MANAGEMENT DISCUSSION AND ANALYSIS

Comments on Segmental Information

	Year ended 31 December			
	2017		2016	
	Revenue HK$'000	**Segment result HK$'000**	Revenue HK$'000	Segment result HK$'000
Television broadcasting	**1,336,615**	**316,022**	1,430,947	417,619
Internet media	**1,733,094**	**453,583**	1,629,661	389,113
Outdoor media	**721,436**	**119,524**	610,295	67,283
Real estate	**29,464**	**(6,818)**	27,606	(47,251)
Other businesses	**136,878**	**(33,490)**	99,764	(7,442)
Group's total revenue and segment results	**3,957,487**	**848,821**	3,798,273	819,322
Unallocated income		**62,143**		28,080
Unallocated expenses		**(286,789)**		(349,727)
Profit before share of results of joint ventures and associates, income tax and non-controlling interests		**624,175**		497,675

Revenue from television broadcasting, comprising advertising, subscription and other revenue sources, which accounted for 33.8% of the total revenue of Phoenix Media Investment (Holdings) Limited (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2017, decreased 6.6% to approximately HK$1,336,615,000 (year ended 31 December 2016: HK$1,430,947,000). The critical traditional media trading environment has led to a decrease in the advertising income of the television broadcasting business. As the cost structure is relatively fixed, the segmental profit for the television broadcasting business reduced to approximately HK$316,022,000 for the year ended 31 December 2017 (year ended 31 December 2016: HK$417,619,000).

Revenue from Phoenix Chinese Channel and Phoenix InfoNews Channel, which accounted for 30.7% of the total revenue of the Group for the year ended 31 December 2017, decreased 7.2% to approximately HK$1,216,859,000 (year ended 31 December 2016: HK$1,310,632,000).

The total revenue of Phoenix Hong Kong Channel, Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others decreased 0.5% to approximately HK$119,756,000 (year ended 31 December 2016: HK$120,315,000).

The revenue of the internet media business for the year ended 31 December 2017 increased 6.3% to approximately HK$1,733,094,000 (year ended 31 December 2016: HK$1,629,661,000). Although there was a decrease in PC platform advertising revenues, mobile platform advertising revenues recorded a significant increase. The segmental profit of the internet media business for the year ended 31 December 2017 increased 16.6% to approximately HK$453,583,000 (year ended 31 December 2016: HK$389,113,000). The increase in net gain related to the subsequent measurement of the investment in Particle Inc. was partially set off by the increase in advertising and promotion cost.

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of the outdoor media business for the year ended 31 December 2017 increased 18.2% to approximately HK$721,436,000 (year ended 31 December 2016: HK$610,295,000). The segmental profit of the outdoor media business for the year ended 31 December 2017 increased 77.6% to approximately HK$119,524,000 (year ended 31 December 2016: HK$67,283,000).

The segmental loss for the real estate business for the year ended 31 December 2017 was approximately HK$6,818,000 (year ended 31 December 2016: HK$47,251,000), which mainly comprises depreciation and interest expenses.

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

Dividends

The board of directors of the Company (the "**Board**" or "**Directors**") recommended the payment of a final dividend of 1 Hong Kong cent per ordinary share of the Company ("**Share(s)**") (final dividend for 2016: 1 Hong Kong cent), totaling approximately HK$49,935,000, equivalent to approximately 17.4% of profit attributable to owners of the Company, to be payable to shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on Thursday, 14 June 2018. Subject to the passing of the relevant resolution at the forthcoming annual general meeting of the Company ("**AGM**"), the final dividend will be payable on or around Friday, 22 June 2018.

Annual General Meeting

The AGM will be held at No. 2-6 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Wednesday, 6 June 2018, at 3:00 p.m.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

As at 31 December 2017, as a result of the exercise of share options by the option holders, the Group's equity interest in Phoenix New Media Limited ("**PNM**") was decreased from 55.45% to 54.96%.

Liquidity and Financial Resources

The liquidity and financial resources of the Group as at 31 December 2017 remained solid. As at 31 December 2017, the Group had cash and current bank deposits totaling about HK$2,690,998,000 (as at 31 December 2016: HK$2,678,656,000). The aggregated outstanding borrowings of the Group were approximately HK$1,239,544,000 (as at 31 December 2016: HK$1,272,144,000), representing non-interest bearing loans, non-interest bearing loans from non-controlling shareholders of subsidiaries, secured and interest bearing bank borrowings to fund the investment in Phoenix International Media Centre in Beijing and other secured and interest bearing bank borrowings. The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 54.6% as at 31 December 2017 (as at 31 December 2016: 52.5%).

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

Charge on Assets

As at 31 December 2017, the land and property in Chaoyang Park, Beijing, with carrying value of approximately HK$103,000,000, HK$412,000,000 and HK$1,555,000,000 (as at 31 December 2016: HK$102,000,000, HK$425,000,000 and HK$1,452,000,000) recorded in lease premium for land, property, plant and equipment and investment properties respectively were pledged with a bank to secure a bank borrowing to fund the investment in Phoenix International Media Centre in Beijing. Bank deposit of approximately HK$781,666,000 (as at 31 December 2016: HK$807,162,000) was pledged with a bank to secure a bank borrowing to optimize return through interest difference and arrangement of external security within the loan. The property in the United States with carrying value of approximately HK$2,751,000 (as at 31 December 2016: HK$2,774,000) was pledged with a bank to secure a bank borrowing. Deposits of approximately HK$352,000 (as at 31 December 2016: HK$322,000) were pledged with a bank to secure banking guarantee given to the landlord of a subsidiary.

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2017 and 31 December 2016.

Capital Structure and Share Options

As at 31 December 2017, the authorized share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each, of which 4,993,469,500 Shares (as at 31 December 2016: 5,000,999,500 Shares) had been issued and fully paid.

There was no option exercised under the Company's share option scheme during the year.

As at 31 December 2017, the operations of the Group were mainly financed by owners' equity, bank borrowings, loans from non-controlling shareholders of subsidiaries and banking facilities.

Staff

As at 31 December 2017, the Group employed 2,881 full-time staff (as at 31 December 2016: 2,872) at market remuneration supplemented with employee benefits such as comprehensive medical coverage, insurance plan, defined contribution pension schemes and employee share option schemes. Staff costs for the year ended 31 December 2017 increased to approximately HK$1,277,283,000 (year ended 31 December 2016: HK$1,185,144,000).

Significant Investments Held

As at 31 December 2017, the Group invested in listed security investments with estimated fair market value of approximately HK$24,406,000 (as at 31 December 2016: HK$19,003,000) recognized as "financial assets at fair value through profit and loss" and unlisted preferred shares of Particle Inc. recognized as "available-for-sale financial assets" and "derivative financial instruments" with estimated fair market value of approximately HK$705,712,000 (as at 31 December 2016: HK$605,849,000) and HK$721,002,000 (as at 31 December 2016: HK$440,261,000) respectively. Save as disclosed above, the Group had not held any other significant investment for the year ended 31 December 2017.

Future Plans for Material Investments and Expected Source of Funding

The Group will continue to consolidate its existing businesses while exploring new business opportunities that will complement and enhance its existing businesses.

Contingent Liabilities

Various companies in the Group are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provisions have been made in the financial statements.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2017, the Company has bought back 3,478,000 Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for a total consideration of HK$4,511,820. The buy-backs were made for the benefit of the Company and the Shareholders as a whole by enhancing the earnings per Share.

Details of the share buy-backs are disclosed as follows:

Trading Date	No. of Shares	Total Consideration	Price per Share Highest	Lowest
		HK$	HK$	HK$
January 2017				
4	182,000	238,380	1.31	1.30
6	300,000	393,000	1.31	–
16	34,000	44,880	1.32	–
	516,000	676,260		
February 2017				
6	470,000	615,880	1.32	1.29
7	1,000,000	1,297,920	1.30	1.29
13	500,000	643,500	1.29	1.28
14	992,000	1,278,260	1.29	1.28
	2,962,000	3,835,560		
	3,478,000	4,511,820		

The above 3,478,000 Shares repurchased during the year were cancelled on 2 March 2017.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities during the year.

Other Important Events and Subsequent Events

Discloseable Transaction Regarding Provision of New Loan to Particle Inc. and Extensions

On 20 January 2017, PNM entered into a loan agreement with Particle Inc., pursuant to which PNM agreed to grant to Particle Inc. a loan in the principal amount of RMB74,000,000 bearing interest at a rate of 9% per annum for a period of one (1) year ("**January 2017 Loan**"). On 28 January 2016, 5 April 2016, 10 August 2016 and 2 November 2016, PNM granted the loans in the principal amounts of US$10,000,000, US$10,000,000, US$14,800,000 ("**August 2016 Loan**") and RMB46,000,000, respectively, to Particle Inc. The January 2017 Loan, when aggregated with the previous loans which were granted within a 12-month period before, resulted in certain applicable percentage ratios exceeding 5% but all applicable percentage ratios being less than 25%, therefore constituted a discloseable transaction of the Company. For details, please refer to the Company's announcement dated 20 January 2017.

On 9 August 2017, PNM extended the August 2016 Loan from twelve (12) months to eighteen (18) months, while the other terms and conditions remain the same. The August 2016 Loan with a principal amount of US$14,800,000 would mature in February 2018 after the extension. In connection with the extension of the August 2016 Loan, Particle Inc. extended PNM's right to convert, at PNM's option, all or a part of the August 2016 Loan (including principal and interests) into Series D1 preferred shares to be issued by Particle Inc. to 9 February, 2018 ("**Series D1 Conversion Right**").

On 22 January 2018, PNM extended the terms of (1) the August 2016 Loan for a further six (6) months term to August 2018, and (2) the January 2017 Loan to July 2018 after the extension. The expiration date of PNM's Series D1 Conversion Right was accordingly extended to 9 August 2018.

On 29 September 2017, PNM, Particle Inc. and Long De Cheng Zhang Culture Communication (Tianjin) Co., Ltd. ("**Long De**") entered into an agreement pursuant to which PNM was expected to assign its rights under the August 2016 Loan to Long De or its affiliates amongst other matters (the "**Previous Agreement**"). Given the delay in completion of the transactions contemplated under the Previous Agreement, on 2 April 2018, the parties agreed to terminate the Previous Agreement and replace it with a loan assignment agreement, pursuant to which PNM will assign the August 2016 Loan to Long De or its affiliates with an assignment price of approximately US$17.0 million amongst other matters.

PNM currently owns approximately 41.82% of the total outstanding shares of Particle Inc. on an as-if converted basis.

Proposed Spin-off and Separate Listing of 鳳凰都市傳媒科技股份有限公司 (Phoenix Metropolis Media Technology Company Limited, "**Phoenix Metropolis**")

On 17 March 2017, the Company announced that the Board was considering the feasibility of a proposed spin-off and separate listing of Phoenix Metropolis, a subsidiary of the Company engaged in the outdoor media business in the PRC, on the Shenzhen Stock Exchange ("**Proposed Spin-off**"). The Proposed Spin-off is still at a preliminary stage. No application has been submitted to any PRC regulatory authorities or to the Stock Exchange pursuant to Practice Note 15 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in relation to the Proposed Spin-off. No final decision has been made by the Board as to whether and when the Proposed Spin-off will proceed.

Withdrawal of Application for the Domestic Free Television Programme Service Licence in Hong Kong

On 18 August 2017, Phoenix Hong Kong Television Limited ("**Phoenix HKTL**"), an indirect wholly-owned subsidiary of the Company, has submitted a written notice to the Communication Authority to withdraw the application for a domestic free television programme service licence in Hong Kong with digital terrestrial transmission ("**Application**"). Phoenix HKTL submitted the Application on 6 May 2016, and the Board resolved to withdraw the Application in light of (i) the current unfavourable market condition for domestic free television programme service in Hong Kong and (ii) the change in business/investment direction of the Company. Please also refer to the Company's announcement dated 18 August 2017.

Yidian's Receipt of Licence for Internet News Information Services from CAC

On 31 October 2017, 北京一點網聚科技有限公司(Beijing Yidianwanju Technology Co. Ltd., "**Yidian**"), an affiliated consolidated entity of Particle Inc. (in which PNM currently owns approximately 41.82% of its total outstanding shares on an as-if converted basis) received the licence for internet news information service ("**Licence**") from the 國家互聯網信息辦公室 (Cyberspace Administration of China, "**CAC**"). This is the first licence issued by CAC since the new Provisions for the Administration of Internet News Information Services《互聯網新聞信息服務管理規定》went into effect on 1 June 2017. The Licence issued to Yidian is applicable to both PC and mobile news services. In addition to news services, this Licence also explicitly authorizes Yidian to operate「一點號」Yidianhao, Yidian's we-media platform, in China.

New Trademark Licence Agreements with PNM subsidiaries

On 8 December 2017, Phoenix Satellite Television Trademark Limited ("**Phoenix Trademark Co**."), a wholly-owned subsidiary of the Company, entered into new trademark licence agreements ("**TM Agreements**") with two affiliated consolidated entities of PNM, being 怡豐聯合(北京)科技有限責任公司 and 北京天盈九州網路技術有限公司 (together as "**Licensees**"), to replace previous trademark licence agreements between the parties. Under the TM Agreements, the Company agreed to continue to license to the Licensees certain double-phoenix and other trademarks owned by Phoenix Trademark Co. The annual licence fee payable by each of the Licensees will be the greater of 2% of the Licensee's annual revenue or US$100,000.

Fund Raising Exercise for Phoenix Entertainment and Game Company Limited (鳳凰娛樂遊戲有限公司) Group

In early 2018, Phoenix Entertainment and Game Company Limited (鳳凰娛樂遊戲有限公司) ("**Phoenix Games**"), a subsidiary of the Company, entered into a round of fund raising exercise seeking external funds to support its business plans in the comic and games industry. Based on the then valuation of Phoenix Games and its subsidiaries ("**Phoenix Games Group**"), the amount to be raised was in a total of RMB100 million in exchange for a total of 5% equity interests in Phoenix Games Group.

On 22 January 2018, Phoenix Games entered into a strategic investment agreement with 深圳市國宏嘉信信息科技有限公司 ("**GuoHong**"), its overseas investment arm China Prosperity Capital Alpha Limited and various parties. GuoHong invested a sum of RMB50 million in return for a 2.5% equity interest (on a diluted basis) in Phoenix Games Group and the transaction was completed on 2 February 2018 ("**GuoHong Transaction**"). GuoHong is a private investment fund specializing in the mobile internet and pan entertainment industries of the Greater China region.

On 26 February 2018, Phoenix Games entered into another strategic investment agreement with 西藏明溪安同創業投資有限公司 ("**MingXi**") and various parties, the terms of which were similar to those of the GuoHong Transaction. Pursuant to the agreement, MingXi would invest a sum of RMB30 million in return for a 1.5% equity interest (on a diluted basis) in Phoenix Games Group ("**MingXi Transaction**"). MingXi is a subsidiary in an investment fund focusing on high new technology and innovative enterprises with sustainable growth, high competitiveness and good corporate governance.

On 16 March 2018, Phoenix Games entered into another strategic investment agreement with 寧波信達華建投資有限公司 ("**XinDa**"), its overseas investment arm China Cinda (HK) Asset Management Co., Limited (中國信達(香港)資產管理有限公司) and various parties, the terms of which were similar to those of the GuoHong Transaction and the MingXi Transaction. Pursuant to the agreement, XinDa would invest a sum of RMB20 million in return for a 1% equity interest (on a diluted basis) in Phoenix Games Group. XinDa is a wholly-owned subsidiary of China Cinda Assets Management Co., Limited (中國信達資產管理股份有限公司), one of the most prestigious investment brands in China.

Change of Company Name of the Company

On 25 January 2018, the Company announced the proposal to change the English name from "Phoenix Satellite Television Holdings Limited" to "Phoenix Media Investment (Holdings) Limited" and to change the dual foreign name in Chinese from "鳳凰衛視控股有限公司" to "鳳凰衛視投資(控股)有限公司" in line with its business directions. The proposed change of company name is subject to: (i) approval by a special resolution of the Shareholders at an extraordinary general meeting (the "**EGM**") to approve the proposed change of company name; and (ii) approval by the Registrar of Companies of the Cayman Islands by issuing a certificate of incorporation on change of name.

The EGM was held on 6 March 2018 and a special resolution of the Shareholders was obtained. The Company received the certificate of incorporation on change of name from the Registrar of Companies of the Cayman Islands and the change of name was made effective from 7 March 2018. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company issued by the Registrar of Companies in Hong Kong was also obtained on 19 March 2018. For details, please refer to the Company's announcement dated 21 March 2018.

Continuing Connected Transaction between 神州電視有限公司 (Shenzhou Television Company Ltd.) ("**Shenzhou**") and CNHK Media Limited (中港傳媒有限公司) ("**CNHK Media**")

On 2 February 2018, Shenzhou, acting as the PRC advertising agent of Phoenix Satellite Television Company Limited ("**Phoenix TV**") and CNHK Media, entered into an advertising contract relating to the purchase of advertising airtime by CNHK Media ("**2018 Contract**") respectively for the ultimate benefits of the Group and 中國移動通信集團有限公司 (China Mobile Communications Group Co., Ltd, "**CMCC**") and its associates (together "**CMCC Group**").

Pursuant to the 2018 Contract, CNHK Media agreed to purchase advertising airtime at the Phoenix Chinese Channel and the Phoenix InfoNews Channel for the period from 2 February 2018 to 31 December 2018 for a sum not exceeding RMB40,000,000 (equivalent to approximately HK$48,616,000) for promoting the CMCC Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, CNHK Media has/will entered into contract(s) with a subsidiary of CMCC in the PRC relating to and including the purchase of advertising airtime from Phoenix TV on behalf of CMCC Group covering the same period. As such, the entering of the 2018 Contract by CNHK Media is for the ultimate benefits of the CMCC Group. The Company considered CNHK Media a deemed connected person of the Company under the Listing Rules. As the transactions contemplated under the 2018 Contract constitute continuing connected transactions for the Company under the Listing Rules and all of the applicable percentage ratios in respect of the annual cap for the transactions are more than 0.1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 2 February 2018.

Continuing Connected Transaction between Phoenix Metropolis and 咪咕文化科技有限公司 (MIGU Cultural and Technology Co., Ltd.) ("**MIGU**")

On 19 March 2018, Phoenix Metropolis, a subsidiary of the Company, and MIGU entered into an advertising contract in relation to the purchase of advertising airtime by MIGU on the LED panels operated by or licensed to Phoenix Metropolis and/or its subsidiaries in the PRC for the period of one year from 19 March 2018 to 18 March 2019 for a sum not exceeding RMB14,520,000 (equivalent to approximately HK$17,975,760) for promoting the businesses of the MIGU Group ("**2018 MIGU Advertising Contract**"). MIGU is a connected person of the Company under the Listing Rules. Thus, the transactions contemplated under the 2018 MIGU Advertising Contract constitute continuing connected transactions for the Company under the Listing Rules. As all of the applicable percentage ratios for the maximum contract sum under 2018 MIGU Advertising Contract alone or when aggregated with other relevant transactions with CMCC Group within the past 12 months exceed 0.1% but are less than 5%, the 2018 MIGU Advertising Contract and the transactions are subject to reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 19 March 2018.