured by bank deposits of US$500,000 (equivalent to approximately $3,865,000) and is repayable within 3 months.

22. COMMITMENTS

a. Film rights and programme acquisition

As at June 30, 2001, the Phoenix Group had aggregate outstanding film rights and programmes related commitments of approximately $163,664,000 (2000 – $208,960,000) of which approximately $158,783,000 (2000 – $203,129,000) was in respect of a film rights acquisition agreement with Star TV Filmed Entertainment Limited extending to August 27, 2008 and approximately $4,881,000 (2000 – $5,831,000) was in respect of other programme acquisition agreements with third parties. Total film rights and programmes related commitments are analysed as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Total committed purchase costs of film rights and programmes payable:		
– not later than one year	**24,559**	28,004
– later than one year and not later than five years	**91,187**	110,865
– later than five years	**47,918**	70,091
	163,664	208,960

b. Service charges

As at June 30, 2001, the Phoenix Group had a total committed service charges payable to Satellite Television Asian Region Limited of approximately $112,485,000 (2000 – $167,758,000) in respect of a service agreement expiring on June 30, 2003. Total committed service charges payable to Satellite Television Asian Region Limited is analysed as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Total committed service charges payable:		
– not later than one year	**55,913**	55,273
– later than one year and not later than five years	**56,572**	112,485
– later than five years	**–**	–
	112,485	167,758

As at June 30, 2001, the Phoenix Group had a committed service charges payable to Fox News Network L.L.C. of approximately $11,540,000 (2000 – Nil) in respect of a service agreement expiring on July 25, 2004. Total committed service charges payable to Fox News Network L.L.C. is analysed as follows:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Total committed service charges payable:		
– not later than one year	**3,420**	–
– later than one year and not later than five years	**8,120**	–
– later than five years	**–**	–
	11,540	–

c. Office premises rental

As at June 30, 2001, the Phoenix Group had total committed office premises rental payable to Satellite Television Asian Region Limited of approximately $13,010,000 (2000 – $20,394,000) 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:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Total committed office premises rental payable:		
– not later than one year	**6,372**	7,384
– later than one year and not later than five years	**6,638**	13,010
– later than five years	**–**	–
	13,010	20,394

d. Funding commitment

Pursuant to a conditional agreement signed on July 11, 1999, the Group has 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. As described in Note 16, the Group has provided funding of approximately US$5,316,000 (equivalent to approximately $41,093,000) as of June 30, 2001. As at June 30, 2001, the remaining funding commitment was therefore approximately $23,839,000.

e. Operating lease

As at June 30, 2001, the Phoenix Group had rental commitments of approximately $11,774,000 (2000 – $1,512,000) in respect of a Director's quarter 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:

	Phoenix Group	
	2001	2000
	$'000	*$'000*
Total future minimum lease payments payable:		
– not later than one year	**5,128**	907
– later than one year and not later than five years	**6,646**	605
– later than five years	**–**	–
	11,774	1,512

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 (Note 15).

g. Other operating and capital commitments

As at June 30, 2001, the Phoenix Group had the following additional significant operating and capital commitments:

Details of commitments	Payee	Total future minimum payments payable: Not later than one year *$'000*	Total future minimum payments payable: Later than one year and not later than five years *$'000*	Total Commitment *$'000*
Purchase of computer hardware	北京中科大洋科技發展有限責任公司	2,001	–	2,001
Leasing of space capacity from International Telecommunications Satellite Organisation ("INTELSAT")	Cable & Wireless HKTI Limited	1,459	–	1,459
Provision of news and data services	The Associated Press Television News Ltd.	414	694	1,108
Provision of programme production services	東森華榮傳播事業股份有限公司	4,645	–	4,645
Provision of sports news services	Sports News Television	–	1,181	1,181
Provision of market datafeed services	Stock Exchange Information Services Limited	1,000	1,417	2,417
		9,519	3,292	12,811

23. PENSION SCHEME ARRANGEMENT

The Phoenix Group operates two defined contribution schemes. The employees are eligible to participate in either scheme.

a. The Phoenix Group provides a defined contribution provident fund scheme for all employees and makes monthly contribution to the scheme based on 10% of the employees' basic salaries. Forfeited contributions made by the Phoenix Group are used to reduce the employer's contribution. For the financial year ended June 30, 2001, the aggregate amounts of employer's contribution made by the Phoenix Group were approximately $5,581,000 (2000 – $3,479,000). For the financial year ended June 30, 2001, the total amount of forfeited contributions, which are available to reduce the contributions payable by the Phoenix Group in future years, was approximately $554,000 (2000 – $370,000).

   The assets of the scheme are held separately from those of the Phoenix Group and are managed by independent professional fund managers.

b. Since December 1, 2000, the employees in Hong Kong can elect to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced during the year. Under the MPF Scheme, the Phoenix Group and each of the employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

Both the employer's and the employees' contribution are subject to a cap of monthly earning of $20,000 for each employee. For those employees with monthly earnings less than $4,000, the employees' contributions are voluntary.

During the year, the aggregate amount of employer's contributions made by the Phoenix Group to the MPF Scheme was approximately $607,000.

24. UNAUDITED FINANCIAL INFORMATION OF PCNE

The summary of the unaudited financial results of PCNE for the year ended June 30, 2001 and the eighteen-month period ended June 30, 2000 is as follows:

	For the year ended June 30, 2001 (Unaudited)		For the period from January 1, 1999 to June 30, 2000 (Unaudited)	
	£	***$'000***	*£*	*$'000*
TURNOVER	**801,247**	**9,115**	777,788	9,776
OPERATING LOSS	**(1,674,198)**	**(19,045)**	(2,756,015)	(34,624)
OTHER INCOME (EXPENSES), NET	**7,321**	**83**	(154,107)	(1,936)
LOSS BEFORE TAXATION	**(1,666,877)**	**(18,962)**	(2,910,122)	(36,560)
TAXATION	**–**	**–**	–	–
NET LOSS FOR THE YEAR/PERIOD	**(1,666,877)**	**(18,962)**	(2,910,122)	(36,560)

The summarized unaudited financial positions of PCNE as at June 30, 2001 and 2000 is as follows:

	As at June 30, 2001 (Unaudited)		As at June 30, 2000 (Unaudited)	
	£	***$'000***	*£*	*$'000*
FIXED ASSETS	**101,170**	**1,120**	171,588	1,970
NET CURRENT ASSETS (LIABILITIES)	**29,252**	**324**	(1,919,466)	(22,039)
LONG-TERM LIABILITIES	**(14,673,450)**	**(162,464)**	(9,817,940)	(112,730)
NET LIABILITIES	**(14,543,028)**	**(161,020)**	(11,565,818)	(132,799)

The Hong Kong dollar unaudited financial results and the financial positions for the year ended and as at June 30, 2001 have been translated from Sterling Pounds solely for convenience at HK$11.38 = GBP1.00 (2000 – HK$12.57 = GBP1.00) and HK$11.07 = GBP1.00 (2000 – HK$11.48 = GBP1.00) respectively. No representation is made that the Sterling Pounds amounts could have been, or could be, converted into Hong Kong dollars at those rates or any other certain rates.

Included in the long-term liabilities as at June 30, 2001 is a loan from Techvast Limited, the existing shareholder of PCNE, of approximately $121,371,000. Management verbally agreed with Techvast Limited that, immediately before the completion of the acquisition of PCNE, the loan from Techvast Limited will be capitalised as issued ordinary share capital of PCNE.

25. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform to the current year's presentation. The major reclassifications involved the presentation of certain affiliated company charges from selling, general and administrative expenses to operating expenses and the reclassification of an amount due from a related company from current asset to non-current asset.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Phoenix Group is set out below:

Results

	Year ended June 30,				
	2001	2000	1999	1998	1997
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Revenue	**713,687**	511,342	314,663	174,805	119,536
Operating expenses	**(536,304)**	(372,444)	(270,380)	(190,753)	(189,091)
Selling, general and administrative expenses	**(175,911)**	(98,130)	(132,264)	(117,415)	(92,123)
Profit (Loss) from operations	**1,472**	40,768	(87,981)	(133,363)	(161,678)
Other income, net	**50,386**	9,140	9,515	2,258	6,142
Profit (Loss) before taxation and minority interests	**51,858**	49,908	(78,466)	(131,105)	(155,536)
Taxation	**(1,608)**	–	–	–	–
Profit (Loss) before minority interests	**50,250**	49,908	(78,466)	(131,105)	(155,536)
Minority interests	**3,734**	407	–	–	–
Profit (Loss) attributable to shareholders	**53,984**	50,315	(78,466)	(131,105)	(155,536)

Assets and Liabilities

	As at June 30,		
	2001	2000	1999
	$'000	*$'000*	*$'000*
Current assets	**977,146**	989,296	181,245
Non-current assets	**185,941**	44,639	19,041
Total assets	**1,163,087**	1,033,935	200,286
Current liabilities	**141,731**	146,379	103,386
Non-current liabilities	**252**	–	502,977
Minority interests	**5,019**	7,753	–
Shareholders' equity (deficit)	**1,016,085**	879,803	(406,077)
Total liabilities and shareholders' equity (deficit)	**1,163,087**	1,033,935	200,286

The results of the Phoenix Group for the years ended June 30, 1997, 1998 and 1999, and the balance sheet as at June 30, 1999 have been extracted from the Prospectus and prepared on a continued basis as if the Phoenix Group, which was established as a result of the Group Reorganization completed on June 16, 2000, had been in existence since July 1, 1996 and throughout the accounting periods presented.