

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in Phoenix Satellite Television Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, 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 circular.



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)

**CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED AMENDMENTS TO
THE SHARE OPTION SCHEME
AND
REFRESHMENT OF THE 10 PERCENT LIMIT OF
THE SHARE OPTION SCHEME
AND
PROPOSED CHANGE OF AUDITORS**

Independent financial adviser to the Independent Board Committee



Alpha Alliance Securities Limited

A letter from the Independent Board Committee dated 17 July 2002 is set out on page 15 of this circular.

A letter from Alpha Alliance Securities Limited, the independent financial adviser, containing its advice to the Independent Board Committee dated 17 July 2002 is set out on pages 16 to 21 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 10/F, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong on 6 August 2002 at 3:00 p.m. is set out on pages 29 to 32 of this circular. A form of proxy is also enclosed. Whether or not you are able to attend and vote at the extraordinary general meeting, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time of the meeting or any adjourned meetings. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the meeting or any adjourned meetings should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting.

CHARACTERISTICS OF GEM OF 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.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	15
Letter from the Alpha Alliance	16
Appendix I – Proposed Amendments	22
Appendix II – General Information	24
Notice of Extraordinary General Meeting	29

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

“Adoption Date”	7 June 2002, the date on which the Share Option Scheme is conditionally adopted by resolution of the Shareholders
“Alpha Alliance”	Alpha Alliance Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the independent financial adviser appointed to advise the Independent Board Committee in respect of the Connected Transactions
“Annual Caps”	shall have the meaning ascribed thereto in the paragraph headed “Maximum amount of the Continuing Connected Transactions”
“Associate(s)”	shall have the meaning ascribed thereto in Rule 1.01 of the GEM Listing Rules
“Auditors”	auditors of the Company from time to time
“Board”	the board of Directors
“BSkyB”	British Sky Broadcasting Limited, a company 36.3% owned by News Corporation and listed on the London and New York stock exchanges
“Channel Launch Date”	21 August 1999, being the launch date of the Phoenix CNE Channel
“Company”	Phoenix Satellite Television Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the GEM
“Condition”	the Independent Shareholders approving, confirming and ratifying the New Agreements and the transactions contemplated therein in accordance with the GEM Listing Rules
“Connected Transactions” or “Continuing Connected Transactions”	the transactions contemplated in the New Agreements
“Directors”	the directors of the Company, including independent non-executive directors
“EGM”	the extraordinary general meeting of the Company to be held on or about 6 August 2002 relating to the Continuing Connected Transactions as well as other matters referred to in this circular

DEFINITIONS

“EPG Services”	the electronic programme guide services which provide scheduling, event and synopsis information by way of a datastream
“GEM”	the Growth Enterprises Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising Dr. Lo Ka Shui and Mr. Kuok Khoon Ean, both being independent non-executive Directors
“Independent Shareholders”	the shareholders of the Company other than STAR Holdings and its Associates
“£”	United Kingdom Pounds, the lawful currency of England
“Latest Practicable Date”	12 July 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“MPEG”	Moving Picture Experts Group which sets a compression standard for moving pictures
“New Agreements”	the New Transponder Agreement and the New EPG Services Agreement
“New EPG Services Agreement”	the agreement between BSkyB and Phoenix CNE Ltd. dated 26 June 2002 in relation to the provision of EPG Services
“New Transponder Agreement”	the agreement between BSkyB and Phoenix CNE Ltd. dated 26 June 2002 in relation to the provision of satellite transponder capacity, uplinking and encoding facilities
“News Corporation”	The News Corporation Limited, which is ultimately holding 100% of STAR Holdings
“Old Agreements”	the Old Transponder Agreement and the Old EPG Services Agreement
“Old EPG Services Agreement”	the agreement dated 19 August 1999 between BSkyB and Phoenix CNE Ltd. for the provision of EPG Services

DEFINITIONS

“Old Transponder Agreement”	the heads of agreement dated 11 June 1998, as amended subsequently on 19 August 1999 and 18 March 2002 respectively between BSKyB and Phoenix CNE Ltd. for the provision of satellite transponder capacity, uplinking and MPEG encoding services.
“Phoenix CNE Channel”	an un-encrypted television channel operated by Phoenix CNE Ltd. targeting Chinese audience in Europe
“Phoenix CNE Ltd.”	Phoenix Chinese News & Entertainment Limited, a 70% owned subsidiary of the Company
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 7 June 2000 and amended on 14 February 2001 the scheme period of which expires upon the listing of the Company on the GEM
“Proposed Amendments”	the proposed amendments to the relevant clauses of the Share Option Scheme as set out in Resolution 4 of the notice of the EGM on pages 29 to 32 of this circular
“Prospectus”	the prospectus of the Company dated 21 June 2000
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme (other than the Pre-IPO Share Option Scheme) adopted by the Company on 7 June 2000 and amended on 14 February 2001 pursuant to which options are granted after the listing of the Company on the GEM
“Shareholders”	the shareholders of the Company
“STAR Holdings”	STAR Television Holdings Limited, which owns approximately 37.6% interest in the Company as at the Latest Practicable Date, is the Company’s initial management shareholder and substantial shareholder (as defined in the GEM Listing Rules)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America

DEFINITIONS

“Waiver”

the waiver granted by the Stock Exchange to the Company from strict compliance with the reporting and shareholders’ approval requirements under the GEM Listing Rules on 29 June 2000 in respect of the non-exempt connected transactions as described in the Prospectus under the section headed “Waivers from Compliance with the GEM Listing Rules and Companies Ordinance”

Note: The US\$ and £ amounts shown in this circular have been translated into HK\$ based on the exchange rate of US\$1.00 to HK\$7.78 and £1.00 to HK\$11.95 respectively.



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)

Executive Directors:

LIU, Changle (*Chairman*)

CHUI, Keung

Non-executive Directors:

MURDOCH, James Rupert (*Vice-Chairman*)

CHURCHILL, Bruce Barrett

LAU, Yu Leung John

CHEUNG, Chun On Daniel

XU, Gang

CHEUNG, San Ping

Independent non-executive Directors:

LO, Ka Shui

KUOK, Khoon Ean

Registered Office:

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681GT, George Town

Grand Cayman

British West Indies

Principal Place of Business:

9/F, One Harbourfront

18-22 Tak Fung Street

Hunghom

Kowloon

Hong Kong

17 July 2002

To Shareholders of the Company

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED AMENDMENTS TO
THE SHARE OPTION SCHEME
AND
REFRESHMENT OF THE 10 PERCENT LIMIT OF
THE SHARE OPTION SCHEME
AND
PROPOSED CHANGE OF AUDITORS**

INTRODUCTION

With reference to the announcement dated 26 June 2002 relating to the Continuing Connected Transactions, the Directors would like to seek the Independent Shareholders' approval of the New Agreements, the Continuing Connected Transactions and the Annual Caps.

LETTER FROM THE BOARD

In addition, the Directors would like to seek approvals from the Shareholders for the Proposed Amendments and the refreshment of the 10 percent limit of the Share Option Scheme as well as the proposed change of Auditors.

The purposes of this circular are (i) to provide information on the Continuing Connected Transactions and to seek the Independent Shareholders' approval of resolutions relating to the New Agreements, the Continuing Connection Transactions and the Annual Caps to be proposed at the EGM; (ii) to inform the Shareholders of the Proposed Amendments and to seek the Shareholders' approval of the resolutions relating thereto and to the refreshment of the limit of the total number of Shares to be issued under the Share Option Scheme to be proposed at the EGM; and (iii) to seek the Shareholders' approval of the resolution relating to change of Auditors to be proposed at the EGM.

BSkyB is an Associate of News Corporation, which is ultimately holding 100% of STAR Holdings. As at the Latest Practicable Date, STAR Holdings owns approximately 37.6% interest in the Company and is the Company's initial management shareholder and substantial shareholder (as defined in the GEM Listing Rules). Accordingly, BSKyB is a connected person of the Company under Chapter 20 of the GEM Listing Rules. **STAR Holdings and its Associates will abstain from voting at the EGM in respect of the ordinary resolutions regarding the New Agreements, the Continuing Connected Transactions and the Annual Caps.**

All option-holders of the Share Option Scheme and their respective Associates shall abstain from voting in respect of the ordinary resolution relating to the Proposed Amendments.

THE NEW AGREEMENTS

The Directors announced on 26 June 2002 that, Phoenix CNE Ltd., a 70% owned subsidiary of the Company, has entered into the New Transponder Agreement and the New EPG Services Agreement with BSKyB, an Associate of STAR Holdings.

1. New Transponder Agreement

Date:	26 June 2002
Parties:	(1) Phoenix CNE Ltd. (2) BSKyB
Services:	provide satellite transponder capacity for 24 hours per day and uplinking and MPEG encoding services for Phoenix CNE Channel.
Term:	3 years from 1 July 2002
Condition:	The Old Transponder Agreement was terminated upon the execution of the New Transponder Agreement. However, if the Condition is not satisfied within 2 months after 1 July 2002 or such later date to be agreed by the parties, the New Transponder Agreement shall terminate on the expiry of the said 2 months' period or such prolonged period as agreed and the Old Transponder Agreement will be revived upon such termination.

LETTER FROM THE BOARD

Consideration: satellite transponder capacity: US\$522,000 (approximately HK\$4,061,160) per annum.

uplinking and MPEG encoding services: US\$78,000 (approximately HK\$606,840) per annum.

All fees are payable on a monthly basis.

2. New EPG Services Agreement

Date: 26 June 2002

Parties: (1) Phoenix CNE Ltd.
(2) BSkyB

Services: provide EPG Services for Phoenix CNE Channel.

Term: 3 years from 30 August 2002

Condition: If the Condition is not satisfied on or before 30 August 2002 or such later date to be agreed by the parties, the New EPG Services Agreement shall terminate on 30th August 2002 or upon the expiry of such prolonged period as agreed.

Consideration: £28,000 (approximately HK\$334,600) per annum payable on a monthly basis.

The entering into the New Agreements and the early termination of the Old Transponder Agreement constitute connected transactions and the transactions carried on pursuant to the New Agreements constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the announcement, approval of the Independent Shareholders and other reporting requirements set out in Rules 20.34 to 20.36 of the GEM Listing Rules.

THE OLD AGREEMENTS

1. Old Transponder Agreement

Pursuant to the heads of agreement dated 11 June 1998 between BSkyB and Phoenix CNE Ltd., as amended by an amendment agreement dated 19 August 1998, BSkyB agreed to provide satellite transponder capacity for 6 hours per day and uplinking and MPEG encoding services for Phoenix CNE Channel for a term of 3 years from the Channel Launch Date at a base fee of US\$205,200 (approximately HK\$1,596,456) per annum, which sum was subject to increase over the equivalent period in the United Kingdom retail prices index. Further changes were made pursuant to another amendment agreement dated 18 March 2002 including the expansion of satellite transponder capacity to 8 hours per day and hence the increase in fee to US\$305,070 (approximately HK\$2,373,445) per annum.

2. Old EPG Services Agreement

Pursuant to an agreement dated 19 August 1999 between BSkyB and Phoenix CNE Ltd., BSkyB agreed to provide EPG Services to Phoenix CNE Ltd. for a term of three years starting from 30 August 1999 at a fee of £28,000 (approximately HK\$334,600) per annum.

Phoenix CNE Ltd. entered into the Old Agreements in 1998 and 1999 before it became a member of the Group in November 2001. In anticipation of the possible acquisition of certain interest in Phoenix CNE Ltd. by the Group, the Company, prior to its listing on the GEM, applied and obtained the Waiver for a period of 3 years ending 30 June 2003 as these transactions would constitute non-exempt continuing connected transactions under the GEM Listing Rules when Phoenix CNE Ltd. should become a member of the Group.

Reasons for entering into the New Agreements

Under the arrangement in the Old Transponder Agreement, Phoenix CNE Channel was broadcasting 8 hours a day. To increase advertising time slot and provide non-stop services and more programming to its audience, Phoenix CNE Channel has extended broadcasting time to 24 hours a day from 1 July 2002. The extension of broadcasting time from 8 hours to 24 hours invariably increases the service fees payable to BSkyB. As the cap of the Waiver of HK\$3,200,000 was fixed on the basis of a lower level of usage, the annual fees payable to BSkyB under the New Transponder Agreement would exceed the said cap. The Old EPG Services Agreement will expire on 29 August 2002, the entering into of the New EPG Services Agreement is for the continuity of services. In addition, it is appropriate to enter into the New Transponder Agreement and the New EPG Services Agreement with BSkyB at the same time. The New Agreements were negotiated on arm's length bases.

The extension of broadcasting time will increase advertising time slot and the provision of non-stop services and more programming will attract more viewers, which in turn, will increase the Company's revenue base. The Directors believe that the terms of the New Agreements and the transactions contemplated therein have been entered into in the ordinary and usual course of the Company's business on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

Maximum amount of the Continuing Connected Transactions

Based on the Company's past experience on existing services, historical figures paid for relevant transactions and the extension of broadcasting time, the Directors believe that the amount of fees payable by Phoenix CNE Ltd. to BSkyB for the New Transponder Agreement and the New EPG Services Agreement will not exceed HK\$6,000,000 and HK\$600,000 respectively per annum for each of the three financial years ending 30 June 2005 ("Annual Caps"). The Annual Caps have been determined with reference to the constant supply of satellite transponder capacity, uplinking and MPEG encoding services and EPG Services and a flexible supply (if necessary and subject to availability) of additional services related to the transmission of one or more feeds of Phoenix CNE Channel or other channels operated by the Group upon mutually agreed terms based on commercial decision and the possible fluctuations of exchange rates between HK\$ and US\$ and between HK\$ and £ respectively.

LETTER FROM THE BOARD

Information on the Company

The Company, through Phoenix Satellite Television Company Limited, is a satellite television broadcaster. Phoenix's channels include Phoenix InfoNews Channel, Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix CNE Channel and Phoenix North America Chinese Channel together broadcast to audiences in the Asia Pacific, covering more than 30 countries across the region, as well as Europe and North America. The Company also operates the Phoenix Weekly magazine and the www.phoenixtv.com website to diversify its business to non-broadcast media.

Information on BSKyB

BSkyB is the UK's leading digital TV service provider. More than 15 million viewers in 5.9 million households enjoy an unprecedented choice of movies, news, entertainment and sports channels and interactive services on Sky digital, the UK's first broadband digital television platform. It is listed on the London and New York Stock Exchanges.

Annual review of the Continuing Connected Transactions

Assuming the Independent Shareholders approve, confirm and ratify the New Agreements, the transactions contemplated therein and the Annual Caps at the EGM, the Company will comply with the following:

- (1) the maximum amount payable by Phoenix CNE Ltd. to BSKyB will not exceed HK\$6,000,000 and HK\$600,000 per annum for each of the three financial years ending 30 June 2005 in respect of the New Transponder Agreement and the New EPG Services Agreement respectively.
- (2) during the terms of the New Agreements, the Company's independent non-executive Directors will review them annually and confirm in the Company's next and each successive annual report that the New Agreements:
 - (a) have been entered into by Phoenix CNE Ltd. in the ordinary and usual course of its business and have been conducted in accordance with the terms thereof;
 - (b) have been entered into on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available from independent third parties; and
 - (c) have been entered into on terms that are fair and reasonable so far as the Shareholders and the Company are concerned.
- (3) the Auditors shall review the Continuing Connected Transactions annually and confirm in a letter to the Board, a copy of which shall be provided to the Listing Division of the Stock Exchange, stating whether:
 - (a) the Connected Transactions have received the approval of the Board;

LETTER FROM THE BOARD

- (b) the Connected Transactions have been entered into in accordance with the terms of the New Agreements; and
 - (c) the Annual Caps have been exceeded.
- (4) the Company has undertaken to the Stock Exchange that, for so long as the Shares are listed on the GEM, it will provide the Auditors with full access to its relevant records for the purpose of the Auditors' review of the Continuing Connected Transactions.
 - (5) relevant details on the Continuing Connected Transactions will be disclosed in the annual reports of the Company in accordance with Rules 20.34(1) to (5) of the GEM Listing Rules.
 - (6) the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the Auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28 of the GEM Listing Rules respectively and any other conditions imposed by the Stock Exchange. The Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions the Stock Exchange considers appropriate.
 - (7) where the aggregate amount of the Continuing Connected Transactions exceeds the higher of HK\$10,000,000 or 3% of the net tangible assets of the Group, the Group will comply with the Rules 20.30 of the GEM Listing Rules. In such event, the Continuing Connected Transactions and the Annual Caps will be subject to review and re-approval by the Independent Shareholders at the annual general meeting of the Company following the initial approval and at each subsequent annual general meeting so long as such transactions continue and the independent non-executive Directors will be required to opine in the annual report of the Company whether or not Phoenix CNE Ltd. should continue with the New Agreements.

Confirmation from the Directors

The Continuing Connected Transactions were negotiated on an arm's length basis and will be conducted in accordance with the terms of the New Agreements, which were also negotiated on an arm's length basis. The Directors are of the view that the New Agreements and the transactions contemplated therein have been entered into in the ordinary and usual course of the Company's business on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Ordinary resolutions to approve the New Agreements, the Continuing Connected Transactions and the Annual Caps will be proposed at the EGM.

THE SHARE OPTION SCHEME

The Share Option Scheme was adopted and approved by the Company on 7 June 2000 to subscribe for a maximum of 484,706,000 Shares initially and approval had been given by the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted thereunder. The Share Option Scheme was amended on 14 February 2001, a summary of such amendments was set out in the Appendix of the half-yearly report 2000/2001 of the Company. As at the Latest Practicable Date, 16,760,000 and 59,742,000 options were granted under

LETTER FROM THE BOARD

the Share Option Scheme and the Pre-IPO Share Option Scheme respectively, a total of 8,156,000 options were lapsed and 762,000 options had been exercised. As at the Latest Practicable Date, there were 14,560,000 and 53,024,000 outstanding options granted under the Share Option Scheme and the Pre-IPO Share Option Scheme respectively. The outstanding options under the Share Option Scheme will continue to be valid after the incorporation of the Proposed Amendments into the Share Option Scheme.

After the adoption of the Share Option Scheme, the Stock Exchange amended its requirements for share option schemes as set out in Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001. As a result of these amendments, certain terms of the Share Option Scheme no longer comply with Chapter 23 of the GEM Listing Rules and no option can be granted under the Share Option Scheme without complying with the current requirements of Chapter 23 of the GEM Listing Rules. The Company will not grant any option under the Share Option Scheme prior to the GEM. The Directors consider that it would be in the best interests of the Company and the Shareholders to amend the Share Option Scheme in order to comply with the current requirements of Chapter 23 of the GEM Listing Rules. The Directors would like to draw the attention of Shareholders to the following:

- (a) while the current GEM Listing Rules would permit a wider category of participants, no amendment is proposed to be made to the eligible participants of the Share Option Scheme, and the Share Option Scheme will continue to be available only to employees of the Company or any subsidiary including (without limitation) any executive director of the Company or any subsidiary; and
- (b) the maximum number of Shares in the Company available for subscription under the Share Option Scheme will be changed and the Company will be allowed to refresh the maximum number of Shares that would be available under the Share Option Scheme by Shareholders' approval.

An ordinary resolution to amend the Share Option Scheme will be proposed at the EGM. The Notice of EGM, which contains details of the relevant resolution, is set out on pages 29 to 32 of this circular. **All option-holders of the Share Option Scheme and their respective Associates shall abstain from voting in respect of resolution relating to the Proposed Amendments.**

Shareholders should note that no similar amendments are required to be made in relation to the Pre-IPO Share Option Scheme pursuant to which options were only granted prior to the listing of the Company on the GEM on 30 June 2000 and no further options can be issued thereunder. The Pre-IPO Share Option Scheme and the options already granted thereunder are unaffected by the amendments to Chapter 23 of the GEM Listing Rules. The Pre-IPO Share Option Scheme operates separately from the Share Option Scheme. No option has been granted under the PHOENIXi Plan (as defined in the Prospectus) as at the Latest Practicable Date and there is no intention to grant any option thereunder prior to the EGM.

The Directors consider that it is not appropriate to state the value of all the options that can be granted pursuant to the Share Option Scheme as if they had been granted at the Latest Practicable Date, as any such statement would not be meaningful to the Shareholders due to the application of a number of assumptions such as, expected volatility of underlying Shares and expected life of options for the estimation of the value of the Options.

LETTER FROM THE BOARD

REFRESHMENT OF 10% LIMIT

The Shares in issue as at the Adoption Date were 1,520 Shares and 10% of such number were 152 Shares. There was a substantial increase in the share capital of the Company shortly before its listing of the GEM. If the Proposed Amendments are approved at the EGM, the Share Option Scheme will be amended so that the total number of Shares which may be issued upon exercise of all options granted or to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date, on which the share capital of the Company had not been enlarged for the listing. In such event, the number of Shares available for subscription under the Share Option Scheme and the other scheme of the Company namely the Pre-IPO Share Option Scheme will then be fully utilized and yet not sufficient to cover the options granted thereunder. Therefore, it is necessary to convene the EGM to approve the refreshment of such 10 percent limit so that the total number of Shares to be allotted and issued pursuant to the grant or exercise of any options under the Share Option Scheme and any other schemes of the Company will not exceed 10 percent of the Shares in issue on the date of passing of Resolution 4 at the EGM. If the 10 percent limit is refreshed, based on 4,931,730,000 Shares in issue as at the Latest Practicable Date and assuming that no further Shares are issued prior to the date of the EGM, the Board will be able to grant Options for subscription of up to 493,173,000 Shares, which do not include those Options that are outstanding, cancelled or lapsed. The refreshment of the 10 percent limit is conditional upon the approval by the Shareholders at the EGM. The Directors consider that the refreshment of the 10 percent limit is in the interests of the Company and the Shareholders as a whole as it enables the Company to grant options to eligible persons under the Share Option Scheme to reward and motivate them to strive for the future developments and expansion of the Group.

Due to the Proposed Amendments, an application will be made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted thereunder.

A copy of the Share Option Scheme incorporating the Proposed Amendments will be available for inspection at the principle place of business of the Company at 9th Floor, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong during normal business hours up to and including 6 August 2002.

The Company will publish an announcement on the outcome of the EGM in respect of the resolution relating to the Proposed Amendments on the business day following the date of the EGM.

PROPOSED CHANGE OF AUDITORS

The Company received a letter from Messrs. Arthur Andersen & Co dated 28 June 2002 informing that they would combine their practice with PricewaterhouseCoopers from 1 July 2002 and would resign as Auditors with effect on 6 August 2002. The Directors consider it appropriate to appoint Messrs. PricewaterhouseCoopers as Auditors.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

The EGM will be held at 10/F, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong on 6 August 2002 at 3:00 p.m. A notice of the EGM is set out on pages 29 to 32 of this circular at which ordinary resolutions will be proposed to approve the New Agreements, the Continuing Connected Transactions, the Annual Caps, the Proposed Amendments, refreshment of the 10 percent limit of the Share Option Scheme, proposed change of Auditors and other related matters (if any). **STAR Holdings and its Associates will abstain from voting in respect of the resolutions relating to the New Agreements, the Continuing Connected Transactions and the Annual Caps. All option-holders of the Share Option Scheme and their respective Associates shall abstain from voting in respect of the resolution relating to the Proposed Amendments.**

A form of proxy for use at the EGM is enclosed. Shareholders are requested to complete this form of proxy and return the same to the Company's principal place of business in Hong Kong at 9/F, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong, in accordance with the instructions printed thereon by not later than 48 hours before the time of the meeting, whether or not they intend to be present at the meeting. The completion and returning of the form of proxy will not preclude the Shareholders from attending and voting in person should they so wish.

RECOMMENDATION

(a) Continuing Connected Transactions

The Independent Board Committee comprising all the independent non-executive Directors has been formed to consider and to advise the Independent Shareholders on the New Agreements, the Continuing Connected Transactions and the Annual Caps and Alpha Alliance has been appointed by the Company to advise the Independent Board Committee in such regard.

The Independent Board Committee, having taken into account the advice of Alpha Alliance, is of the opinion that the terms of the New Agreements and the Connected Transactions have been entered into in the ordinary and usual course of the Company's business on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders (including the Independent Shareholders) as a whole and the Annual Caps are fair and reasonable. Accordingly, we recommend that the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the New Agreements, the Connected Transactions and the Annual Caps which will be proposed at the EGM.

(b) Proposed Amendments

The proposed amendments to the Share Option Scheme are intended to reflect the recent amendments to Chapter 23 of the GEM Listing Rules. A summary of the principal terms of the Proposed Amendments are set out in Appendix I of this circular.

The Directors are of the opinion that the Proposed Amendments are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to approve the Proposed Amendments and to authorize the Directors, at their

LETTER FROM THE BOARD

absolute discretion, to grant options and to allot and issue Shares pursuant to the exercise of subscription rights attaching to any options up to 10 percent of the issued share capital of the Company on the date of the passing of the ordinary resolution in relation thereof.

(c) Proposed Change of Auditors

The Directors are of the opinion that the proposed change of Auditors are in the best interests of the Company and the Shareholders and recommend the Shareholders to vote in favour of the resolution relating to the proposed change of Auditors.

GENERAL

The letter from Alpha Alliance containing its advice and recommendation to the Independent Board Committee is set out on pages 16 to 21 of this circular. The letter of advice from the Independent Board Committee containing its recommendation is set out on pages 15 of this circular.

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Alpha Alliance and the information set out in the Appendix of this circular.

Yours faithfully,
On behalf of the Board
Phoenix Satellite Television Holdings Limited
Liu Changle
Chairman



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)

Registered Office:

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681GT, George Town

Grand Cayman

British West Indies

17 July 2002

To the Independent Shareholders

Dear Sirs or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Connected Transactions, details of which are set out in the letter from the Board in the circular dated 17 July 2002 (the “Circular”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Alpha Alliance in respect of the Connected Transactions as set out in the letter from Alpha Alliance in the Circular. Having taken into account the advice of Alpha Alliance, we consider that the terms of the New Agreements and the Connected Transactions have been entered into in the ordinary and usual course of the Company’s business on normal commercial terms and are fair and reasonable and in the interests of the Shareholders (including the Independent Shareholders) as a whole and the Annual Caps are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the New Agreements, the Connected Transactions and the Annual Caps to be proposed at the EGM.

Yours faithfully

For and on behalf of

Independent Board Committee

Lo Ka Shui

Director

Kuok Khoon Ean

Director

LETTER FROM ALPHA ALLIANCE

The following is the text of the letter of advice to the Independent Board Committee from Alpha Alliance dated 17 July 2002 for incorporation in this circular.



Alpha Alliance Securities Limited
17/F., Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

17 July 2002

*To the Independent Board Committee of
Phoenix Satellite Television Holdings Limited*
9/F, One Harbourfront
18-22 Tak Fung Street
Hungghom, Kowloon
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment to advise the Independent Board Committee in respect of the Continuing Connected Transactions as to whether the New Agreements, the transactions contemplated therein and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, details of which are contained in the letter from the Board of Directors in the circular issued to the Shareholders dated 17 July 2002 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

Amongst the parties to the New Agreements, Phoenix CNE Ltd., is a 70% owned subsidiary of the Company, and BSKyB is an Associate of STAR Holdings, which owns approximately 37.6% interest in the Company, is the Company's initial management shareholder and substantial shareholder (as defined in the GEM Listing Rules). BSKyB is therefore regarded as a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the entering into the New Agreements and the early termination of the Old Transponder Agreement constitute connected transactions and the transactions carried on pursuant to the New Agreements constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the announcement, approval of the Independent Shareholders and other reporting requirements as set out in Rules 20.34 to 20.36 of the GEM Listing Rules.

In formulating our opinions, we have relied on the accuracy of the information, opinions, facts and representations contained in the Circular, which have been provided by the Directors and representatives of the Company and are considered by them to be true, complete, accurate and relevant, and we have not independently verified the accuracy of such. We have also relied on the representations of the Directors that they have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular relating to the Company and they have made all reasonable inquiries, and that to the best of their knowledge and belief, there are no other material factors omitted from the information and representations supplied to us. We are not aware of any facts or circumstances which would render

LETTER FROM ALPHA ALLIANCE

the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements contained in and representations made or referred to in this Circular were true, accurate and complete at the time they were made and will continue to be so at the date of the despatch of the Circular and also assumed that all intentions of the Company and the Directors will be met or carried out as the case may be.

We consider that we have reviewed sufficient information to reach an informed view concerning the Continuing Connected Transactions contained in the Circular in order to provide a reasonable basis for our advice. We have no reason to believe that any material information has been omitted or withheld or to doubt the truth, accuracy and completeness of the information provided and representations made to us. Our opinion is necessarily based upon market, economic and other conditions as they have existed and can be evaluated on, and on the information available to us as of the date of the opinion. As such, we have no obligation to update this recommendation to take into account events occurring subsequent to the date of this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion relating to the Continuing Connected Transactions, we have taken into consideration, inter alia, the following principal factors and reasons:

Background for the Continuing Connected Transactions

Pursuant to the heads of agreement dated 11 June 1998 between BSKyB and Phoenix CNE Ltd., as amended by an amendment agreement dated 19 August 1998, BSKyB agreed to provide satellite transponder capacity for 6 hours per day and uplinking and MPEG encoding services for Phoenix CNE Channel for a term of 3 years from the Channel Launch Date at a base fee of US\$205,200 (approximately HK\$1,596,456) per annum, which sum was subject to increase in accordance with increases in the United Kingdom retail prices index over the equivalent period. Further changes were made pursuant to another amendment agreement dated 18 March 2002 including the expansion of satellite transponder capacity to 8 hours per day and hence the increase in fee to US\$305,070 (approximately HK\$2,373,455) per annum.

Pursuant to an agreement date 19 August 1999 between BSKyB and Phoenix CNE Ltd., BSKyB agreed to provide EPG Services to Phoenix CNE Ltd. for a term of three years starting from 30 August 1999 at a fee of £28,000 (approximately HK\$334,600) per annum.

Phoenix CNE Ltd. entered into the Old Agreements in 1998 and 1999 before it became a member of the Group in November 2001. In anticipation of the possible acquisition of certain interest in Phoenix CNE Ltd. by the Group, the Company, prior to its listing on the GEM, applied and obtained the Waiver for a period of 3 years ending 30 June 2003 as these transactions would constitute continuing connected transactions under the GEM Listing Rules when Phoenix CNE Ltd. should become a member of the Group.

The Old Transponder Agreement was terminated upon the execution of the New Transponder Agreement. However, if the Condition is not satisfied within 2 months after 1 July 2002 or such later date to be agreed by the parties, the New Transponder Agreement shall terminate on the expiry of the said 2 months' period or such prolonged period as agreed and the Old Transponder Agreement will be revived upon such termination.

LETTER FROM ALPHA ALLIANCE

If the Condition is not satisfied on or before 30 August 2002 or such later date to be agreed by the parties, the New EPG Services Agreement shall terminate on 30th August 2002 or upon the expiry of such prolonged period as agreed.

Terms of the New Agreements

Under the New Agreements, BSkyB agreed:

- (a) to provide the satellite transponder capacity for 24 hours per day for a period of three years commencing from 1 July 2002, and Phoenix CNE Ltd. agreed to pay an annual service fee of US\$522,000 (approximately HK\$4,061,160) to BSkyB for the provision of such service;
- (b) to provide the uplinking and MPEG encoding services for 24-hour broadcast per day for a period of three years commencing from 1 July 2002, and Phoenix CNE Ltd. agreed to pay an annual service fee of US\$78,000 (approximately HK\$606,840) to BSkyB for the provision of such services; and
- (c) to provide the EPG Services for a period of three years from 30 August 2002, and Phoenix CNE Ltd. agreed to pay an annual service fee of £28,000 (approximately HK\$334,600) to BSkyB for the provision of such service.

Nature of the Ongoing Connected Transactions

The Directors have confirmed that the Company has depended on and will continue to depend on the BSkyB's provision of satellite transponder capacity, uplinking services to broadcast Phoenix CNE Channel in the United Kingdom of Great Britain and Northern Ireland, Eire, the Channel Islands and the Isle of Man (collectively the "Territory"); and that the Company has also relied on and will continue to rely on BSkyB's provision of MPEG encoding services and EPG Services to deliver the Company's programs to the direct to home viewers in the Territory.

According to the Directors, the services described above are in line with the normal business of the Company. We concur with the Directors' view in respect thereof. Please refer to the section headed "Letter from the Board" in the Circular for details of the background, reasons and benefits of the Continuing Connected Transactions.

Reasons for entering into the New Agreements

Under the arrangement in the Old Transponder Agreement, Phoenix CNE Channel was broadcasting 8 hours a day. To increase advertising time slot and provide non-stop services and more programming to its audience, Phoenix CNE Channel has extended broadcasting time to 24 hours a day from 1 July 2002. The extension of broadcasting time from 8 hours to 24 hours invariably increases the service fees payable to BSkyB. The entry of the New Transponder Agreement is to replace the Old Transponder Agreement. As the cap of the Waiver of HK\$3,200,000 was fixed on the basis of a lower level of usage, the annual fees payable to BSkyB under the New Transponder Agreement would exceed the said cap. The Old EPG Services Agreement will expire on 29 August 2002, the entering into of the New EPG Services Agreement is for the continuity of services. In addition, it is appropriate to enter into the New Transponder

LETTER FROM ALPHA ALLIANCE

Agreement and the New EPG Services Agreement with BSkyB at the same time. The New Agreements were negotiated on arm's length bases.

The extension of broadcasting time will increase advertising time slot and the provision of non-stop services and more programming will attract more viewers, which in turn, will increase the Company's revenue base.

The Directors believe that the terms of the New Agreements and the transactions contemplated therein have been entered into in the ordinary and usual course of the Company's business on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole. We concur with the Directors' view in respect thereof.

Basis of Our Opinion

Apart from the New Agreements, we have also reviewed, as provided by the Company certain quotations from two other service providers in Europe in relation to similar services provided by BSkyB.

Having considered the fact that, (i) the terms of the New Agreements, on an annual service fee basis, are comparable to services provided by third party service providers for similar services; (ii) the Directors consider that the New Agreements providing satellite transponder capacity, uplinking and MPEG encoding services and EPG Services for 24-hour broadcast are necessary for business expansion of the Group; (iii) the Directors consider that the terms of the New Agreements and the transactions contemplated therein are on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole; and (iv) the Directors have confirmed that the fees payable for the satellite transponder capacity, uplinking and MPEG encoding services and EPG Services are also reasonable compared to the market price, we consider that the terms of the New Agreements are fair and reasonable and are in the interest of the Shareholders (including the Independent Shareholders) and the Company as a whole.

Basis of the Annual Caps

The transactions arising from the New Agreements are expected to continue in the ordinary and usual course of business of the Company on a recurring basis subject to, amongst other conditions, the maximum aggregated annual amount of fees payable by Phoenix CNE Ltd. to BSkyB for the New Transponder Agreement and the New EPG Services Agreement will not exceed HK\$6,000,000 and HK\$600,000 respectively per annum for each of the three financial years ending 30 June 2005. Based on the various factors, amongst others, including the Company's past experience on existing services, the historical figures paid for the relevant transactions and the extension of broadcasting time, the Annual Caps have been determined with reference to the constant supply of satellite transponder capacity, uplinking and MPEG encoding services and EPG Services and a flexible supply (if necessary and subject to availability) of additional services related to the transmission of one or more feeds of Phoenix CNE Channel or other channels operated by the Group upon mutually agreed terms based on commercial decision and the possible fluctuations of exchange rates between HK\$ and US\$ and between HK\$ and £ respectively. We have reviewed the Company's computation bases of the Annual Caps and concur with the Directors' view in respect thereof. The Directors have confirmed that the fees to be charged for the additional services will be negotiated on arm's length bases and determined by reference to the market price.

LETTER FROM ALPHA ALLIANCE

Given that, (i) the aforesaid basis of the determination of the Annual Caps; (ii) the flexible supply of additional services related to the transmission of one or more feeds of Phoenix CNE Channel or other channels operated by the Group are considered to be beneficial to the Group by the Directors; and (iii) the Directors have confirmed that the fees to be charged for the additional services will be negotiated on arm's length bases and determined by reference to the market price, we consider that the Annual Caps are fair and reasonable.

Annual review of the Ongoing Connected Transactions

Assuming that the Independent Shareholders will approve, confirm and ratify the New Agreements, the transactions contemplated therein and the Annual Caps at the EGM, the Company will comply with the following:

- (1) the maximum amount payable by Phoenix CNE Ltd. to BskyB will not exceed HK\$6,000,000 and HK\$600,000 per annum for each of the three financial years ending 30 June 2005 in respect of the New Transponder Agreement and the New EPG Services Agreement respectively.
- (2) during the period of the New Agreements, the Company's independent non-executive directors will review the New Agreements annually and confirm in the Company's next and each successive annual report that the New Agreements:
 - a. have been entered into by Phoenix CNE Ltd. in the ordinary and usual course of its business and have been conducted in accordance with the terms thereof;
 - b. have been entered into on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favorable than terms available from independent third parties; and
 - c. have been entered into on terms that are fair and reasonable so far as the Shareholders and the Company are concerned.
- (3) the Auditors shall review the Continuing Connected Transactions annually and confirm in a letter to the Board, a copy of which shall be provided to the Listing Division of the Stock Exchange, stating whether:
 - a. the Continuing Connected Transactions have received the approval of the Board;
 - b. the Continuing Connected Transactions have been entered into in accordance with the terms of the New Agreements; and
 - c. the Annual Caps have not been exceeded.
- (4) the Company has undertaken to the Stock Exchange that, for so long as the Shares are listed on the GEM it will provide the Company's auditors with full access to its relevant records for the purpose of the Auditors' review of the Continuing Connected Transactions.

LETTER FROM ALPHA ALLIANCE

- (5) relevant details of the Continuing Connected Transactions will be disclosed in the annual reports of the Company in accordance with Rules 20.34(1) to (5) of the GEM Listing Rules.
- (6) the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the Auditors will not be able to confirm the matters with regard to Rules 20.27 and/or 20.28 of the GEM Listing Rules respectively and any other conditions imposed by the Stock Exchange. The Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions the Stock Exchange considers appropriate.
- (7) where the aggregate amount of the Continuing Connected Transactions exceeds the higher of HK\$10,000,000 or 3% of the net tangible assets of the Group, the Group will comply with Rule 20.30 of the GEM Listing Rules. In such event, the Continuing Connected Transactions and the Annual Caps will be subject to review and re-approval by the Independent Shareholders at the annual general meeting of the Company following the initial approval and at each subsequent annual general meeting so long as such transactions continue and the independent non-executive Directors will be required to opine in the annual report of the Company whether or not Phoenix CNE Ltd. should continue with the New Agreements.

Based on the above, we are of the view that the interest of the Independent Shareholders would be properly safeguarded.

RECOMMENDATION

We share the view of the Company that the extension of broadcasting time will increase advertising time slot and the provision of non-stop services and more programming will attract more viewers, which in turn, will increase the Company's revenue base.

Having taken into consideration the above principal factors and reasons, we consider that the terms of the New Agreements, the transactions contemplated therein and the Annual Caps are fair and reasonable, and the terms of the New Agreements are in the interests of the Shareholders (including the Independent Shareholders) and the Company as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the New Agreements, the Continuing Connected Transactions and the Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Alpha Alliance Securities Limited
Meocre Li
Chief Executive

The following is a summary of the principal terms of the Proposed Amendments, which are intended to reflect the recent amendments to Chapter 23 of the GEM Listing Rules.

1. PURPOSE OF THE SHARE OPTION SCHEME

Rule 23.03(1) of the GEM Listing Rules requires the purpose of the scheme to be stated in the scheme documentation. The purpose of the Share Option Scheme, which is to retain and provide incentive to the employees of the Group to achieve its business objectives, will be added.

2. PERFORMANCE TARGET

Rule 23.03(7) of the GEM Listing Rules requires the performance targets to be stated in the scheme documentation. A negative statement to the effect that there is no requirement for performance targets to be achieved before the options can be exercised will be added.

3. GRANT OF OPTION AND ADMINISTRATION

Rule 23.05 of the GEM Listing Rules provides specific restrictions on the time when options cannot be granted under a scheme. Amendment will be made to the effect that no offer of the grant of any option shall be made under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of: (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with Rule 17.48 of the GEM Listing Rule) for the approval of the Company's results for any year, half-year or quarter-year period; and (2) the deadline for the Company to publish announcement of its results for any year, half-year or quarter-year period under Rule 18.49 or 18.53 of the GEM Listing Rule, and ending on the date of the results announcement, no option may be granted.

4. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

Rule 23.03(3) of the GEM Listing Rules contains detailed provisions regarding maximum number of shares available for subscription under any scheme. The Share Option Scheme will be amended as follows:

- a. The total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% (or such higher percentage as may be allowed under the GEM Listing Rules) of the issued share capital of the Company in issue as at the Adoption Date unless Shareholders' approval has been obtained pursuant to item b below. The Company may seek approval by Shareholders in general meeting to refresh such limit.

- b. The Company may seek separate Shareholders' approval in general meeting to grant options beyond the limit as referred to in item a above provided that (i) the total number of Shares subject to the Share Option Scheme and any other schemes does not in aggregate exceed 30% of the total issued share capital of the Company from time to time and (ii) the options in excess of the said limit are granted only to participants specified by the Company before such approval is sought.
- c. A new clause will be added as follows:

Unless approved by Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person (as defined in the Share Option Scheme) (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the Shares of the Company in issue. Where any further grant of options to an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Eligible Person and his Associates abstaining from voting.

5. DISCLOSURE REQUIREMENTS

Rules 23.07, 23.08 and 23.09 of the GEM Listing Rules contain detailed provisions regarding the disclosure requirements in relation to the share option schemes and grant of options of a listed issuer, the Share Option Scheme will be amended to the effect that the Company shall comply with the disclosure requirements in the GEM Listing Rules regarding the Share Option Scheme.

Other than the above, changes will be made to the Share Option Scheme in respect of the renumbering of clauses and changes in cross-references as a result of the insertion of additional clauses therein.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (2) there are no other matters the omission of which would make any statement in this circular misleading; and
- (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF DIRECTOR'S INTERESTS

2.1 Interests in securities

As at the Latest Practicable Date, the interests of the each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which (a) were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he was taken or deemed to have under section 31 or Part I of the Schedule to the SDI Ordinance); or (b) were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

(1) *Ordinary shares*

Name	Type of interest	Number of ordinary shares
LIU, Changle*	Corporate interests	1,854,000,000

* 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 the Latest Practical Date.

(2) *Share options*

As at the Latest Practical Date, the Company had granted share options under the Pre-IPO Share Option Scheme to the following Directors 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	14 June 2000	1.08
CHUI, Keung *	3,990,000	14 June 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 the Latest Practical Date. Save as disclosed herein, as at the Latest Practical Date, none of the Directors or chief executive 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.

2.2 Interests in service contracts

Each of the Executive Directors has entered into a service agreement with the Company. Each service agreement is for a term of three years commencing from 30 June 2000, being the day on which the Shares were first admitted for trading on GEM, which will continue thereafter. Each service agreement can be terminated by either party giving to the other not less than three months' written notice.

Save as disclosed herein, none of the Directors has any existing or proposed service contracts with the Group, excluding contracts expiring or terminable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

2.3 Interests in assets

Save as disclosed in the Prospectus and the 2000/2001 Annual Report of the Company, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2001, the date to which the latest published audited financial statements were made up.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the existing issued share capital of the Company:

Name of shareholders	Number of Shares	Percentage of shareholding
STAR Holdings (<i>Note 1</i>)	1,854,000,000	37.6%
Today's Asia Limited (<i>Note 2</i>)	1,854,000,000	37.6%

Notes:

- (1) STAR Holdings is a wholly-owned subsidiary of STAR Group Limited. News Cayman Holdings Limited holds 100% of the ordinary voting shares of STAR Group Limited. News Publishers Investments Pty, Limited hold 100% of the ordinary voting shares of News Cayman Holdings Limited. News Publishers Investments Pty, Limited is a wholly-owned subsidiary of STAR US Holdings Subsidiary, LLC, which in turn is a wholly-owned subsidiary of STAR US Holdings, Inc. STAR US Holdings, Inc is a wholly-owned subsidiary of News Publishing Australia, Ltd, which in turn is owned approximately 91.7% by News Corporation. The remaining interests in News Publishing Australia, Ltd, are held by companies which are ultimately owned by News Corporation .

By Virtue of the SDI Ordinance, News Corporation, News Publishing Australia, Ltd, STAR US Holdings, Inc, STAR US Holdings Subsidiary, LLC, News Publishers Investments Pty, Limited, News Cayman Holdings Limited, STAR Group Limited are all deemed to be interested in the 1,854,000,000 shares held by STAR Holdings.

- (2) Today's Asia Limited is beneficially owned by Mr. LIU, Changle and Mr. CHAN, Wing Kee as to 93.3% and 6.7% respectively.

Save as disclosed herein, the Directors are not aware of any person as at the Latest Practicable Date was interested, directly and indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Group since 30 June 2001, the date to which the latest audited financial statements of the Group were made up.

5. EXPERT

- (a) Alpha Alliance, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong).
- (b) Alpha Alliance has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and reference to its name and letter in the form and context in which it appears.

6. COMPETING INTERESTS

Today's Asia Limited, STAR Holdings and China Wise International Limited have interest in approximately 37.6%, 37.6% and 8.4% of the share capital of the Company respectively. Today's Asia Limited, together with its shareholders, Mr. LIU, Changle and CHAN, Wing Kee, STAR Holdings and China Wise International Limited are deemed to be the initial management shareholders of the Company as defined under the GEM Listing Rules.

STAR Holdings, together with its ultimate parent company, 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. Currently, STAR Group Limited, the holding company of STAR Holdings, owns and operates multimedia digital platforms, including satellite television, in the Asia Pacific region. STAR Group Limited and its subsidiaries (including STAR Holdings) 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 announced on 19 December 2001 that it was granted landing rights for a new 24-hour Mandarin language general entertainment channel in southern China by virtue of an agreement signed among STAR (China) Limited (STAR Group Limited's wholly-owned subsidiary), China International Television Corporation, Guangdong Cable TV Networks Co. Ltd. and Fox Cable Networks Services, L.L.C., an affiliate of STAR Group Limited.

Mr. LIU, Changle and Mr. CHAN Wing Kee beneficially own 93.3% and 6.7% interests respectively in Today's Asia Limited, which holds 100% of Vital Media Holdings Limited. Vital Media Holdings Limited holds 100% interest in Dragon Viceroy Limited, which in turn holds 46% interest in 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 People's Republic of China.

7. MISCELLANEOUS

- (a) As at the Latest Practicable Date, Alpha Alliance has no shareholding in any member of the Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Alpha Alliance does not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2001, the date to which the latest published audited financial statements were made up.

- (c) Save as disclosed, none of the Directors is materially interested in any contracts or arrangements subsisting at the date of this circular which are significant in relation to the business of the Group.

8. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours up to and including 6 August 2002 at the principal place of business of the Company at 9/F, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong:

- (1) all the service agreements as referred to in paragraph 2.2 of this Appendix headed “Interests in service contracts”;
- (2) the New Transponder Agreement;
- (3) the New EPG Services Agreement;
- (4) the letter from Alpha Alliance to the Independent Board Committee in relation to the transactions as set out on pages 16 to 21 of this circular;
- (5) the written consent of Alpha Alliance as referred to in paragraph 5 of this Appendix;
- (6) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular; and
- (7) the Share Option Scheme incorporating the Proposed Amendments.



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Phoenix Satellite Television Holdings Limited (the “Company”) will be held at 10/F, One Harbourfront, 18-22 Tak Fung Street, Hungghom, Kowloon, Hong Kong on 6th August 2002 at 3:00 p.m. for the following purposes:

1. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

“**THAT** the New Transponder Agreement (as defined in the circular to the shareholders of the Company dated 17 July 2002 (the “Circular”)), a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification, details of which are set out in the Circular and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and any director of the Company (the “Director”) be and is hereby authorized to take such action, do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing such agreement.”

2. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

“**THAT** the New EPG Services Agreement (as defined in the Circular), a copy of which has been produced to this meeting marked “B” and signed by the Chairman of this meeting for the purpose of identification, details of which are set out in the Circular and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and any Director be and is hereby authorized to take such action, do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing such agreement.”

3. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

“**THAT** the Annual Caps (as defined in the Circular) be and are hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

“**THAT** the Share Option Scheme (as defined in the Circular) be and is hereby amended as follows:

- a. The definition of “Committee” in clause 1.1 be deleted in its entirety and be replaced by the following:

“Committee” the committee of Directors established pursuant to Clause 3.5.”

- b. Clauses 3.1, 3.2, 3.3 and 3.4 be re-numbered as clauses 3.3, 3.4, 3.5 and 3.6 respectively.

- c. The addition of a new clause 3.1 as follows:

“3.1 The purpose of the Scheme is to retain and provide incentive to the employees of the Group to achieve its business objectives.”

- d. The addition of a new clause 3.2 as follows:

“3.2 Unless otherwise stated, there is no requirement for performance targets to be achieved before the Options can be exercised.”

- e. Clause 3.6 be deleted in its entirety and be replaced by the following:

“3.6 No offer of the grant of any Option shall be made under the Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of: (1) the date of the board meeting (as such date is first notified to the Exchange in accordance with Rule 17.48 of Listing Rules) for the approval of the Company’s results for any year, half-year or quarter-year period; and (2) the deadline for the Company to publish announcement of its results for any year, half-year or quarter-year period under Rule 18.49 or 18.53 of the Listing Rules, and ending on the date of the results announcement, no Option may be granted.”

- f. Clause 4.1 be deleted in its entirety and be replaced by the following:

“4.1 The total number of Shares available for issue under options which may be granted under the Scheme and any other schemes must not in aggregate exceed 10% (or such higher percentage as may be allowed under the Listing Rules) of the issued share capital of the Company in issue as at the Adoption Date unless Shareholders’ approval has been obtained pursuant to Clause 4.2 below. The Company may seek approval by Shareholders in general meeting to refresh such limit.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

g. Clause 4.2 be deleted in its entirety and be replaced by the following:

“4.2 The Company may seek separate Shareholders’ approval in general meeting to grant Options beyond the limit as referred to in Clause 4.1 provided that (i) the total number of Shares subject to the Scheme and any other schemes does not in aggregate exceed 30% of the total issued share capital of the Company from time to time and (ii) the Options in excess of the said limit are granted only to participants specified by the Company before such approval is sought.”

h. The addition of a new clause 4.5 as follows:

“4.5 Unless approved by Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the Shares of the Company in issue. Where any further grant of options to an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Eligible Person and his Associates abstaining from voting.”

i. Clause 11.10 be deleted in its entirety and be replaced by the following:

“11.10 The Company shall comply with the disclosure requirements in the Listing Rules regarding the Scheme.” ”

5. to consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

“**THAT** subject to the passing of Ordinary Resolution No. 4(f) set out in the notice convening this meeting, the total number of shares of the Company (the “Shares”) be allotted and issued pursuant to the grant or exercise of any options under the Share Option Scheme (as amended in Resolution No. 4 set out in the notice convening this meeting) and any other schemes of the Company (excluding options previously granted, outstanding, cancelled and lapsed) be and is hereby subject to a maximum limit equal to 10 per cent of the Shares in issue on the date of passing of this resolution (“10 per cent limit”) and that the Directors be and are hereby unconditionally authorized to grant options to subscribe for Shares up to the 10 per cent limit and to exercise all the powers of the Company to allot, issue and deal with Shares pursuant to the exercise of such options.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

6. to consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

“**THAT** Messrs. PricewaterhouseCoopers, be and they are hereby appointed as auditors of the Company to fill the vacancy occasioned by the resignation of Messrs. Arthur Andersen & Co and to hold office until the conclusion of the next annual general meeting of the Company at a fee to be determined by the Directors.”

By Order of the Board
Yeung Ka Keung
Company Secretary

Hong Kong, 17 July 2002

Notes:

- (1) A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint one or more proxies to attend and on a poll vote on his behalf. A proxy need not be a member of the Company but must attend the meeting in person.
- (2) In order to be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, is requested to be deposited at the Company's principal place of business in Hong Kong at 9/F, One Harbourfront, 18-22 Tak Fung Street, Hunghom, Kowloon, Hong Kong, in accordance with the instructions printed thereon by not later than 48 hours before the time of the meeting or any adjournment thereof, whether or not they intend to be present at the meeting. The completion and returning of the form of proxy will not preclude the Shareholders from attending and voting in person should they so wish.