



鳳凰衛視

Phoenix Satellite Television Holdings Limited

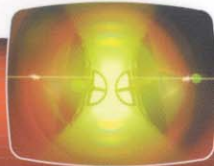
鳳凰衛視控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Placing and Public Offer



INNOVATION GLOBAL TECHNOLOGY MULTIMEDIA ENTERTAINMENT



Joint Global Coordinators, Bookrunners, Sponsors and Lead Managers



BOCI ASIA LIMITED



Merrill Lynch

Merrill Lynch Far East Limited

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.



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**Listing on the Growth Enterprise Market
of The Stock Exchange of Hong Kong Limited**

Placing and Public Offer

Number of Shares	: 727,060,000 Shares
under the Share Offer	(subject to Over-allotment Option)
Number of Placing Shares	: 654,354,000 Shares
	(subject to adjustment)
Number of Public Offer Shares	: 72,706,000 Shares
	(subject to adjustment)
Offer Price	: not more than HK\$1.29 per Offer Share,
	payable in full on application
	(subject to refund)
Price Determination Date	: 26th June, 2000
Nominal value	: HK\$0.10 each
Stock code	: 8002

Joint Global Coordinators, Bookrunners, Sponsors and Lead Managers



BOCI ASIA LIMITED



Merrill Lynch
Merrill Lynch Far East Limited

Co-Lead Managers

BNP Prime Peregrine
CLSA Emerging Markets

HSBC Investment Bank Asia Limited
ICEA Capital Limited

ING Barings

Co-Managers

Cazenove Asia Limited
China International Capital Corporation
(Hong Kong) Limited
DBS Asia Capital Limited
Platinum Securities Company Limited

CEF Capital Limited
Core Pacific-Yamaichi International (H.K.) Limited
First Shanghai Capital Limited
Tai Fook Securities Company Limited
Worldsec Corporate Finance Limited

The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Sponsors (on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date will not be later than 26th June, 2000. Currently, it is expected that the Offer Price per Offer Share will be not less than HK\$0.91. The Joint Sponsors (on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus (which is HK\$0.91 to HK\$1.29 per Share) at any time prior to the Price Determination Date. In such a case, notices of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English), the Hong Kong Economic Journal (in Chinese), the Hong Kong Economic Times (in Chinese) and the GEM Internet website (in English and Chinese) not later than the day which is the latest day for lodging applications under the Public Offer. Applicants should note that in the event a lower price is agreed, applications submitted prior to such determination cannot subsequently be withdrawn. Further details are set out in the sections "Structure of the Share Offer" and "How to apply for Public Offer Shares".

The Public Offer Underwriting Agreement and the Placing Underwriting Agreement were entered into on 20th June, 2000 and, subject to the aforementioned agreement on the Offer Price, The Public Offer Underwriting Agreement and the Placing Underwriting Agreement are inter-conditional upon each other. If, for any reason, the Offer Price is not agreed between the Company and the Joint Sponsors (on behalf of the Underwriters), the Share Offer will not proceed.

21st June, 2000

IMPORTANT

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited:

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 of 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 at www.hkgem.com in order to obtain up-to-date information of GEM-listed issuers.

EXPECTED TIMETABLE

2000

Application lists open (<i>Note 1</i>)	11:45 a.m. on 26th June
Latest time for lodging WHITE and YELLOW application forms	12:00 noon on 26th June
Application lists close	12:00 noon on 26th June
Price Determination Date	26th June
Announcement of the Offer Price, the level of indication of interest in the Placing, the results of applications in respect of the Public Offer and basis of allotment of the Public Offer (with successful applicants' identification document number) to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Economic Journal (in Chinese) and the GEM Internet website at www.hkgem.com	29th June
Refund cheques to be posted on or before	29th June
Share certificates to be posted on or before (<i>Note 2</i>)	29th June
Dealings in Shares on GEM to commence on	30th June

Notes:

1. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. to 12:00 noon on 26th June, 2000, the application lists will not open on that day. See the section headed "How to apply for Public Offer Shares — Effect of bad weather on the opening of the application lists" in this prospectus.
2. If you are using a WHITE application form and have indicated on your application form that you will collect your share certificates and refund cheque (if any), you may collect them in person from the Company's Hong Kong branch share registrar, HKSCC Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong between 9:00 a.m. and 1:00 p.m. on 29th June, 2000 or on the date notified by the Company in the newspapers and the GEM Internet website as the date of despatch of share certificates and refund cheque. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to HKSCC Registrars Limited. If you have opted for personal collection but do not collect your share certificates and refund cheque (if any) by 1:00 p.m. on 29th June, 2000, they will be sent to the address on your application form in the afternoon on the date of despatch, by ordinary post and at your own risk. If you have not indicated on your application form that you will collect your share certificates and refund cheque (if any) in person, then your share certificates and refund cheques (if any) will be sent to the address on your application form on the date of despatch, by ordinary post at your own risk.

For details of the structure of the Share Offer, including conditions thereto, see the section headed "Structure of the Share Offer" in this prospectus.

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You should rely only on the information contained in this prospectus and the application forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Joint Sponsors, the Underwriters, the directors of any of them, or any other parties involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There is greater risk associated with investment in companies listed on GEM than companies listed on the Main Board of the Stock Exchange of Hong Kong. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

INTRODUCTION

Phoenix is the leading foreign satellite television operator broadcasting into China, which is the largest television market in the world with approximately 305 million television households. Phoenix owns and operates the un-encrypted Phoenix Chinese Channel and the encrypted Phoenix Movies Channel, which were launched on 31st March, 1996, and 28th August, 1998, respectively. As of September 1999, approximately 42 million households in the PRC, or approximately 13% of all Chinese television households, were able to receive and view the Phoenix Chinese Channel, according to a survey conducted by China Mainland Marketing Research Company commissioned by Phoenix. The Directors believe that the Phoenix Chinese Channel is currently the most widely watched foreign television channel in China. The Phoenix Movies Channel is a movie channel targeted, at present, exclusively at audiences in China. There were approximately 2,300 entities subscribing to the Phoenix Movies Channel as of 31st December, 1999. The Directors believe that the Phoenix Movies Channel has more subscribers than any other encrypted foreign television channel in China.

Outside China, by utilising the ASIASAT 3S satellite, the Phoenix Chinese Channel can be received in an area that includes Hong Kong, Taiwan, Japan, Southeast Asia, Australia and the Middle East. In August 1999, Phoenix began participating in the operation of the CNE Channel which was subsequently re-named as the Phoenix CNE Channel, which broadcasts Chinese language programmes to 25 countries in Europe, intending to serve Chinese speaking communities in such countries.

PRINCIPAL ACTIVITIES OF PHOENIX

The principal activities of Phoenix consist of acquiring and producing Chinese language television programmes and broadcasting them via the ASIASAT 3S satellite to audiences in the Asia Pacific region, with China as the primary target market, and via the ASTRA 2A satellite to audiences in Europe. Currently, Phoenix owns and operates two channels: namely the Phoenix Chinese Channel and the Phoenix Movies Channel and participates in the operation of the Phoenix CNE Channel.

Phoenix Chinese Channel

The Phoenix Chinese Channel is operated by the Company's wholly-owned subsidiary, Phoenix Satellite Television (Chinese Channel) Limited. The Phoenix Chinese Channel was launched on 31st March, 1996. It is an un-encrypted television channel broadcasting 24 hours daily. The Phoenix Chinese Channel currently broadcasts into the PRC, Hong Kong, Taiwan, Japan, Southeast Asia, Australia and the Middle East via the ASIASAT 3S satellite. The main target audiences of the Phoenix Chinese Channel are the urban residents, the relatively higher income earners and well educated

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groups in the PRC. Since its launch date, the number of household viewers in the PRC that can receive and view the Phoenix Chinese Channel has increased to approximately 42 million households in September 1999. The Phoenix Chinese Channel broadcasts a wide range of programmes, including news, entertainment, lifestyle and documentaries. Some of these programmes have become very popular in the PRC.

The Phoenix Chinese Channel contributes most of the income of Phoenix through its advertising revenues. Advertising revenues of the Phoenix Chinese Channel accounted for approximately 98%, 96% and 95% of Phoenix's total revenues for each of the two financial years ended 30th June, 1998 and 1999, and the six months ended 31st December, 1999, respectively.

Phoenix Movies Channel

The Phoenix Movies Channel is operated by the Company's wholly-owned subsidiary, Phoenix Satellite Television (Movies) Limited. The Phoenix Movies Channel was launched on 28th August, 1998. It is an encrypted pay-television channel, broadcasting movies and related programmes 24 hours daily. The Phoenix Movies Channel currently broadcasts to audiences in the PRC via the ASIASEAT 3S satellite and is offered for subscription in the PRC. The number of subscribing entities has increased to approximately 2,300 as of December 1999. The subscribing entities are mainly hotels and other authorised institutions and entities. There are subscribers in every province, autonomous region and municipality under the direct administration of the PRC Central Government. All of the motion pictures broadcast on the Phoenix Movies Channel are sourced externally and are dubbed in Mandarin or with Chinese sub-titles.

The Phoenix Movies Channel generates revenues from annual subscription fees and other sources of income such as sales of decoders. The revenue of the Phoenix Movies Channel accounted for approximately 4% of Phoenix's total revenue for the financial year ended 30th June, 1999, and the six months ended 31st December, 1999, respectively.

Under current PRC regulations, only CITV is authorised to import decoders in the PRC, which can be distributed in China through organizations approved by provincial government departments in charge of the radio and television industry. The Phoenix Movies Channel is currently the only foreign Chinese language movie channel distributed by CITV.

Phoenix CNE Channel

Phoenix, through its wholly-owned subsidiary, Phoenix Satellite Television (Europe) Limited, entered into a conditional acquisition agreement with an independent third party representing the shareholders of Techvast Limited, pursuant to which it was envisaged that Phoenix Satellite Television (Europe) Limited and Techvast Limited would ultimately subscribe for 70% and 30%, respectively, of the share capital of PCNE Holdings Limited, a newly established company, which would acquire all the assets, business and properties necessary for the operations of the Phoenix CNE Channel from Phoenix Chinese News and Entertainment Limited. Currently, the Phoenix CNE Channel is operated by Phoenix Chinese News and Entertainment Limited. The parties are in the process of finalising negotiations and settling the legal documentation required for this transaction. The Directors believe that the acquisition may not be completed prior to the completion of the Share Offer. Although the documentation has not yet been completed, Phoenix has since August 1999 been funding and participating in the operation of the Phoenix CNE Channel.

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The Phoenix CNE Channel is still in its development stage and currently broadcasts six hours daily. The Phoenix CNE Channel broadcasts via the ASTRA 2A satellite and can be received in 25 countries in Europe, including the United Kingdom, France, Germany, Austria and Spain. The target audience of the Phoenix CNE Channel is the overseas Chinese speaking community in Europe. It broadcasts a wide range of Chinese programmes including news, entertainment, current affairs and documentaries.

COMPETITIVE STRENGTHS

From its home base in Hong Kong and drawing on its shareholders' strengths, Phoenix is uniquely positioned to provide a variety of high quality, market-driven television news and entertainment programmes that are not otherwise consistently available to the general television audience in the PRC. As a satellite television broadcaster, Phoenix can also provide programmes to the large and still growing Chinese-speaking communities outside the PRC. The Directors believe that the strengths of Phoenix are:

Diverse, comprehensive and entertaining programmes. The launch of the Phoenix Chinese Channel fulfils a growing market need in China for more diverse, comprehensive and entertaining television programmes. Because of the lack of sophistication as well as institutional and ideological constraints, PRC television broadcasters have not been able to fully meet such needs. In contrast, as a Hong Kong-based satellite television broadcaster, Phoenix is not subject to the same constraints. Phoenix also has a broader and more immediate access to programme sources from all over the world. Phoenix has capitalised on these advantages effectively. Its programmes include news, entertainment, lifestyle, in-depth reports, coverage of live events, documentaries and talk shows. The Directors believe that such programmes are of high quality, are highly informative and entertaining and thus have a broad appeal in the PRC. In addition, by employing sophisticated western programme packaging techniques and effective promotion efforts (including promotion of its own television personalities), Phoenix has quickly established a recognised channel image and style that is unique in the PRC television market.

Flexibility in programming and marketing. Phoenix can quickly fine-tune its programmes and advertising to adjust to the tastes of its various target audiences. This "bottom-up" consumer-focused approach contrasts with the "top-down" government-directed approach of the typical PRC television broadcasters, which lack the flexibility required to service advertising clients effectively. Phoenix's marketing of its services is likewise more flexible and effective than that of the PRC domestic television broadcasters.

High level of public awareness and recognition. The name of Phoenix is widely recognised in China. According to surveys conducted by the Gallup Organisation published in the *Fortune* magazine in October 1999, approximately 36% of those surveyed recognised the Phoenix name, making it as well-known as the names of McDonald's and General Motors in China. The Directors believe that the achievement of such a high level of name recognition, with only 13% of the television households receiving Phoenix broadcasts, suggests that there is a significant potential for increasing market penetration and advertising revenue. Furthermore, Phoenix plans to capitalise on such brand recognition by launching additional channels and by developing other distribution media such as the Internet.

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Utilisation of technologically advanced satellite television and multimedia delivery. Since its establishment, Phoenix has recognised the importance of being at the forefront of technological development in the television and entertainment industry. By incorporating the technological infrastructure for providing satellite television, Phoenix is well positioned to expand its services into pay television through direct-to-home and other broadband delivery methods. The Directors believe that this technological positioning distinguishes Phoenix from the domestic television broadcasters in China.

Strength of shareholders. Immediately before the Share Offer, the Company has three shareholders: Star TV Holdings, Today's Asia and China Wise. Star TV Holdings is a wholly-owned subsidiary of News Corporation, an internationally recognised multimedia company engaged in the production and distribution of motion pictures and television programming, satellite and cable broadcasting as well as the publishing industry. Today's Asia is a company that is owned and controlled as to 93.3% by Mr. LIU, Changle, Chairman of the Board. Mr. LIU, Changle has extensive experience and in-depth knowledge of the media industry and has been engaged in such business in the PRC for more than 10 years. China Wise is beneficially owned by Bank of China, which is headquartered in Beijing and is one of the largest financial institutions in China with an aggregate asset value of approximately RMB2,900 billion (US\$347 billion) as at 31st December, 1999. This shareholder group combines world class media content and expertise with strong and in-depth local knowledge and therefore represents a solid foundation for the future growth of Phoenix's business.

Strength of management and television personalities. Based in Hong Kong, Phoenix has been able to recruit and retain high quality management, production, technical, sales and marketing executives who have in-depth knowledge of and expertise in the television and entertainment industry. Leveraging the experience of the Star TV Group in managing television business, Phoenix adopts modern and creative techniques in managing its business. Phoenix has also been able to attract television personalities from outside China, some of whom have become popular household names in China.

BUSINESS STRATEGY

Leveraging its position as the leading foreign satellite television operator broadcasting into China, Phoenix intends to expand its penetration into PRC television households, increase television advertising revenue and develop new sources of revenue. The Directors anticipate that the Chinese television industry will be further liberalised over time, which will facilitate the development of additional revenue sources (such as higher subscription fees for cable television and pay-per-view programmes) and new programme delivery technologies, including through the Internet. Phoenix's goals are to:

Strengthen existing channel operations. Phoenix intends to continue to broadcast a variety of high quality television programmes that cater to diverse viewer groups. It also plans to continue to optimise programme scheduling so as to be more attuned to viewer habits and increase viewer retention. In addition, Phoenix intends to produce more programmes in-house to better fulfil its audience's demands. As regards advertising, Phoenix plans to increase the prime time advertising rates on the Phoenix Chinese Channel, which has experienced significant

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growth in demand for advertising time due to the channel's growing popularity. Phoenix also plans to produce more attractive programming for non-prime time slots on the Phoenix Chinese Channel in order to attract more advertisements during non-prime time hours.

Launch new channels. Phoenix intends to launch new channels that appeal to different segments of the television viewing market. Phoenix intends to launch the InfoNews Channel in the second half of 2000, which will focus on business and financial news reporting and commentaries, the North America Channel and the Cantonese Channel. Other channel themes which Phoenix is exploring include music, sports, lifestyle and humour. By launching more channels that can share a common central cost base and utilise resources more efficiently, Phoenix expects to create more advertising time slots and thus generate more advertising revenue with relatively low marginal costs.

Develop pay-television. Phoenix launched the Phoenix Movies Channel in order to be at the forefront of the development of the pay-television industry in China. Phoenix believes that it possesses the essential elements in developing a viable pay-television business, namely a multiple-channel broadcast platform, a solid audience base and a good distribution network. Phoenix has already launched its first subscription based channel, the Phoenix Movies Channel, and a multiple-channel platform is being created. Phoenix has a sizeable audience base and its advertising sales network through Shenzhou and Star TV serves as a solid base for future pay-television operations. In the long run, Phoenix intends to develop pay-television business in different formats, including cable television, broadband delivery and direct-to-home television broadcasting when such broadcasting is permitted under PRC laws and regulations. Phoenix is currently in contact with certain cable television stations in Guangdong, PRC concerning the launch of encrypted channels on their networks and sharing their subscription revenue.

Pursue high growth media content distribution businesses. Phoenix intends to actively pursue high growth content distribution businesses such as the Internet, broadband access and direct-to-home television. Phoenix is currently planning the development of a comprehensive Chinese language Internet portal. The portal will incorporate Phoenix's unique and extensive Chinese-language content in news, sports, music and entertainment and is intended to offer a variety of services complementary to Phoenix's television business.

Become a dominant Chinese content provider. Phoenix plans to increase the volume of self-produced television programmes, thereby establishing, over time, its own library of high quality, market-driven Chinese-language media content. This library will represent an additional revenue source, since it can be licensed to other television, Internet and media operators, potentially generating additional revenue for Phoenix. In particular, Phoenix intends to position itself as a dominant content provider of Chinese television programmes distributed by satellite, cable redistribution, and broadband Internet services, and to reach the Chinese speaking communities around the world.

STATEMENT OF BUSINESS OBJECTIVES

I. Business Objective

Phoenix aims to become a dominant content provider of Chinese television programming distributed via satellite, cable redistribution and Internet targeting the Greater China area and Chinese speaking communities around the world.

II. Future Plans and Prospects

To further enhance its satellite television business, Phoenix intends to launch the InfoNews Channel, the North America Channel and the Cantonese Channel in the next two years. In order to develop more tailor-made television programmes to be broadcast on the new channels as well as the Phoenix Chinese Channel, Phoenix intends to further develop its programme production capabilities and establish a production centre. To implement its Internet strategy, Phoenix intends to develop its existing website into a vertical portal that will capitalise on the synergies between Phoenix's television content and the Internet user communities.

Channel Development

Phoenix will strengthen its television business by establishing new channels, producing more programmes for Phoenix through a new production centre and publishing the *Phoenix Weekly*.

- *New channels*

Phoenix intends to set up new channels including the InfoNews Channel focusing on news and documentaries and the Cantonese Channel providing Cantonese programmes. In addition, Phoenix intends to target the significant Chinese speaking communities in North America by launching the North America Channel, which will broadcast Chinese programmes on one of the direct-to-home platforms in the United States.

- *New production centre and more programme sources*

Phoenix intends to set up a new programme production centre in Shenzhen, the PRC. A joint venture, Phoenix Film, has been set up to provide services and to operate the production centre upon its establishment. Phoenix holds 60% interest in such joint venture company, with the remaining interest held by independent third parties. It also intends to acquire more movies from independent third parties for the Phoenix Movies Channel.

- *Phoenix Weekly*

Phoenix intends to publish a magazine to be named the *Phoenix Weekly* to cover the television programmes and personalities on its channels. It intends to form partnerships with distributors in the PRC for the marketing and distribution of the *Phoenix Weekly*.

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Internet Strategy

Leveraging its unique and extensive Chinese-language content in news, current affairs, sports and entertainment, Phoenix intends to build an “infotainment” vertical portal aiming to capitalise on the synergies between Phoenix’s television content and the Internet user communities. The Directors believe that Phoenix is uniquely positioned to develop a successful Internet business targeting Chinese users because of its content origination capabilities, well-established brand name in China, access to advertisers and strong management team.

Phoenix’s portal intends to initially target the PRC market, and then to explore other Chinese speaking communities around the world in the long run. Phoenix believes that as technology further advances and broadband access becomes more prevalent, convergence of the traditional television business and the Internet is inevitable. Thus, in the long term, Phoenix will seek to combine television and Internet content in an interactive setting. If and when the regulations in the PRC permit, Phoenix intends to enter into partnerships with cable operators and/or other broadband access providers to develop interactive media.

Phoenix believes that its Internet business is a natural extension of its existing core satellite television business and its newly launched magazine business. Phoenix’s satellite television, magazine and Internet businesses complement one another because of their synergies and cross promotion opportunities, which makes Phoenix a unique portal among its competitors and should position Phoenix as an integrated multi-media content provider in the future.

III. Implementation Schedule

Business Plan for the Latest Practicable Date – December 2000

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Prepare and launch the InfoNews Channel ● Increase production of programmes for the Phoenix Chinese Channel through additional production support from China ● Acquire more third-party movies for the Phoenix Movies Channel ● Prepare for the establishment of a production centre in Shenzhen, the PRC ● Prepare and launch the North America Channel ● Begin publication of the Phoenix Weekly and form partnerships with other companies for its distribution 	<ul style="list-style-type: none"> ● Complete corporate organisation ● Improve on the Phoenix Website to build an “infotainment” vertical portal linking all relevant Phoenix television and magazine content and personalities with the Internet community ● Leverage on Phoenix’s brand name to promote the Phoenix portal ● Develop online fulfilment e-commerce platform

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	Channel Development	Internet Strategy
Implementation	<ul style="list-style-type: none"> ● Locate suitable technical support services for the broadcasting of the new channels ● Expand operation team for the InfoNews Channel ● Set up a preparation team for the production centre in Shenzhen, PRC for site development and recruitment ● Formulate the development plan for the production centre in Shenzhen, PRC ● Enter into co-operation arrangements with local network operators in the United States of America for the North America Channel ● Expand the operation team for the North America Channel ● Expand editorial, sales and distribution teams for its magazine business 	<ul style="list-style-type: none"> ● Cross promotion between the Phoenix Website, television channels and magazine ● Establish strategic partnerships (both content providers and technical partners) to enhance contents and portal features ● Expand the Internet content production team for graphic design, editorial, content research and archiving ● Expand the technical team for Internet content database, viewer database, portal infrastructure and system integration ● Generate advertising revenue through existing advertising customers

SUMMARY

Business Plan for January – June 2001

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Establish alliance with content providers for the InfoNews Channel ● Increase broadcasting hours of the Phoenix CNE Channel ● Subject to obtaining the relevant regulatory approval, begin construction of the production centre in Shenzhen, PRC ● Conduct feasibility study and prepare development plan for Cantonese broadcasting capabilities and begin preparation for the launch of the Cantonese Channel 	<ul style="list-style-type: none"> ● Identify loyal sub-communities to facilitate e-commerce opportunities ● Explore new services that strengthen the tie between Phoenix television and its Internet communities ● Expand content and feature ● Complete initial trial for broadband platform
Implementation	<ul style="list-style-type: none"> ● Establish correspondence stations in key cities for the InfoNews Channel for better news and information collection ● Expand the provision of ancillary programme production services at the production centre in Shenzhen, PRC ● Train and develop hosts for the InfoNews Channel 	<ul style="list-style-type: none"> ● Continue to source and establish strategic partnerships with both content providers and technological partners ● Enhance community and personalisation features ● Provide target customers advertising opportunity to create higher advertising revenue ● Further develop e-commerce platform to expand revenue base, including content sales

SUMMARY

Business Plan for July – December 2001

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Continue to strengthen coverage and content for the InfoNews Channel ● Increase production hours to enhance the programming for the Phoenix Chinese Channel ● Explore the feasibility of and prepare for the launch of the Cantonese Channel ● Expand penetration of the North America Channel through alternative delivery medium e.g. by developing DTH platform ● Continue to create brandname awareness of “Phoenix” through various promotional activities ● Continue to enhance the functions of correspondence stations for the InfoNews Channel in connection with news and information for better content enhancement 	<ul style="list-style-type: none"> ● Begin to implement broadband services in phases in major cities ● Further explore e-commerce opportunities with business partners ● Continue to monitor the market for new trends and technologies ● Selectively invest in key strategic content or solution partners to explore other business opportunities
Implementation	<ul style="list-style-type: none"> ● Continue to establish correspondence stations in key cities for the InfoNews Channel ● Research on market development and formulate the appropriate programming strategy 	<ul style="list-style-type: none"> ● Identify and establish strategic partnership with broadband infrastructure providers ● Develop specific content and features targeting mobile phone service providers ● Continue with the development of content and features for broadband services

SUMMARY

Business Plan for January – June 2002

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Production centre becomes fully operational and will be further strengthened to accommodate increasing programming demands for the Phoenix Channels ● Continue to increase programme production capacity to 10 hours per day from current capacity ● Strengthen sales teams in Europe and North America ● Launch the Cantonese Channel ● Continue to create brandname awareness of “Phoenix” through various promotional activities ● Continue to enhance the functions of correspondence stations for the InfoNews Channel in connection with news and information for better content enhancement 	<ul style="list-style-type: none"> ● Launch broadband services in major cities and second tier cities ● Further research on media product and content sales market and suggest B2B service strategies ● Become the infotainment centre for the global Chinese community
Implementation	<ul style="list-style-type: none"> ● Expand content library for the Cantonese Channel ● Expand reporting and news coverage teams ● Research on market development and formulate the appropriate programming strategy 	<ul style="list-style-type: none"> ● Continue to effect revamping and enhancing the functions of the website as appropriate ● Further enhance the strategic partnership on broadband services ● Further expand the technology, marketing, content sourcing and business development teams ● Continue to monitor the market for new trends and technologies

IV. Bases and Assumptions

Based on the existing business development of Phoenix and the worldwide development trends of the television broadcast and entertainment industry, the Directors believe that the present business of Phoenix can be further developed from a satellite television platform to a multimedia entertainment platform, including satellite television broadcasting, cable television redistribution and the Internet business.

In formulating and preparing the statement of business objectives of Phoenix through 30th June, 2002, the Directors have adopted certain bases and assumptions. For details, please refer to the paragraph headed “Bases and Assumptions” under the sub-section headed “Statement of Business Objectives” in the section headed “Business” in this prospectus.

Warning:

The aforesaid plans are based on the existing plans and intentions of Phoenix which are either in a conceptual or a preliminary stage. Furthermore, as such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainties, Phoenix’s actual course of action may vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid timeframe, there is no assurance that the plans of Phoenix will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe, or that the objectives of Phoenix will be fully accomplished or accomplished at all.

SUMMARY

TRADING RECORD

The following is a summary of the combined results of Phoenix for each of the three financial years ended 30th June, 1997, 1998 and 1999, the six months ended 31st December, 1998 and the six months ended 31st December, 1999 (the “Relevant Period”) extracted from the section “Financial Information” to this prospectus and has been prepared on the basis that the existing Group structure had been in place throughout the Relevant Period:

	Financial year ended 30th June,			Six months ended	
	1997	1998	1999	31st December, 1998	1999
	<i>(HK'000)</i>			<i>(HK'000)</i>	
Revenue:					
Phoenix Chinese Channel	119,536	174,805	301,064	119,822	218,512
Phoenix Movies Channel	<u>—</u>	<u>—</u>	<u>13,599</u>	<u>2,471</u>	<u>9,405</u>
Total	<u>119,536</u>	<u>174,805</u>	<u>314,663</u>	<u>122,293</u>	<u>227,917</u>
Operating expenses:					
Programming costs	(100,073)	(85,545)	(122,335)	(61,215)	(72,459)
Commissions	(26,949)	(31,733)	(60,545)	(26,325)	(41,750)
Staffing costs	(45,841)	(55,672)	(66,372)	(31,394)	(34,757)
Transponder charges	<u>(16,228)</u>	<u>(17,803)</u>	<u>(21,128)</u>	<u>(10,073)</u>	<u>(10,593)</u>
Total operating expenses	(189,091)	(190,753)	(270,380)	(129,007)	(159,559)
Selling, general and administrative expenses	<u>(92,123)</u>	<u>(117,415)</u>	<u>(132,264)</u>	<u>(63,320)</u>	<u>(72,016)</u>
Total expenses	(281,214)	(308,168)	(402,644)	(192,327)	(231,575)
Loss from operations	(161,678)	(133,363)	(87,981)	(70,034)	(3,658)
Other income	<u>6,142</u>	<u>2,258</u>	<u>9,515</u>	<u>6,377</u>	<u>1,750</u>
Net loss before tax	(155,536)	(131,105)	(78,466)	(63,657)	(1,908)
Provision for income taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss	<u>(155,536)</u>	<u>(131,105)</u>	<u>(78,466)</u>	<u>(63,657)</u>	<u>(1,908)</u>
Loss per Share (cents)	(3.78)	(3.18)	(1.90)	(1.55)	(0.05)
<i>Depreciation of fixed assets and amortisation and write off of pre-operating expenses</i>	<u>(1,198)</u>	<u>(1,151)</u>	<u>(2,354)</u>	<u>(1,091)</u>	<u>(6,405)</u>

Notes:

1. Combined results of Phoenix for the two financial years ended 30th June, 1998 and 1999, and the six months ended 31st December, 1999, as stated above, are prepared based on the Accountants' Reports set out in Appendix I.

SUMMARY

2. Combined results of Phoenix for the financial year ended 30th June, 1997 and the six months ended 31st December, 1998, are prepared based on the management accounts of Phoenix without being audited.
3. The above combined results summary of Phoenix includes results of the companies now comprising the Group, since 1st July, 1996 or the respective dates of incorporation or establishment, where this is a shorter period.
4. The calculation of loss per Share is based on the combined loss attributable to shareholders for the Relevant Period and 4,120,000,000 Shares in issue at the date of this prospectus deemed to be in issue throughout the Relevant Period on the assumption that the Reorganisation has been effective on 1st July, 1996.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds from the Share Offer will provide funding for the development plans of Phoenix.

The net proceeds from the Share Offer (after deducting related expenses payable by the Company in relation to the Share Offer, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.10 per Share, being the midpoint of the proposed Offer Price range of HK\$0.91 to HK\$1.29) are estimated to be about HK\$739 million. The Directors presently intend to use such net proceeds as follows:

- as to approximately HK\$260 million, for the enhancement of the programme production capability for Phoenix and its content development, including the establishment of a production centre in Shenzhen, PRC;
- as to approximately HK\$185 million, for the development of new channels, including the North America Channel, the InfoNews Channel and the Cantonese Channel;
- as to approximately HK\$148 million, for the development of the www.phoenixtv.com web page into an “infotainment” vertical Chinese portal, aiming to capitalise on the synergies between Phoenix’s television content and the Internet user communities;
- as to the balance of approximately HK\$109 million, for strategic investments and additional general working capital of Phoenix; and
- as to approximately HK\$37 million, for the development of the Group’s magazine, *Phoenix Weekly*, to be distributed in the PRC.

On the basis that the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$1.10 (being the mid-point of the proposed Offer Price range of HK\$0.91 to HK\$1.29), Phoenix will receive additional net proceeds of about HK\$114 million, which together with the net proceeds from the Share Offer, after deducting related expenses, will amount to approximately HK\$853 million. The Directors intend to use the additional proceeds raised from the Over-allotment Option for strategic investments and additional general working capital.

In the event that there are any material changes or modifications to the use of proceeds as a result of the Offer Price being fixed at below the proposed Offer Price, appropriate announcement will be made by the Company.

SUMMARY

In the event that any part of the business plans of Phoenix does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of Phoenix and/or hold such funds on short term deposit for so long as the Directors deem it to be in the best interest of the Company and its shareholders, taken as a whole.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors to place such proceeds on short-term deposits with financial institutions in Hong Kong.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 30TH JUNE, 2000

Forecast combined profit after taxation and minority interests but before extraordinary items of Phoenix for the financial year ending 30th June, 2000 (*Note 1*) will be not less than HK\$27 million.

Forecast earnings per Share

- (a) weighted average (*Note 2*) 0.65 cents
- (b) diluted (*Note 3*) 0.56 cents

SHARE OFFER STATISTICS

	Based on an Offer Price of HK\$0.91 per Share	Based on an Offer Price of HK\$1.29 per Share
Market capitalisation	HK\$4,411 million	HK\$6,253 million

Notes:

1. The bases and assumptions on which the forecast combined profit after taxation and minority interests but before extraordinary items of Phoenix for the year ending 30th June, 2000 have been prepared are set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 30th June, 2000.
2. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of Phoenix for the year ending 30th June, 2000, and the weighted average number of 4,139,920,000 Shares expected to be in issue during the year. This calculation takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Pre-IPO Share Option Plan and the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix VI to this prospectus, or otherwise.
3. The calculation of the forecast earnings per Share on a diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of Phoenix for the year ending 30th June, 2000, assuming that the Company had been listed since 1st July, 1999 and a total of 4,847,060,000 Shares had been in issue during the year. This calculation takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Pre-IPO Share Option Plan and the Share Option Scheme, or any Shares which may be allotted and issued or repurchased

SUMMARY

by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix VI to this prospectus, or otherwise. No account has been taken of any interest which may have been earned if the estimated net proceeds of the Share Offer had been received on 1st July, 1999.

4. The calculation of market capitalisation is based on 4,847,060,000 Shares expected to be in issue following the Share Offer, assuming no exercise of the Over-allotment Option or options granted under the Pre-IPO Share Option Plan or the Share Option Scheme.

CORPORATE REORGANISATION

The Company's reorganisation process is detailed in Appendix VI to this prospectus. As a result of the reorganisation, the initial shareholders' interests in the Company on the Listing Date are summarised as follows:

Name of shareholders	Date of Entry	No. of Shares owned on the Listing Date	Percentage of shareholding on the Listing Date (Note 4)	Total cost per Share HK\$	Total investment amount HK\$
Today's Asia (Note 1)	26th February, 1996	1,854,000,000	38.25%	0.12	226,339,588
Star TV Holdings (Note 2)	26th February, 1996	1,854,000,000	38.25%	0.12	226,339,588
China Wise (Note 3)	26th February, 1996	<u>412,000,000</u>	<u>8.50%</u>	0.12	50,297,686
		4,120,000,000	85.00%		

Notes:

1. Today's Asia is beneficially owned by Mr. LIU, Changle and Mr. CHAN, Wing Kee as to 93.3% and 6.7% interest, respectively.
2. Star TV Holdings is wholly-owned by Star TV which is an indirect wholly-owned subsidiary of News Corporation.
3. China Wise is an indirect wholly-owned subsidiary of Bank of China.
4. Assuming the Over-allotment Option is not exercised.

RESTRICTIONS ON DISPOSAL OF SHARES

Initial Management Shareholders	Number of Shares subject to the 1st 6-month lock-up period after listing ("1st Moratorium Period")	Percentage of Shares subject to the 1st Moratorium Period	Number of Shares subject to the 2nd 6-month lock-up period after listing ("2nd Moratorium Period")	Percentage of Shares subject to the 2nd Moratorium Period
Today's Asia (Notes 1, 2 & 4)	1,854,000,000	38.25%	1,696,471,000	35%
Star TV Holdings (Notes 2, 3, 4 & 5)	1,854,000,000	38.25%	1,696,471,000	35%
China Wise (Note 6)	412,000,000	8.50%	N/A	N/A

SUMMARY

Note 1: Mr. LIU, Changle and Mr. CHAN, Wing Kee are the beneficial owners of Today's Asia and each of them holds 93.3% and 6.7% interests therein, respectively. Each of Mr. LIU, Changle and Mr. CHAN, Wing Kee has undertaken to the Company and the Underwriters that he will not for a period of 12 months after the Listing Date dispose of any of his interests in the shares of Today's Asia.

Note 2: Each of Today's Asia and Star TV Holdings has undertaken to the Stock Exchange that it will not dispose of any of its interests in the Company in the 1st Moratorium Period and will not in the 2nd Moratorium Period dispose of its interests in the Company to the effect that its beneficial shareholding in the Company will be less than 35% of the issued share capital of the Company.

Note 3: Star TV is the beneficial owner of the entire issued share capital of Star TV Holdings and News Corporation is the ultimate beneficial owner of the entire issued share capital of Star TV. Star TV has undertaken to the Stock Exchange to procure that Star TV Holdings will comply with its undertakings stated in Note 2 above where News Corporation has undertaken to the Stock Exchange to procure that Star TV will comply with its undertakings as mentioned herein.

Note 4: Each of Today's Asia and Star TV Holdings has undertaken to the Company and the Underwriters that it will not for a period of 12 months from the Listing Date dispose of any of its interests in the Company.

Note 5: Star TV has undertaken to the Underwriters to procure that Star TV Holdings will comply with its undertakings stated in Note 4 above.

Note 6: China Wise has undertaken to the Stock Exchange and the Underwriters that it will not for the 1st Moratorium Period dispose of any of its interests in the Company. China Wise is wholly-owned by Bank of China with headquarters in Beijing, the PRC. Bank of China has undertaken to the Stock Exchange to procure that China Wise will comply with its undertaking as mentioned herein and that it will not for the first six months from the Listing Date dispose of its shares in China Wise to the effect that its shareholding in China Wise will be less than 35% of the entire issued share capital of China Wise.

PRE-IPO SHARE OPTION PLAN

The Company has adopted the Pre-IPO Share Option Plan and conditionally granted "Pre-IPO" share options to full-time employees of Phoenix. All options under the Pre-IPO Share Option Plan have been granted. A summary of the Pre-IPO Share Option Plan is set out in the section headed "Share Option Schemes" in Appendix VI to this prospectus.

RISK FACTORS

Phoenix has not yet achieved profitability. Phoenix relies primarily on revenues from the PRC (a developing country with an uncertain legal and business environment) and participates in the television broadcast sector of the PRC. Prospective investors should read carefully the section headed "Risk factors" of this prospectus. Some of the risks associated with the securities of the Company can be broadly categorised into (i) risks relating to Phoenix; (ii) risks relating to the industry; and (iii) risks relating to the PRC, and are outlined as follows:

Risks relating to Phoenix

- PRC regulatory restrictions on the reception and rebroadcast of foreign satellite television programmes
- History of net losses
- Reliance on advertising

SUMMARY

- Reliance on Star TV Group
- Reliance on Shenzhou
- PRC legal uncertainties relating to certain of Phoenix’s future projects
- Dependence on key personnel
- Entry into the Internet business
- Signal theft
- Competition
- Potential competition of Star TV Group and News Corporation
- Reliance on financing
- Press reports on the Group

Risks relating to the industry

- Dependence on satellites
- Liability of broadcasters
- Infringement of intellectual property rights
- PRC regulatory restrictions on content of television programmes

Risks relating to the PRC

- PRC economic and political conditions
- Foreign currency conversion and remittance

For further details of the above-mentioned risks, please refer to the section headed “Risk factors” of this prospectus.

DEFINITIONS

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

“Affiliated Companies”	has the meaning ascribed to it in the GEM Listing Rules
“Associates”	has the meaning ascribed to it in the GEM Listing Rules
“ATV”	Asia Television Limited, a television broadcaster operating in Hong Kong
“Binji”	Binji Overseas Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of the Company
“Board”	the board of directors of the Company
“BOCI Asia”	BOCI Asia Limited, acting as one of the Joint Sponsors of the Share Offer, a securities dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
“BSkyB”	British Sky Broadcasting Limited, a company 40% owned by News Corporation and listed on the London Stock Exchange
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CCTV”	China Central Television Station, the national television broadcaster in the PRC
“Central Government” or “PRC Government”	the national government of the PRC and its various ministries, agencies and commissions
“China Wise”	China Wise International Limited, a company incorporated in Hong Kong with limited liability, the share capital of which is beneficially owned by Bank of China
“CITV”	中國國際電視總公司 (China International Television Corporation), a company incorporated in the PRC and owned by CCTV, the only authorised agent to sell television satellite signal decoders in the PRC
“Companies Law”	the Companies Law (Revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
“Company”	Phoenix Satellite Television Holdings Limited 鳳凰衛視控股有限公司, a company incorporated in the Cayman Islands with limited liability on 2nd February, 2000

DEFINITIONS

“Designated Advertisement Agencies”	the advertising companies in the PRC which are authorised to place advertisements in Hong Kong for the entities in the PRC pursuant to a notice issued by the PRC State Administration of Industry and Commerce in 1995
“Director(s)”	members of the Board
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the council of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM website”	the Internet website operated by the Stock Exchange for GEM
“Greater China”	the PRC, Taiwan, Hong Kong and Macau
“Guofeng On-line”	國鳳在綫(北京)信息技術有限公司 (Guofeng On-line (Beijing) Information Technology Company Limited), a company incorporated in the PRC and is a wholly owned subsidiary of PHOENIXi
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Cable”	Hong Kong Cable Television Limited, a company incorporated in Hong Kong with limited liability
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Hong Kong Government”	the Government of Hong Kong
“Hutchvision”	Hutchvision Hong Kong Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Star TV
“Initial Management Shareholders”	Today’s Asia, Star TV Holdings, China Wise, Mr. LIU, Changle and Mr. CHAN, Wing Kee
“Joint Sponsors”	BOCI Asia and Merrill Lynch Far East
“Latest Practicable Date”	14th June, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Listing Date”	the date on which the trading of the Shares first commences on the Stock Exchange
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market)
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“Merrill Lynch Far East”	Merrill Lynch Far East Limited, acting as one of the Joint Sponsors of the Share Offer, an investment adviser and a securities dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
“News Corporation”	The News Corporation Limited, a company incorporated in Australia with limited liability and listed on the Australian Stock Exchange, and which is the ultimate holding company of Star TV Holdings
“Offer Price”	the final price in Hong Kong dollars per Offer Share (exclusive of brokerage and Stock Exchange transaction levy) at which the Shares are to be subscribed and issued pursuant to the Share Offer, to be determined as described in the section headed “Structure of the Share Offer”
“Offer Shares”	727,060,000 new Shares initially being offered by the Company for subscription under the Public Offer and the Placing together with any additional new Shares issued pursuant to the Over-allotment Option
“Over-allotment Option”	the option granted by the Company to the Placing Underwriters, exercisable by the Joint Sponsors (on behalf of the Placing Underwriters) pursuant to the Placing Underwriting Agreement to require the Company to issue an aggregate of up to 109,059,000 additional new Shares at the Offer Price to cover over-allocations in the Placing
“Phoenix” or “Group”	the Company and its subsidiaries, and where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
“Phoenix Channels”	Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix CNE Channel and other channels as developed and/or operated by Phoenix from time to time
“Phoenix Chinese Channel”	an un-encrypted television channel operated by Phoenix which is broadcast via the ASIASAT 3S satellite
“Phoenix CNE Channel”	an un-encrypted television channel which is broadcast via the ASTRA 2A satellite
“PHOENIXi”	PHOENIXi Investment Limited, a company incorporated in the British Virgin Islands and is a company approximately 94.3% owned by Phoenix
“PHOENIXi Plan”	the PHOENIXi 2000 Stock Incentive Plan, details of which are referred to in Appendix VI of the prospectus

DEFINITIONS

“Phoenix Film”	鳳凰影視（深圳）有限公司 (Phoenix Film and Television (Shenzhen) Company Limited), a Sino-foreign equity joint venture incorporated in the PRC and is 60% owned by Phoenix
“Phoenix Movies”	Phoenix Satellite Television (Movies) Limited, a wholly-owned subsidiary of the Company
“Phoenix Movies Channel”	an encrypted pay-television broadcasting channel operated by Phoenix which is broadcast via the ASIASAT 3S satellite
“Phoenix Platform”	the primary satellite platform for Phoenix Satellite TV utilising C-Band transponders on the ASIASAT 3S satellite
“Phoenix Satellite TV”	Phoenix Satellite Television Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Phoenix Website”	www.phoenixtv.com
“Placing”	the placing of 654,354,000 new Shares, as described in the section headed “Structure of the Share Offer — The Share Offer”
“Placing Shares”	654,354,000 new Shares (subject to adjustment as described in the section headed “Structure of the Share Offer — The Share Offer”) initially being offered under the Placing
“Placing Underwriters”	BOCI Asia, Merrill Lynch Far East, BNP Prime Peregrine Securities Limited, CLSA Limited, ING Barings Asia Limited as agent for ING Bank N.V., Cazenove Asia Limited, China International Capital Corporation (Hong Kong) Limited, DBS Asia Capital Limited and HSBC Investment Bank Asia Limited
“Placing Underwriting Agreement”	the underwriting agreement dated 20th June, 2000 among, inter alia, the Company, the executive Directors of the Company, Today’s Asia, Star TV Holdings, China Wise and the Placing Underwriters relating to the Placing
“PRC” or “China”	the People’s Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Plan”	the share option plan approved and adopted by the Company on 7th June, 2000, the principal terms of which are summarised in the paragraph headed “Share Option Schemes” in Appendix VI to this prospectus
“Price Determination Date”	26th June, 2000, the latest day at which the Offer Price is fixed under the Share Offer unless a later day is agreed between the Joint Sponsors and the Company (otherwise the Share Offer will lapse)

DEFINITIONS

“Public Offer”	the offer for subscription of the Public Offer Shares for cash at the Offer Price, on and subject to the terms and conditions stated herein and in the related application forms
“Public Offer Shares”	72,706,000 new Shares (subject to adjustment as described in the section headed “Structure of Share Offer”) initially being offered under the Public Offer
“Public Offer Underwriters”	BOCI Asia, Merrill Lynch Far East and HSBC Investment Bank Asia Limited, ICEA Capital Limited, CEF Capital Limited, Core Pacific-Yamaichi International (H.K.) Limited, First Shanghai Capital Limited, Platinum Securities Company Limited, Tai Fook Securities Company Limited and Worldsec Corporate Finance Limited
“Public Offer Underwriting Agreement”	the underwriting agreement dated 20th June, 2000 entered into among, inter alia, the Company, the executive Directors of the Company, Today’s Asia, Star TV Holdings, China Wise and the Public Offer Underwriters relating to the Public Offer
“Reorganisation”	the corporate reorganisation which Phoenix underwent prior to the issue of this prospectus, the details of which are set out in the paragraph headed “Corporate Reorganisation” in Appendix VI to this prospectus
“SAFE”	中國國家外匯管理局 (the PRC State Administration of Foreign Exchange), the PRC Government agency responsible for matters relating to foreign exchange administration
“SAIC”	中國國家工商總局 (the PRC State Administration of Industry and Commerce)
“SARFT”	國家廣播電影電視總局 (the State Administration of Radio, Film and Television), the principal regulatory body of the broadcasting and television industry in the PRC
“Satellite Television”	Satellite Television Asian Region Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Star TV
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Share Offer”	the Public Offer and the Placing

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 7th June, 2000, the principal terms of which are summarised in the paragraph headed “Share Option Schemes” in Appendix VI to this prospectus
“Shenzhou”	神州電視有限公司 (Shenzhou Television Limited Company), a company incorporated in the PRC with limited liability
“Sino (H.K.)”	Sino Television (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, and 99.98% of its issued share capital is beneficially owned by Shenzhou
“Star Filmed”	STAR TV Filmed Entertainment Limited, a wholly-owned subsidiary of Star TV
“Star TV”	Star Television Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of News Corporation
“Star TV Group”	Star TV and its subsidiaries, including Satellite Television, Hutchvision and Star TV Holdings
“Star TV Holdings”	Star Television Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of Star TV
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Today’s Asia”	Today’s Asia Limited, a company incorporated in Hong Kong with limited liability, with 93.3% of its issued share capital beneficially owned by Mr. LIU, Changle, the Chairman of the Company
“Tianying Jiuzhou”	北京天盈九州網絡技術有限公司 (Beijing Tianying Jiuzhou Network Technology Company Limited), a limited company incorporated in the PRC engaging in the Internet business and owned by an independent third party of Phoenix
“TVB”	Television Broadcasts Limited, a company incorporated in Hong Kong with limited liability, the share capital of which is listed on the Stock Exchange
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	Public Offer Underwriting Agreement and Placing Underwriting Agreement
“U.S.” or “United States”	United States of America

DEFINITIONS

“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the legal currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“US\$” or “U.S. Dollars”	United States dollars, the lawful currency of the U.S.
“sq.ft.”	square feet
“sq.m.”	square metre(s)

Unless otherwise specified in this prospectus, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars as follows:

HK\$1.00 = RMB1.07

HK\$7.75 = US\$1.00

No representation is made that any amounts in RMB, US\$ or HK\$ could have been or could be converted at the above rate or at any other rates or at all.

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with Phoenix and its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.

“ASIASAT 3S”	the satellite located in the geostationary orbit at 105.5 degrees East
“ASTRA 2A”	the satellite located in the geostationary orbit at 28.2 degrees East
“B2B”	an e-commerce model whereby businesses transact with other businesses online
“broadband”	a service or connection allowing a considerable amount of information to be conveyed, such as video. Broadband is generally defined as bandwidth over 2Mbps, or roughly 100 times faster than the peak data transmission speed of a 28.8Kbps dial-up modem
“C-Band”	the frequencies from 3.9 to 6.2 GHz. In satellite communications (FSS) used to refer to downlink frequencies between 3.4 GHz and 4.2 GHz and uplink frequencies between 5.85 GHz and 7.075 GHz. Often referred to as 4/6 GHz
“direct-to-home” or “DTH”	the direct transmission of programmes from broadcasters to the viewers via satellite
“downlink”	the receiving portion of a satellite circuit extending from the satellite to the earth, compare to uplink
“e-commerce”	commercial transactions on the Internet
“EIRP”	equivalent isotropic radiated power is a measure of the radio frequency power of each transponder
“footprint”	the geographical area covered by a satellite’s signal
“GDP”	gross domestic product
“homes passed”	the total number of premises which have the potential to be connected to a television system
“ICP”	Internet content provider, a company that provides content to Internet users
“ISP”	Internet services provider, a company that provides Internet businesses and individuals with access to the Internet
“penetration”	the number of households that can receive and view the broadcast of a certain broadcaster

GLOSSARY

“portal”	a website that serves as a gateway for accessing other websites on the Internet and is a collection of links, content and services designed to guide users to information such as news, weather, entertainment, commerce sites and chat rooms
“SMATV”	Satellite Master Antenna Television System. A satellite television distribution system to multiple dwelling units utilising a single set of satellite receiving equipment
“transponder”	a microwave repeater. The “channels” of a communications satellite each of which can re-transmit a signal or set of signals at a given power (i.e. EIRP)
“uplink”	in satellite communications, the signal from the earth station to the space satellite station
“vertical portal”	a website targeted at a particular industry or subject where users can transact business, obtain information and communicate with each other
“website”	a collection of web pages that have been produced by a company or an individual and are linked together by hyperlinks

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Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO PHOENIX

PRC regulatory restrictions on the reception and rebroadcast of foreign satellite television programmes

A significant percentage of the audience of the Phoenix Channels and Phoenix's major source of revenues is in the PRC. Receiving and rebroadcasting foreign television programmes, including programmes on the Phoenix Channels, are subject to extensive regulations in the PRC. Current PRC regulations prohibit individuals from receiving foreign television programmes. With respect to entities, under the rules promulgated by the SARFT in February 1994, only the following types of entities are eligible to apply to receive foreign satellite television programmes: hotels with a ranking of at least three stars; educational, research, news, financial, economic and trade institutions; and residential buildings for non-PRC nationals. Government departments in charge of radio and television industry at the provincial level have the authority to approve such application. In addition, under the Administrative Regulations of Radio, Film and Television promulgated by the PRC State Council, which took effect in September 1997, the State Council has the authority to approve the rebroadcast of foreign satellite television programmes by cable television networks. At present, SARFT is exercising such powers on behalf of the State Council.

Currently, approximately 42 million Chinese households (or approximately 13% of the total television households in the PRC) have access to the Phoenix Chinese Channel. Approximately 16 million of these households are in Guangdong Province, which borders on Hong Kong. Because of its geographic proximity, residents in Guangdong are able to receive terrestrially transmitted signals of certain Hong Kong free-to-air television channels. Some of these channels, including the Phoenix Chinese Channel are now carried on cable television networks of the province. The Phoenix Chinese Channel began to appear on the Guangdong Provincial Cable Television system ("GPCT") on 28th June, 1997, and subsequently was also carried by municipal and county level cable television networks of the province. GPCT has obtained the approval to receive and broadcast Phoenix's programmes from Guangdong Administration of Radio, Film and Television, which in turn submitted an application for approval to SARFT. To date, SARFT has not issued any formal written approval to GPCT. However, as far as the Directors are aware, no government action has been taken to prohibit GPCT or other cable television networks in the province from rebroadcasting the Phoenix Chinese Channel. Jingtian Associates, Phoenix's PRC counsel for the Share Offer, has opined that the rebroadcast of the Phoenix Chinese Channel programmes by GPCT and other cable television networks in the province is not in contravention of the relevant PRC laws. However, SARFT has the authority to order GPCT and any other cable television network to stop receiving and rebroadcasting the Phoenix Chinese Channel or any other foreign television programming at any time. If SARFT were to order GPCT and any other cable television network to stop receiving and rebroadcasting the Phoenix Chinese Channel for any reason, the Phoenix Chinese Channel's penetration rate in the PRC would decrease substantially. Such a reduction would have a material adverse effect on Phoenix's business, financial condition and results of operations.

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In addition, there are cable operators and entities in other provinces, which have been receiving and rebroadcasting the Phoenix Chinese Channel programmes regularly without the necessary approval from the provincial department in charge of radio and television and the SARFT. The PRC Government has from time to time taken enforcement actions against these operators and entities. The Directors believe that such actions have reduced the number of households which otherwise would have access to the Phoenix's television programmes. Should the PRC Government take steps to further strengthen the enforcement of the published regulations restricting the reception of foreign television programmes, the number of households which have access to the Phoenix Chinese Channel in the PRC would further decrease. Such a decrease would have a material adverse effect on Phoenix's business, financial condition and results of operations.

With respect to encrypted foreign satellite channels, the SARFT has in the past few years issued an annual notice to its provincial-level government departments in charge of the radio and television industry setting forth a list of encrypted foreign satellite channels approved to be received in the PRC through the installation of decoders. 17 encrypted foreign satellite channels were approved for the year 1999, and 18 were approved for the year 2000. The Phoenix Movies Channel has been on such approval list each year since its establishment in 1998. However, there is no assurance that the Phoenix Movies Channel or other encrypted channels to be launched by Phoenix will be on such approval list in the future. The failure to be on such approval list in the future would materially adversely affect the ability of Phoenix to develop its pay-television platform.

History of net losses

Phoenix has incurred aggregate net losses through 31st December, 1999, of HK\$408 million (US\$53 million) since commencing operations in 1996 and, despite a small profit forecast for the financial year ending 30th June, 2000, may continue to incur net losses in the future partly due to new channel and other business developments. Achieving profitability in the future will depend on the growth of Phoenix's existing business and the success of its new products and services. If Phoenix does not become profitable or its accumulated losses are not offset by future profits, its financing needs will increase, it will not be able to pay dividends and the market price of its Shares may be adversely affected.

Reliance on advertising

Phoenix derives a significant portion of its revenues from advertising sales. For the financial years ended 30th June, 1998 and 1999, advertising sales represented approximately 98% and 96%, respectively, of its total revenues. Phoenix expects that its revenue growth will continue to depend heavily on advertising sales in the near future. While the current demand for prime time advertising on the Phoenix Chinese Channel exceeds supply, there is no assurance that such demand will continue to exceed supply in the future. The business, financial condition and results of operations of Phoenix would be materially and adversely affected if demand for advertisement on Phoenix's channels decreased. See "Business — Phoenix Chinese Channel — Sales and Marketing."

In addition, some cable operators in Guangdong Province, and, to a lesser extent, other provinces, are known to remove the original advertisements from such programmes and replace them with their own advertisements. Phoenix believes that such practice has existed since the launch of the Phoenix Chinese Channel. Although Phoenix has from time to time received complaints from

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advertising customers regarding this phenomenon, Phoenix's advertising revenues have not been materially affected to date. However, if cable operators in the PRC remove Phoenix's advertisements on a larger scale, Phoenix's advertising revenues could be materially and adversely affected.

Reliance on Star TV Group

Phoenix relies to a significant degree on support from Star TV Group for its broadcasting operations. Among other things, Star TV Group provides transponder capacity as well as other technical and general administrative services to Phoenix pursuant to a services agreement. See "Connected Transactions" of this prospectus. Phoenix intends to maintain its close relationship with Star TV Group. However, Phoenix cannot guarantee that such close relationship will continue to exist. If Star TV Group ceases to provide one or more of these services in the future, there is no assurance that Phoenix can replace such services quickly on financially agreeable terms. Interruption of any of the existing services in the event that Phoenix could not quickly find a replacement service provider could have a material adverse effect on Phoenix's business, financial condition and results of operations. See the paragraph headed "Potential competition of Star TV Group and News Corporation" in this section.

Reliance on Shenzhou

Phoenix currently receives over 80% of its advertising revenues through Shenzhou, a PRC-based advertising company which was a related party of Phoenix prior to the Share Offer. Shenzhou promotes the sales of Phoenix's advertising air-time and programme sponsorship on Phoenix Chinese Channel for Phoenix and collects advertising revenues within the PRC on behalf of Phoenix. Shenzhou is also responsible for converting such advertising revenues into foreign exchange and remitting them out of the PRC to Phoenix. See "Summary of Material Contracts" in Appendix VI to this prospectus.

The PRC advertising industry is extensively regulated. Under the current PRC regulations, companies need to obtain advertising licences before engaging in the advertising business and such licences are examined on a regular basis. In addition, pursuant to a notice issued by the SAIC in 1995 (the "SAIC Notice"), only Designated Advertisement Agencies are authorised to place advertisements in Hong Kong for PRC entities. Chinese companies advertising on the Phoenix Chinese Channel are therefore required to place their advertisements through the Designated Advertisement Agencies. Shenzhou currently has an advertising licence but is not a Designated Advertisement Agency. Shenzhou has been promoting and procuring the placement of advertisements on the Phoenix Chinese Channel for PRC entities since the launch of the Phoenix Chinese Channel pursuant to a service agreement between Shenzhou and Phoenix. Since Shenzhou is not a Designated Advertisement Agency, Shenzhou's obligations to promote and procure the placement of Phoenix's advertisement in the service agreement may not be enforceable under PRC laws. To date, no action has been taken by the relevant PRC government authorities to enforce the SAIC Notice against Shenzhou, and the advertising licence of Shenzhou has been renewed every year since 1996. Since Phoenix is not selling advertisements by itself or through its establishments in the PRC and the responsibility to obtain the designation from the SAIC is vested with Shenzhou, Shenzhou alone is responsible for its compliance with the SAIC Notice and Phoenix shall not be subject to any sanctions by the SAIC for any non-compliance of Shenzhou. However, if the SAIC Notice is strictly enforced in the future, Phoenix will be required to sell its advertising air-time only through Designated Advertisement Agencies instead of Shenzhou. In such an event, there would be no assurance that Phoenix could receive services from

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such Designated Advertisement Agencies that are of the same quality as, and on terms similar to, those currently offered by Shenzhou. Interruption of any of the existing services provided by Shenzhou could have a material adverse effect on Phoenix's business, financial condition and results of operations.

PRC legal uncertainties relating to certain of Phoenix's future projects

Certain projects intended to be carried out by Phoenix in the near future are currently not permitted, or involve legal uncertainties, under the applicable PRC laws and regulations.

Phoenix intends to establish a programme production centre in Shenzhen, the PRC to produce television programmes for its channels. Under current PRC laws and regulations, foreign participation in the industry of television programme production in the PRC is prohibited under the Guidelines for Foreign Investment by Industrial Sector issued by the PRC State Planning Commission, State Economic and Trade Commission and Ministry of Foreign Trade and Economic Cooperation. In March 2000, a Sino-foreign equity joint venture, Phoenix Film, which is majority owned by Phoenix, was established to provide services ancillary to program production (such as costumes, equipment, studio). Since the business scope of the Phoenix Film does not include program production, Phoenix Film cannot legally engage in program production in the PRC. Phoenix is currently exploring other legal means to construct and operate a program production centre in Shenzhen. However, there is no assurance that the requisite PRC regulatory approvals for Phoenix's investment in such program production centre will be obtained in a timely manner, or at all. The failure to implement Phoenix's plan to build and operate a program production centre in Shenzhen could significantly affect Phoenix's ability to increase the quantity of self-produced programmes, which could in turn adversely affect Phoenix's business, financial condition and results of operations.

Phoenix also intends to significantly expand its Internet business. The legal framework governing the Internet industry in the PRC is not well established and is evolving. Certain localities such as Shanghai now require companies engaging in the Internet information technology business and service company engaging in advertising business to obtain a specific permit. Beijing requires Internet related companies to register with the Beijing SAIC. In addition, new regulations governing Internet business in general and foreign participation therein in particular are expected to be enacted in the near future. Phoenix intends to conduct its Internet business in the PRC through its subsidiary in China, Guofeng On-line, a wholly foreign owned enterprise in the PRC. Guofeng On-line was established in the PRC in April 2000 to engage in the development of network technology and related technical consultation and technological services. Phoenix's current plan is to implement its Internet business in the PRC initially through contractual arrangements between Guofeng On-line and a 100% Chinese owned PRC domestic ICP whereby Guofeng On-line will perform technical support services to the PRC domestic company, which will in turn be licensed by Phoenix to use the domain name of, and operate the Phoenix Website. There is no assurance that Internet activities in the PRC based on this structure will be deemed by the Chinese regulatory authorities as being in compliance with the applicable licensing requirements. In addition, if new regulations are enacted to impose further restrictions on the operation of Internet related business, there is no assurance that Phoenix will be able to meet such regulatory requirements. Phoenix's plan to expand its Internet business could be materially adversely affected as a result.

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Dependence on key personnel

Phoenix's operating performance depends largely on the efforts and abilities of its senior management in general and Mr. LIU, Chairman in particular. Mr. LIU, Chairman of the Board, is one of the founders of Phoenix and has been an essential element for its success to date. Mr. LIU currently has a three-year employment contract with Phoenix which expires in 2003. The loss of services of Mr. LIU or other members of the senior management may have a material adverse effect on Phoenix's business, financial condition and results of operations. See the paragraph headed "Senior Management" in the section headed "Directors, Senior Management and Staff" in this prospectus. In addition, the success of some of Phoenix's most popular television programmes depends to a significant degree on the popularity of their hosts. If the employment of one or more of these hosts terminates, Phoenix may not be able to easily replace them, and its business, financial condition and results of operations may be materially and adversely affected as a result.

Entry into the Internet business

As an important part of its growth strategy, Phoenix intends to significantly expand its Internet business. Currently, Phoenix has limited experience in the Internet business. Expansion of its Internet business could divert the use of Phoenix's resources, require different marketing strategies and greater expenditures, and may not achieve anticipated results in a timely fashion, if at all. There is no assurance that Phoenix will be able to expand successfully its Internet business. In addition, PRC law concerning the Internet is new and evolving. To the extent that Phoenix starts implementing its Internet development plan before PRC has a clear policy with respect to Internet related business, Phoenix may be required to write off such development cost in the future. Phoenix's failure to successfully expand its Internet business could have a material adverse effect on its business, financial condition and results of operations. In addition, see the paragraph headed "PRC legal uncertainties relating to certain of Phoenix's future projects" in this section for the uncertain and evolving state of the law governing the Internet industry in the PRC.

Signal Theft

Phoenix's delivery of subscription programming such as that on the Phoenix Movies Channel requires the use of encryption technology. Signal theft or "piracy" in cable television has been widely reported. There is no assurance that the encryption technology used by the Phoenix Movies Channel will remain effective. If Phoenix's encryption technology is compromised in a manner that is not promptly corrected, Phoenix's revenues could be adversely affected.

Competition

Phoenix encounters, and expects to continue to encounter, intense competition in the television broadcasting industry. Currently, Phoenix competes for revenues, viewers and programming primarily with national or local television networks in the PRC, some of which also broadcast through satellite. While Phoenix currently is the leading foreign satellite television operator broadcasting into China, it competes with a number of other foreign satellite television channels, such as Chinese Entertainment TV, TVB8 and Galaxy, which also broadcast into the PRC. In addition, the operators of these channels, as well as other local or international media companies, including ATV, are expected to expand into the PRC market.

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Phoenix also competes for revenues with other advertising media, such as newspapers, radio, magazines, outdoor advertising and, recently, the Internet. Alternative sources of entertainment compete with Phoenix to the extent that they reduce the number of people watching broadcast television. Current and future technological developments will also affect competition within the television industry. Advances in technology such as video compression and digitalisation would allow more channels to be carried through a cable system network or a satellite transponder and would permit existing equipment to carry multiple video, data services and programming delivered through fiber optic telephone lines or direct broadcast satellites, thus resulting in lower entry barriers for new channels and expanded fields of competing services.

Potential competitors may have substantially greater financial, marketing and other resources than Phoenix. There is no assurance that Phoenix will be able to compete effectively against its existing or future competitors. See the paragraph headed “Competition” in the section headed “Business” in this prospectus.

Potential competition of Star TV Group and News Corporation

Star TV Holdings is a major shareholder of the Company holding 38.25% of the issued share capital of the Company upon completion of the Share Offer (assuming the Over-allotment Option is not exercised). The Star TV Group has ownership interests in three Chinese language channels which can be received in the PRC, namely ESPN Asia, Star Sports Asia, each a sports channel, and Channel [V] North Asia, a music channel. In addition, News Corporation, the ultimate holding company of the Star TV Group, has an ownership interest in the National Geographic Channel which is versioned for audiences in Greater China. Although these channels differ in nature from and do not directly compete with the Phoenix Channels, and currently Star TV Group and News Corporation, do not directly compete with Phoenix for the PRC market, there is no written agreement between Star TV Group and/or News Corporation and Phoenix with respect to non-competition. Star TV Group and News Corporation may be potential competitors of Phoenix in the future.

Reliance on financing

Since the commencement of Phoenix’s business, Phoenix has financed its operations and capital expenditure requirements primarily through shareholders loans and cash flows from operations. As Phoenix does not intend to rely on shareholders loans for its future financing requirements, to the extent that the net proceeds from the Share Offer and cash flows from operations may not be sufficient to finance its operations and capital expenditure requirements, Phoenix may need to raise additional funds through debt or equity offerings, placements, credit facilities from financial institutions or sale of assets. In the event that Phoenix cannot obtain such financings, it may be required to scale back its business expansion plans and its existing operations, and its business, financial condition and results of operations may as a result be materially and adversely affected. The Company has not obtained any bank loans to date.

Press reports on the Group: no investor should rely on any press reports when making an investment decision

Prior to the issue of the prospectus, certain research reports on the Group prepared by certain research houses, which are independent of Phoenix, were quoted and published in certain newspapers in Hong Kong. Information published in those research reports or quoted in the newspaper, including

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profit projections of the Group, have not been reviewed or verified by the Company, the Company's auditors, the Joint Sponsors nor the Underwriters. Neither the Company nor the Joint Sponsors have authorized, participated or involved in any way in the preparation or releasing such articles and/or research reports. **The Company strongly cautions prospective investors not to place any reliance on any of the information as contained therein, including any profit projections of the Group.** The Company, the Company's auditors, the Joint Sponsors and the Underwriters cannot ensure that such information (including the profit projections) were prepared and presented in accordance with the relevant GEM Listing Rules. To the extent that such statements and/or representations in the said articles are inconsistent with, or conflict with, the information contained in this prospectus, or relate to information not contained in this prospectus, they are disclaimed by the Company and the Underwriters in their entirety and should be totally disregarded by prospective investors when making any investment decision regarding the Shares. **Accordingly, prospective investors should not rely on such statement and/or representations.**

Investors should read the entire prospectus carefully and should not consider any particular statement in this prospectus or in published news reports or any published financial projections without carefully considering the risk factors and other information contained in this prospectus.

RISKS RELATING TO THE INDUSTRY

Dependence on satellites

Phoenix depends on transponders to transmit its programmes to its viewership markets. Phoenix currently broadcasts its Phoenix Chinese Channel and Phoenix Movies Channel through transponders on the ASIASAT 3S satellite owned and operated by Asia Satellite Telecommunications Company Limited. To date, Phoenix has not experienced any significant disruption of its transmissions as a result of an act or omission by Asia Satellite Telecommunications Company Limited. However, the operation of the ASIASAT 3S satellite and its transponders is beyond Phoenix's control. Phoenix does not own or operate the ASIASAT 3S satellite and does not maintain, nor does it intend to maintain insurance with respect to the transponders it leases, due primarily to the prohibitive cost of such insurance. As a result, disruption of its transmissions to its viewers, depending upon the duration of the disruption and the availability of alternative transponders on other satellites having the ability to transmit to Phoenix's viewership markets on terms acceptable to Phoenix, could have a material adverse effect on Phoenix's business, financial condition and results of operations.

Furthermore, Phoenix's plan to expand into other geographical markets will depend upon the ability of Phoenix to obtain rights to use additional transponders on existing or other satellites. There is no assurance that any such transponders will be available to Phoenix on terms acceptable to Phoenix.

Liability of broadcasters

Phoenix faces potential liability for defamation, copyright, patent or trademark infringement and other claims based on the nature and content of its programmes. PRC laws relating to liability of broadcasters for information carried on or disseminated through their broadcasts are to date untested. In addition, such potential liability may cause Phoenix to adopt measures that may reduce its exposure

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to such liability, but which may have a material adverse effect on its programme quality. Phoenix currently does not carry any errors and omissions insurance to insure against such potential liability as it believes that such is not the industry practice in the PRC and Hong Kong.

Infringement of intellectual property rights

Phoenix's success depends to a significant degree on its programming. Phoenix relies on a combination of contractual rights and patent, copyright, and trademark laws to establish and protect proprietary rights in its programming. If Phoenix is unable to establish or protect these rights in the PRC and international markets in which it competes, its competitors may be able to use its intellectual property to compete against it in such markets. This could limit Phoenix's growth and adversely affect its operating results. The laws of certain countries in which Phoenix broadcasts do not protect its products and intellectual property rights to the same extent as the laws of Hong Kong or the United States do. Accordingly, effective patent, copyright and trademark protection may be unavailable in certain countries. There is no assurance that Phoenix's programming will not be retransmitted without Phoenix's authorisation or otherwise misappropriated. Failure to protect its intellectual property rights could cause Phoenix to incur substantial liabilities and result in a material adverse effect on its business, financial condition and results of operations.

PRC regulatory restrictions on content of television programmes

China has strict rules and policies with respect to the content of television programmes. While Phoenix is based in Hong Kong and therefore is not subject to these rules and policies, Phoenix cannot entirely ignore such rules and policies. If Phoenix's programmes are perceived to be subversive, immoral or hostile to the PRC Government, the PRC Government may ban reception of the Phoenix Channels in the PRC. In addition, there have been reports that the PRC Government had in the past tightened up its monitor of the reception of foreign satellite broadcast overall in an effort to restrict distribution of content of a small number of foreign satellite broadcasters. If such action takes place with increased frequency in the future, whether specifically directed at Phoenix or applied to all foreign broadcasters, it would have a material adverse effect on Phoenix's business, financial condition and results of operations.

RISKS RELATING TO THE PRC

PRC economic and political conditions

A significant portion of Phoenix's business relies on revenue generated from the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement.

The economy of the PRC has historically been a planned economy subject to long-term plans adopted by the PRC Government which set out production and development targets. Although the majority of productive assets in the PRC is still owned by the PRC Government at various levels, in recent years the PRC Government has implemented economic reform measures emphasising decentralisation, the development of a non-state owned economy, a higher level of management autonomy and utilisation of market forces in the development of the PRC economy in general. Many of these reforms are unprecedented or experimental and may be subject to refinement, change or

RISK FACTORS

reversal based upon the outcome of such experiments. There is no assurance that the PRC Government will continue to pursue a policy of economic reform. Phoenix may not in all cases be able to capitalise on economic reform measures adopted by the PRC Government.

Phoenix's operating results may be adversely affected by changes in the PRC's political, economic and social conditions, changes in the PRC laws, regulations or policies (including laws, regulations or policies in respect of the television broadcasting industry and advertising industry), or the interpretation of laws, regulations or policies, including changes in the rate or method of taxation and imposition of additional restrictions on currency conversion and remittances abroad.

Foreign currency conversion and remittance

Phoenix receives a significant amount of its revenues in Renminbi, a substantial portion of which needs to be converted into other currencies to meet Phoenix's foreign currency obligations. Phoenix has substantial requirements for foreign currency, including offshore labour costs, purchases of equipment, programmes, other goods and services from outside the PRC and, after the Share Offer, payment of any dividends declared in respect of the Shares.

Currently, Renminbi is convertible without approvals from SAFE only with respect to current account transactions, but not with respect to capital account transactions. Under current regulations, PRC companies may convert Renminbi into foreign currency for current account transactions directly at commercial banks authorised to deal with foreign exchange transactions if such transactions are lawful and documented. Phoenix's PRC legal counsel, Jingtian Associates, has opined that the transactions through which Phoenix's Renminbi advertising revenues are converted into foreign currencies are considered current account transactions under current PRC laws and regulations; and as such, the conversion of Phoenix's Renminbi advertising revenue into foreign currencies and their remittance do not require specific approvals from SAFE. To date, Phoenix has been able to convert such Renminbi revenues and remit them out of China without the need to obtain such approvals from SAFE. However, uncertainty exists as to whether the PRC Government will in the future restrict free access to foreign currency for current account transactions if there is a scarcity of foreign currency or otherwise, or if SAFE approvals for such conversions and remittance will be required in the future. Such restrictions, if imposed, would adversely affect Phoenix's ability to convert its Renminbi revenues into foreign currency and their remittance out of the PRC.

Since 1994, the conversion of Renminbi into Hong Kong and U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the Renminbi to Hong Kong and U.S. dollar exchange rates have been relatively stable since 1994, it is possible that exchange rates may become volatile or that the Renminbi may devalue against either the Hong Kong or U.S. dollar. Fluctuations in exchange rates may also adversely affect the value, translated or converted into Hong Kong or U.S. dollars, of Phoenix's net assets, earnings and any declared dividends. There is no assurance that any future movements in the exchange rate of the Renminbi against the Hong Kong or U.S. dollar and other foreign currencies will not adversely affect Phoenix's results of operations and financial condition. Phoenix does not currently hedge exchange rate fluctuations between the Renminbi and either the Hong Kong or U.S. dollar and currently has no plans to do so.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

WAIVERS UNDER THE GEM LISTING RULES

For the purpose of the listing of the Shares on the GEM, the Company has sought a number of waivers from the GEM Listing Division in relation to certain requirements under the GEM Listing Rules. Details of such waivers are described below.

Stock borrowing arrangement

A stock borrowing arrangement will be entered into between the Joint Sponsors and China Wise for the purpose of facilitating settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option or the acquisition of a sufficient number of Shares from other sources which will result in non-compliance by China Wise with Rule 13.16 of the GEM Listing Rules.

The Stock Exchange has granted a waiver to China Wise from compliance with the requirement set out under Rule 13.16 of the GEM Listing Rules in connection only with such stock borrowing arrangements on the basis that:

- (a) such stock borrowing arrangement with China Wise will only be effected by the Joint Sponsors for settlement of over-allocations in connection with the Placing;
- (b) the maximum number of Shares borrowed from China Wise will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and
- (c) the same number of Shares will be returned to China Wise or its nominees (as the case may be) no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full.

Moratorium Period

Under Rule 13.16 of the GEM Listing Rules, a new applicant shall procure that every Initial Management Shareholder who, immediately prior to the listing of the new applicant's shares on GEM (the "listing date") is entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the applicant (and who is able to direct or influence the management of the new applicant): (i) places in escrow, with an escrow agent acceptable to the Stock Exchange, its relevant securities for a period of two years from the listing date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the new applicant and the Stock Exchange that, for a period of two years from the listing date, it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the relevant securities, unless the foregoing requirements are waived.

Immediately prior to the listing of the Shares on GEM, Today's Asia, Star TV Holdings and China Wise are interested in 45%, 45% and 10% of the issued share capital of the Company, respectively.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

Application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules. The Stock Exchange has granted a waiver to the effect that the relevant lock-up period applicable to Today's Asia, Star TV Holdings, China Wise, Mr. LIU, Changle, Mr. CHAN, Wing Kee, Star TV and News Corporation be reduced to the respective period as set out in the section headed "Non-Disposal Undertakings".

SHARE OPTION SCHEMES

The GEM Listing Rules require that the total number of Shares subject to the Share Option Scheme and any other schemes ("Scheme Limit") must not in aggregate exceed 10% of the issued share capital of the issuer from time to time. As a result of an application made on behalf of the Company, the Stock Exchange has granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules. On this basis, the Company is allowed to increase the Scheme Limit to 30% of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:

- (1) 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% of the issued share capital of the Company as at the Listing Date unless shareholders' approval has been obtained pursuant to paragraphs (2) and (3) below;
- (2) the Company may seek shareholders' approval in general meeting to refresh the 10% limit. However, the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the refreshing of the limit;
- (3) the Company may seek separate shareholders' approval in general meeting to grant options beyond the 10% limit 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 and (ii) the options in excess of the 10% limit are granted only to participants specified by the Company before such approval is sought;
- (4) any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by all independent non-executive Directors of the Company;
- (5) where options are proposed to be granted to a connected person who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of his respective Associates, and the proposed grant of options, when aggregated with the options already granted to such connected person in the past 12 months period, would entitle that person to receive more than 0.1% of the total issued Shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders in general meetings. Apart from the connected person involved, all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent Directors on whether or not to vote in favour of the proposed grant; and

- (6) the following additional disclosures will be made in the annual, interim and quarterly reports of the Group:
- (i) details of options granted to the following persons: each Director and all the other participants;
 - (ii) a summary of the major terms of each share option scheme approved by the shareholders of the Company.

THE PHOENIXi PLAN

The GEM Listing Rules require that the total number of shares subject to the PHOENIXi Plan and any other schemes of PHOENIXi (“PHOENIXi Scheme Limit”) must not in aggregate exceed 10% of the issued share capital of PHOENIXi from time to time. As a result of an application made on behalf of the Company, the Stock Exchange has granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules. On this basis, PHOENIXi is allowed to increase the PHOENIXi Scheme Limit to 30% of the issued share capital of PHOENIXi from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:

- (1) the total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi, must not in aggregate, exceed 10% of the issued share capital of PHOENIXi as at the Listing Date unless approvals of the shareholders of the Company and PHOENIXi have been obtained pursuant to paragraphs (2) and (3) below;
- (2) PHOENIXi may seek approval by the shareholders of the Company and PHOENIXi in general meeting to refresh the 10% limit. However, the total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi in these circumstances must not exceed 10% of the issued share capital of PHOENIXi at the date of approval of the refreshing of the limit;
- (3) PHOENIXi may seek separate approval of the shareholders of the Company and PHOENIXi in general meeting to grant options beyond the 10% limit provided that (i) the total number of shares subject to the PHOENIXi Plan and any other schemes of PHOENIXi does not in aggregate exceed 30% of the total issued share capital of PHOENIXi and (ii) the options in excess of the 10% limit are granted only to participants specified by PHOENIXi before such approval is sought;
- (4) any grant of options to a connected person of the Company or PHOENIXi (as defined in the GEM Listing Rules) must be approved by all independent non-executive Directors of the Company;
- (5) where options are proposed to be granted to a connected person who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) of the Company or PHOENIXi or any of its Associates and the proposed grant of option, when aggregated with the options already granted to that connected person in the preceding 12-month

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

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

- (6) the following additional disclosures will be made in the annual, interim and quarterly reports of the Group:
- (i) details of options granted to the following persons; each Director and all the other participants;
 - (ii) a summary of the major terms of each share option scheme approved by the shareholders of the Company.

Connected transactions

Upon the listing of the Shares on GEM, the agreements and arrangements between the Company or its subsidiaries and the parties referred to in the section headed "Connected Transactions" of this prospectus will, or will be deemed to, constitute connected transactions (as defined under the GEM Listing Rules) for the Company, and such transactions ("Connected Transactions") will continue in the future.

The Directors are of the view that the Connected Transactions have been entered into in the ordinary and usual course of Phoenix's business on normal commercial terms, and are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned and are in the interests of Phoenix. Solely based on the documents and information provided by Phoenix and relying upon the representations and confirmations made by the Directors and upon the information and/or independent professional opinions (by American Appraisal Hongkong Limited as to the premises occupied by Phoenix) provided to the Joint Sponsors, the Joint Sponsors are of the view (based on the foregoing but without any independent verification) that the Connected Transactions referred to above are in the ordinary and usual course of Phoenix's business or fair and reasonable so far as the Company's shareholders are concerned as a whole or in the interests of the Company having regard to the circumstances in which they were entered into. The Joint Sponsors therefore, in reaching their view with respect to the Connected Transactions, relied very significantly upon such information and representations.

As the transactions set out in the section headed "Connected Transactions" constitute non-exempt continuing transactions under Rule 20.26 of the GEM Listing Rules, they are therefore subject to the reporting requirement set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. The Directors consider that such disclosure and/or approval to be impractical and unduly onerous. As such, the Company has applied to the Stock Exchange for a waiver from strict compliance of the GEM Listing Rules.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

The Stock Exchange has indicated that the waivers as requested would be granted to the Company on the conditions stated below for three years expiring on 30th June, 2003 (the “Waiver Period”):

- (A) in any financial year during the Waiver Period, the respective consideration in respect of each of the Connected Transactions does not exceed their respective cap;
- (B) details of each of the Connected Transactions shall be disclosed in the Company’s annual report as described in Rules 20.34(1) to (5) of the GEM Listing Rules;
- (C) the independent non-executive Directors shall review the Connected Transactions annually and confirm in the Company’s annual report and accounts for the year in question that such Connected Transactions have been entered into:
 - (a) in the ordinary and usual course of business of Phoenix;
 - (b) on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole;
- (D) each year the auditors of the Company shall review the Connected Transactions and provide a letter to the Board (with a copy to the GEM Listing Division) confirming that the Connected Transactions:
 - (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (c) have been entered into in accordance with the relevant agreements governing the transactions; and
 - (d) the respective consideration in respect of each of the Connected Transactions has not exceeded their respective caps;
- (E) the Company shall promptly notify the GEM Listing Division of the Stock Exchange if it knows or has reasons 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, respectively, the Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions as the GEM Listing Division of the Stock Exchange considers appropriate; and

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND COMPANIES ORDINANCE

- (F) in relation to any Connected Transaction, the Company and the counterparty to such Connected Transaction shall submit to the Stock Exchange an undertaking that it will allow the auditors of the Company sufficient access to their records for the purpose of reporting on the transactions as set out in Rule 20.28 of the GEM Listing Rules.

Save as disclosed in this prospectus, there are no other continuing connected transactions in which Phoenix is involved which have been entered into and/or will continue after the listing of the Shares.

WAIVER UNDER THE COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Company has sought a waiver from the Hong Kong Securities and Futures Commission in relation to certain requirements under the Companies Ordinance. Details of this waiver are described as follows.

Under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance, this prospectus is required to include details of the number, description and amount of any Shares in the Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for the Shares subscribed for under it, the consideration (if any) given or to be given for it and the name and address of the person to whom it was given. As at the date of this prospectus, the Company has granted options to 152 persons to subscribe for 59,742,000 Shares (representing 1.45% of the enlarged issued share capital of the Company, assuming the Over-allotment Option is not exercised) on the terms set out in Appendix VI to this prospectus under the paragraph headed “Outstanding options under the Pre-IPO Share Option Plan” in the section headed “Share Option Schemes”.

The Company has applied for a waiver from the Hong Kong Securities and Futures Commission from full compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance in relation to the grantees who have been granted options in respect of less than 1,000,000 Shares on the grounds that it would be unduly burdensome for the Company to disclose the names and addresses of all the grantees in the prospectus, and the Hong Kong Securities and Futures Commission has granted such a waiver to the Company pursuant to section 342A of the Companies Ordinance on the conditions that:

1. full details of all such options granted to the Directors and to those persons who have been granted options entitling them to acquire 1,000,000 Shares or more (containing the details in respect of each option required under paragraph 10 of part I of the Third Schedule to the Companies Ordinance) are disclosed in Appendix VI to this prospectus; and
2. a list of all persons to whom options have been granted by the Company as at the date of this prospectus, containing all the details in respect of each option required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance, is available for inspection in accordance with the paragraph headed “Documents Available for Inspection” in Appendix VII to this prospectus.

Please refer to the paragraphs entitled “Summary of terms of Pre-IPO Share Option Plan” and “Outstanding options under the Pre-IPO Share Option Plan” in the section headed “Share Option Schemes” in Appendix VI to this prospectus for further details of the options referred to above.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, 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 Phoenix. The Directors, having made all reasonable enquiries, confirm, to the best of their knowledge and belief that:

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

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related application forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

UNDERWRITING

This prospectus is published in connection with the Share Offer which is sponsored by the Joint Sponsors. The Share Offer comprises Public Offer and Placing. **The Public Offer is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement while the Placing is fully underwritten by the Placing Underwriters in accordance with the Placing Underwriting Agreement. For further information relating to the underwriting arrangements, please see the section headed "Underwriting" in this prospectus. If, for any reason, the Offer Price is not agreed between the Company and the Joint Sponsors (on behalf of the Underwriters), the Share Offer will not proceed.**

SELLING RESTRICTIONS

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, but without limitation to the following:

United States

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or under any securities regulatory authority of any jurisdiction of the United States and may not be offered or sold in the United States except in a transaction not subject to, or in accordance with an applicable exemption from, the registration

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

requirements of the U.S. Securities Act. Accordingly, the Offer Shares are being offered and sold by the Placing Underwriters only (i) in the United States through their respective United States affiliates to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act (“Rule 144A”)) in accordance with Rule 144A, and (ii) outside the United States in offshore transactions pursuant to Regulation S under the U.S. Securities Act (“Regulation S”).

In addition, until 40 days after the commencement of the offering of the Offer Shares, any offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended. All applicable provisions of The Financial Services Act 1986 with respect to anything done in relation to the Offer Shares in, from or otherwise involving the United Kingdom must be complied with. In addition, no person may issue or pass on to any person in the United Kingdom this prospectus or any other document received by him in connection with the issue or sale of the Offer Shares unless that person is of a kind described in Article 11(3) of The Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore and the Offer Shares will be offered in Singapore pursuant to an exemption invoked under Division 5A of Part IV of the Companies Act (Chapter 50 of Singapore (the “Singapore Companies Act”). Accordingly, this prospectus and any other offering document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore, nor may any of the Offer Shares be offered for subscription or purchase or sale, directly or indirectly to the public or any member of the public in Singapore (i) other than to an institutional investor or other person specified in section 106C of the Singapore Companies Act or (ii) otherwise pursuant to, and in accordance with the conditions of, section 106E of the Singapore Companies Act, or any other applicable exemption invoked under Division 5A of Part IV of the Singapore Companies Act.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Cayman Islands

No invitation may be made directly or indirectly by or on behalf of the Company to the public in the Cayman Islands to subscribe for or acquire any of the Offer Shares.

Each person acquiring the Offer Shares will be required to or deemed by its acquisition of the Offer Shares to confirm that it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE GEM OF THE STOCK EXCHANGE

The Company has applied to the GEM Listing Committee for the listing of and permission to deal in the Shares in issue, and the Shares which are to be issued pursuant to the Share Offer and as otherwise described herein, on the GEM.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being or proposed to be sought.

Pursuant to Rule 11.23 (1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 15% of the issued share capital of the Company in the hands of the public.

Save with the approval of the Stock Exchange, only those securities of the Company which are registered on the Company’s Hong Kong branch register may be traded on GEM.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert.

The Company, the Directors, the Joint Sponsors, the Underwriters and any other person involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Offer Shares.

STAMP DUTY

Dealings in Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

STABILISATION

In connection with the Share Offer, the Joint Sponsors (on behalf of the Placing Underwriters) may over-allocate up to an aggregate of 109,059,000 additional Shares (such over-allocation may be covered by exercising the Over-allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Offer Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Offer Shares, they will be done at the absolute discretion of the Joint Sponsors. The stabilisation price to cover the over-allocation will not normally be higher than the Offer Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the section headed “How to apply for Public Offer Shares” in this prospectus and on the relevant application forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Executive Directors</i>		
LIU, Changle	Suite 5006 The Atrium 88 Queensway Hong Kong	Belize
CHUI, Keung	Flat E, 13th Floor Block 2, Oak Mansions Whampoa Garden Hungghom Hong Kong	Chinese
<i>Non-executive Directors</i>		
MURDOCH, James Rupert	45 West, 18th Street New York NY10011 United States of America	American
CHURCHILL, Bruce Barrett	Garden Unit 12A Kellett Grove 7-9 Mount Kellett Road The Peak, Hong Kong	American
LAU, Yu Leung John	1st Floor, Flat 1 Block B, Tycoon Court 8 Conduit Road Hong Kong	British
CHEUNG, Chun On Daniel	Flat D, 20th Floor Block 24 Baguio Villa 555 Victoria Road Pokfulam Hong Kong	Chinese
LIANG, Xiaoting	Apartment 997, Block 18 Hong Kong Parkview 88 Tai Tam Reservoir Road Hong Kong	Chinese
CHAN, Fung Kit Ching	47C Stubbs Road 3rd Floor Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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Name	Address	Nationality
<i>Independent non-executive Directors</i>		
LO, Ka Shui	Serenity Place 22 Mount Cameron Road The Peak Hong Kong	Chinese
KUOK, Khoon Ean	House 11 No. 39 Deep Water Bay Road Hong Kong	Malaysian

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Joint Sponsors

BOCI Asia Limited
35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

Joint Global Coordinators

BOCI Asia Limited
35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

Joint Lead Managers

BOCI Asia Limited
35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

Placing Underwriters

BOCI Asia Limited
35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

BNP Prime Peregrine Securities Limited
23rd Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

CLSA Limited
38th Floor, Lippo Centre Tower 2
89 Queensway
Hong Kong

ING Barings Asia Limited
as agent for ING Bank N.V.
39th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Cazenove Asia Limited
3601, Two Exchange Square
8 Connaught Place
Central
Hong Kong

China International Capital Corporation
(Hong Kong) Limited
Room 4302, 43rd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DBS Asia Capital Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

HSBC Investment Bank Asia Limited
Level 15, One Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Public Offer Underwriters

BOCI Asia Limited
35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

HSBC Investment Bank Asia Limited
Level 15, One Queen's Road Central
Hong Kong

ICEA Capital Limited
42nd Floor, Jardine House
1 Connaught Place, Central
Hong Kong

CEF Capital Limited
Suite 2001, 20th Floor
Cheung Kong Center
No. 2 Queen's Road Central
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited
30th Floor, Two Pacific Place
88 Queensway
Hong Kong

First Shanghai Capital Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Platinum Securities Company Limited
15th Floor, New World Tower II
18 Queen's Road Central
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Worldsec Corporate Finance Limited
Rooms 3301–2, 33rd Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Legal advisers to the Company

As to Hong Kong Law:
Siao Wen and Leung
15th Floor, Hang Seng Building
77 Des Voeux Road
Central
Hong Kong

As to PRC Law:
Jingtian Associates
15th Floor, The Union Plaza
20 Chao Yang Men Wai Street
Beijing 100020
PRC

As to U.S. Law:
O'Melveny & Myers LLP
400 South Hope Street
Los Angeles
California 90067–6035
U.S.A.

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands

Legal advisers to the Underwriters

As to Hong Kong Law:
Herbert Smith
23rd Floor, Gloucester Tower
11 Pedder Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to PRC Law:

Commerce & Finance Law Offices
714 Huapu International Plaza
19 Chaowai Avenue
Beijing, China

As to U.S. Law:

Skadden, Arps, Slate, Meagher & Flom LLP
30th Floor, Tower Two
Lippo Centre, 89 Queensway
Central
Hong Kong

**Auditors and reporting
accountants**

Arthur Andersen & Co
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Property valuer

American Appraisal Hongkong Limited
Qualified Independent Property Valuer
Suite 2901, 29th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Receiving banker

Bank of China Hong Kong Branch
Bank of China Tower
1 Garden Road
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Zephyr House Mary Street George Town Grand Cayman Cayman Islands
Head office and principal place of business	9th Floor, Office Tower One The Harbourfront 18–22 Tak Fung Street Hung Hom Kowloon Hong Kong
Website address	www.phoenixtv.com
Company secretary	YEUNG, Ka Keung, A.C.A.
Cayman Islands assistant secretary	Codan Trust Company (Cayman) Limited Zephyr House Mary Street George Town Grand Cayman Cayman Islands
Compliance officer	CHUI, Keung
Qualified accountant	YEUNG, Ka Keung, A.C.A.
Audit committee	LAU, Yu Leung John LO, Ka Shui KUOK, Khoon Ean
Authorised representatives	CHUI, Keung Flat E, 13th Floor Block 2, Oak Mansions Whampoa Garden Hung Hom Hong Kong YEUNG, Ka Keung, A.C.A. Flat A, 1st Floor Block 1, Pristine Villa To Fung Shan Shatin, New Territories Hong Kong

CORPORATE INFORMATION

**Authorised person to accept
service of process and
notices**

YEUNG, Ka Keung, A.C.A.
Flat A, 1st Floor
Block 1, Pristine Villa
To Fung Shan
Shatin, New Territories
Hong Kong

**Principal share registrar and
transfer office**

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman, Cayman Islands

**Hong Kong branch share
registrar and transfer office**

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Principal bankers

Hongkong and Shanghai Banking Corporation
Limited
Head Office
1 Queen's Road Central
Hong Kong

Bank of Communications
Hung Hom Branch
1-3 Tak Man St., Whampoa Estate
Hung Hom, Kowloon
Hong Kong

Kincheng Banking Corporation
Hung Hom Branch
105 Wuhu Street
Hung Hom
Kowloon
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section and elsewhere in this prospectus relating to industry background is derived from various private and/or Chinese government publications, including newspaper reports. Phoenix makes no representation as to the accuracy of this information, which may not be consistent with other information compiled within or outside the PRC. This information has not been independently verified by Phoenix, the Joint Sponsors, the Underwriters or any of their respective advisors and should not be unduly relied upon.

Overview of Television Broadcasting in the PRC

Television broadcasting in the PRC began in September 1958 and has since undergone significant growth. At the end of 1998, there were 347 television stations operating a total of 1,065 channels in the PRC. The number of programme hours in 1998 reached approximately 726,000, representing an increase of 18 times over the number of programme hours in 1985. PRC households owning television sets in 1999 exceeded 300 million, accounting for approximately 93.5% of the total number of households in the PRC, and making the PRC the largest television market in the world with over one billion people being able to watch television programmes. The following table summarises the increase in television penetration rates over the last decade.

Television Penetration Rates

Year	Penetration Rates (%)
1990	79.4
1991	80.5
1992	81.3
1993	82.3
1994	83.4
1995	84.5
1996	85.9
1997	86.5
1998	89.0

Source: China TV Year Book & Directory 1999

Note: The 1998 figure is extracted from the 1999 China Year Book of Radio and Television

Television broadcasting has effectively and fully penetrated the PRC urban areas. With respect to the rural areas, the PRC Government has launched a campaign in recent years with the declared aim of effectively bringing radio and television to “every village” before the end of 2000. This has been regarded by the PRC Government as one of the “most important and most urgent tasks” of the country’s radio and television broadcasting industry.

Television advertising revenues have experienced similarly rapid growth in the PRC. Television advertising only started in the 1980s, but it grew rapidly in the last two decades. In 1998, total revenue for television advertising reached RMB13.6 billion (approximately US\$1.64 billion), accounting for approximately 25.2% of the total advertising revenue in the country. In the same year, the PRC

INDUSTRY OVERVIEW

surpassed South Korea in terms of general advertising expenditures, thus becoming the second largest advertising market in the Asia Pacific region. Advertising revenue currently accounts for a significant part of the revenue of television broadcasters in the PRC. However, the total revenues from all forms of advertising, including revenue from television advertising in the PRC are still low as a percentage of its GDP compared with other countries and areas as demonstrated by the following table.

Country/Area	Television advertising expenditure as a percentage of GDP (%)
Hong Kong	0.79
US	0.56
New Zealand	0.48
The Philippines	0.46
Thailand	0.46
Taiwan	0.40
Japan	0.39
Indonesia	0.24
South Korea	0.23
China	0.18

Source: Zenith Media, 1999

Reasons for the Rapid Growth of the Television Broadcasting Industry in the PRC

The Directors believe that the growth of the television broadcasting industry in the PRC is attributable to the following factors:

Rapid Economic Growth. The PRC economy experienced rapid growth in the 1990s. From 1990 to 1998, GDP grew at an average rate of 9.7% per annum, representing one of the highest growth rates in the world during the same period. As a result of this economic growth, consumption of durable consumer goods also increased. The number of colour television sets per 100 households in 1990 was approximately 59.0 in the urban areas and approximately 4.7 in the countryside, and increased to approximately 105.4 in the urban areas and approximately 32.6 in the countryside by the end of 1998.

Improvements in Programme Quality. All television stations in the PRC are owned by the PRC Government. They report to the SARFT at the central, provincial and local government levels and are subject to various political and ideological restrictions imposed by the PRC Government. However, as a general trend, television broadcasters have attained a greater degree of freedom and flexibility in producing television programmes and in deciding what programmes to air as a result of PRC's market reforms in the last two decades. Television broadcasters in the PRC need to attract a larger audience to compete for advertising revenues. This has led to a greater variety of, and noticeable improvement in, the quality of television programmes in the PRC, which in turn has further promoted the growth of television broadcasting in the country. Whereas Chinese television programmes used to focus primarily on education and to disseminate

INDUSTRY OVERVIEW

government policies to the general public, there are now many more entertainment oriented programmes such as foreign movies and television drama series, sports, music, comedies and talk shows. Between 1985 and 1998, while the total number of television programme hours increased by approximately 18 times, the entertainment programmes increased by approximately 37 times.

Availability of Foreign Satellite Broadcasts. In recent years, the PRC Government has also relaxed certain restrictions on the reception of foreign satellite television and on the broadcast of foreign produced programmes. See “Regulation of the Television Broadcasting Industry in the PRC” below. As a result, a number of foreign television channels such as CNN, STAR TV, CNBC, ESPN, HBO, the Phoenix Chinese Channel and the Phoenix Movies Channel have become available to certain authorised entities in the PRC. The availability of foreign programming has also had a positive impact on the quality of television programmes in the PRC and has stimulated the domestic industry to improve its programming.

Improved Modes of Delivery of Television Programmes. More channels are available via cable and satellite broadcasting than via terrestrial broadcasting. The PRC broadcasters have moved away from an exclusive reliance on terrestrial broadcasting to a combination of terrestrial, cable and satellite broadcasting in the last decade. On average, each television household in the PRC currently has access to at least eight channels, compared with only one or two channels in the early 1980s. The number of cable television subscribers has increased significantly during the past six years with the number of cable homes passed and cable subscribers almost doubled. The following table shows the development in cable television subscribers and cable television penetration rates from 1994 to 1999.

Development of cable television in the PRC 1994–1999

Year	Homes Passed (‘000)	Subscribers (‘000)
1994	44,360	31,090
1995	49,770	40,000
1996	55,290	50,720
1997	61,110	55,910
1998	66,800	57,990
1999	73,500	61,000

Source: 1999 Kagan World Media, Ltd.

The PRC Government has built a national fiber optic cable network which extends to 21 provinces and centrally administered cities in the country. The expansion of cable television networks have contributed directly to the growth of satellite broadcasting in the PRC. There are primarily two ways for satellite television broadcasting to reach viewers in the PRC: through satellite dishes installed for particular buildings (such as hotels and residential buildings) and through cable television operators. Compared to satellite dishes installed for particular buildings, cable television is a more efficient method to reach a wide audience base. Cable television operators in the PRC often have their own programme channels, but they carry many other channels as well. This arrangement is beneficial

INDUSTRY OVERVIEW

to both cable television operators and satellite television broadcasters, as it makes the cable television's programme packages more attractive to subscribers while at the same time expanding the viewership of satellite television. However, reception of foreign satellite television is strictly regulated in the PRC. See "Regulation of the Television Broadcasting Industry in the PRC" below.

Internet use in China has grown rapidly in recent years. China Internet Network Information Center, an institution under the administration of 國務院信息化工作領導小組辦公室 (the Office of the Leading Group of Information Promotion of the State Council), reported that, between the end of 1998 and the end of 1999, the number of Internet users in the PRC increased from approximately 2.1 million to approximately 8.9 million, representing an increase of more than 300%. In addition, International Data Corporation projected that the number of Internet users in the PRC will grow to approximately 25.2 million in 2003. The development of the Internet business in the PRC has provided another potential means to view television programmes. Certain programmes are already broadcast simultaneously through the Internet on an experimental basis. In addition, broadband services through the Internet allow Internet users to have interactive (digital) television whereby users can, among other things, order video programmes on demand.

The Directors believe that the television broadcasting industry in the PRC will continue to grow at a rapid pace for the reasons set forth above. The Directors believe that Phoenix has benefited and will continue to benefit from such development.

Regulation of the Television Broadcasting Industry in the PRC

General. The principal regulation governing television broadcasting in the PRC is the Regulations on Administration of Radio and Television promulgated by the PRC's State Council, which took effect in September 1997. Article 10 of the Regulation on Administration of Radio and Television expressly prohibit any form of foreign investment in television broadcasting in the PRC.

Installation of Receiving Apparatus. Under the Administrative Regulation on Ground Receiving Apparatus for Satellite Television Broadcasting promulgated by the State Council in October 1993, special licences are required for the production, importation, sale, installation or use of ground receiving apparatus for satellite television broadcasting. Generally, only entities (as opposed to individuals) may have such apparatus installed. An entity must submit an application, which must be approved by the provincial level government department in charge of radio and television industry. No individual is permitted to own such receiving apparatus unless he has a demonstrated need approved by the provincial level government department in charge of radio and television industry. An individual may only receive domestic television programmes.

Reception of Foreign Satellite Television. To provide guidance on the implementation of the Administrative Regulation on Ground Receiving Apparatus for Satellite Television Broadcasting, the Implementing Rules were issued in February 1994. Articles 4 and 5 of the Implementing Rules provide that only the following institutions or premises may apply to install ground receiving apparatus in order to receive foreign television programmes transmitted through satellite:

1. educational, scientific research, news, financial, economic and trade and other institutions which are of relatively higher ranking and larger size; and those with the need to receive foreign satellite television programmes for their business;

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- hotels permitted to have foreign guests with a ranking of at least three stars or national grade II; and
- public residential compounds exclusively for working or living by foreigners and persons from Hong Kong, Macau and Taiwan.

Applications for installing ground receiving apparatus to receive foreign television programmes must first be submitted to the county level government department in charge of radio and television and, after being commented upon by the city level government departments in charge of radio and television industry and state security, forwarded to the provincial level government department in charge of radio and television industry for approval. After the application is approved and the apparatus is installed, the provincial level government department in charge of radio and television industry will issue a Licence to Receive Satellite Transmitted Foreign Television Programmes (the “Reception Licence”), which also needs to be filed with the SARFT and the Ministry of State Security.

On 23rd November, 1995, the Ministry of Radio, Film and Television (now the SARFT) issued a notice (“Notice No. 757”) to clarify certain issues relating to the reception of foreign satellite television. Notice No. 757 reaffirmed the restrictions on the types of institutions that can receive foreign satellite television as stated in the Implementing Rules. In addition, the notice requires all decoders of foreign encrypted television to be imported through CITV and distributed through organisations authorised by provincial government department in charge of radio and television industry. Since that time, SARFT issues to provincial-level government departments in charge of the radio and television industry an annual notice setting forth a list of encrypted foreign satellite channels approved to be received in the PRC through the installation of decoders. 17 encrypted foreign satellite channels were approved for the year 1999, and 18 were approved for the year 2000. The Phoenix Movies Channel has been on such approval list each year since its establishment in 1998. No such approval list exists for unencrypted foreign satellite channels.

Rebroadcast of Foreign Television. Under the Regulations on Administration of Radio and Television promulgated by the State Council of the PRC on 11th August 1997 and effective on 1st September 1997, only the State Council department in charge of radio and television industry has the authority to approve a public television station (including terrestrial, satellite and cable television station) to rebroadcast foreign satellite television programmes. At present, the SARFT is the State Council department in charge of radio and television industry.

Cable Television. Operation of cable television in the PRC is governed by the Administrative Regulations on Cable Television promulgated by the Ministry of Radio, Film and Television (now the SARFT) on 3rd February 1994 (the “Cable TV Regulations”). Article 10 of the Cable TV Regulations prohibits (i) any individual from applying to set up a cable television station; (ii) any institution from participating in setting up cable television stations and the construction or operation of any cable television network with any foreign institution or individual; and (iii) any cable television station from leasing channels or broadcasting time to any foreign individual or institution. Cable television stations may charge subscribers cable construction fee and reception maintenance fee.

A cable television station is regarded as a news institution under category 1 as set out above in the sub-section headed “Reception of Foreign Television” under the Implementing Rules. As such, it must apply to the provincial level government department of radio and television industry for a

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Reception Licence. To rebroadcast the foreign television programmes received within its network pursuant to the Reception Licence, a cable television station, in addition to having obtained the Reception Licence, needs to obtain an approval from the SARFT under the Regulations on Administration of Radio and Television.

Overview of Television Broadcasting in Hong Kong

In Hong Kong, television viewing is a popular and well-established entertainment activity. The television industry has experienced significant growth in the last two decades, with an almost 100% household penetration rate and an average television viewing time of approximately four hours per day per person.

Until the late 1980s, there were only two television broadcasters in Hong Kong, namely, TVB and ATV. Both are free-to-air terrestrial broadcasters and each has one Cantonese and one English language channel.

Starting from the 1990s, new broadcasters have entered the Hong Kong television market. In 1990, Star TV Group began its operations in Hong Kong. Star TV Group currently provides three free-to-air regional channels for Hong Kong. Hong Kong Cable began broadcasting its pay-television services in 1993. In March 1995, the China Entertainment Television Limited (“CETV”) commenced operations, offering one free-to-air television channel. CETV broadcasts via satellites 24 hours daily with a coverage including the PRC, Taiwan, Japan and certain countries and regions in Southeast Asia. Phoenix began its satellite broadcasting services in 1996. In early 1998, TVB commenced the operation of its first satellite channel. In 1998, a subsidiary of Cable & Wireless HKT Limited launched a video-on-demand programme service.

A number of entities recently announced their intention to develop pay-television and Internet services in Hong Kong. TVB announced in March 2000 that it intends to spin off its Internet and satellite broadcasting arms (TVB.com and Galaxy Satellite Broadcasting Limited).

Satellite television is permitted in Hong Kong and as at 31st January, 2000, the Office for the Telecommunication Authority had issued a total of 1,760 satellite retransmission licences to enable individual households to receive satellite television, including satellite television broadcast by Phoenix. The Directors believe that more satellite retransmission licences may be issued in Hong Kong in the future.

Total advertising expenditure in 1999 in Hong Kong is estimated to be approximately HK\$23.7 billion, about 45.5% of which was attributable to television advertising.

A detailed summary of the relevant regulations governing television broadcasting in Hong Kong is set out in Appendix V “Relevant Regulations and Legislation” to this prospectus.

REORGANISATION

HISTORY AND DEVELOPMENT

The history of Phoenix dates back to 26th February, 1996, when Today's Asia, Satellite Television and China Wise, the co-founders of Phoenix entered into an agreement to establish Phoenix Satellite TV to undertake the business of developing a Chinese television channel platform targeting primarily the PRC market. Star TV Group agreed to cease transmission of its Star TV Chinese Channel into the PRC upon the establishment of Phoenix Satellite TV.

Today's Asia was incorporated in Hong Kong on 22nd November, 1994, and owns 45% of the issued capital of the Company prior to the completion of the Share Offer. The issued shares of Today's Asia are beneficially owned by Mr. LIU, Changle (the Chairman of the Company) as to 93.3% and by Mr. CHAN, Wing Kee, a Hong Kong resident and a Justice of Peace in Hong Kong, as to the remaining 6.7%.

Satellite Television is 50% owned by Star TV Holdings and 50% owned by Star TV. Star TV Holdings was incorporated in the British Virgin Islands on 5th January, 1993, and owns 45% of the issued shares of the Company prior to the completion of the Share Offer. Star TV Holdings is wholly-owned by Star TV which is an indirect wholly-owned subsidiary of News Corporation. In March 1998, Star TV completed the acquisition of Hutchvision, the company that has obtained a licence from the Hong Kong government to uplink television programmes using its own uplinking earth stations.

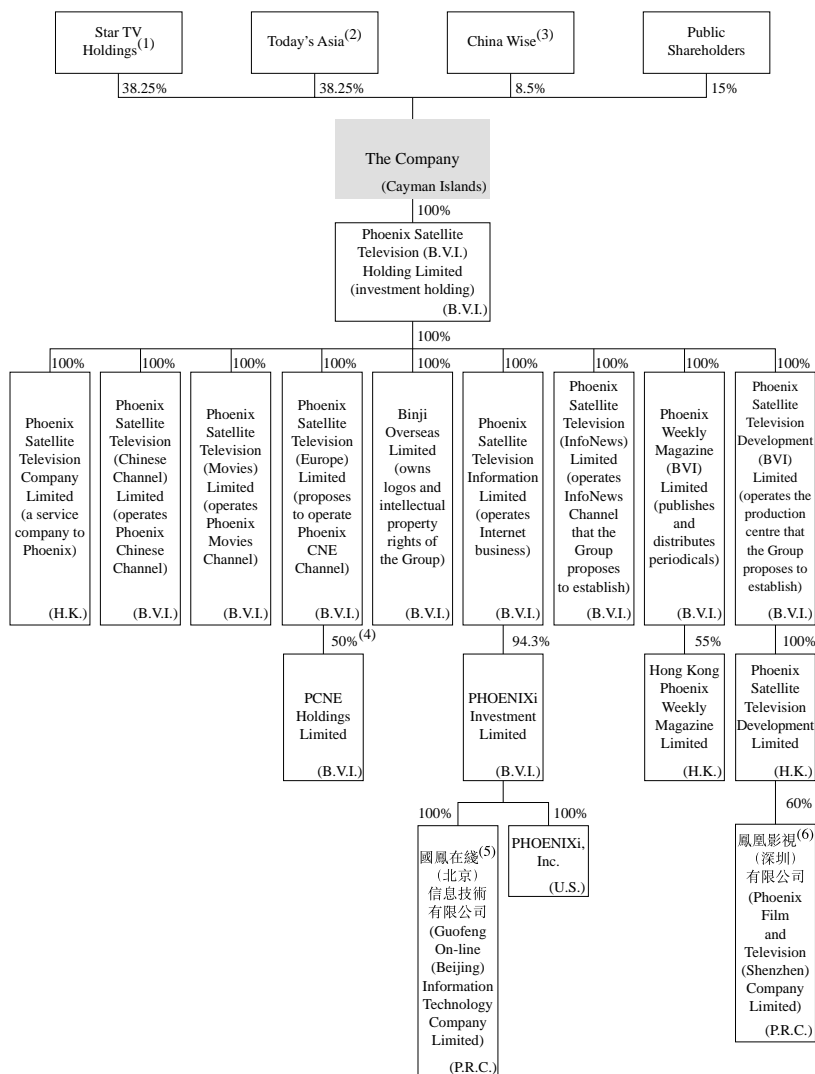
China Wise was incorporated in Hong Kong on 23rd February, 1993, by a third party independent of Phoenix and owns 10% of the issued shares of the Company prior to the completion of the Share Offer. On 31st May, 1999, Bank of China (headquartered in Beijing) through its wholly-owned subsidiary (which is principally engaged in direct investment) acquired the entire issued share capital of the holding company of China Wise.

Since 1998, Phoenix has rationalised its corporate structure and business operations by establishing several companies to operate its different business operations. Under this restructuring exercise, Phoenix established Phoenix Satellite Television (Chinese Channel) Limited, Phoenix Satellite Television (Movies) Limited, Phoenix Satellite Television (Europe) Limited, Binji, Phoenix Satellite Television Information Limited, Phoenix Satellite Television (InfoNews) Limited, Phoenix Weekly Magazine (BVI) Limited, Phoenix Satellite Television Development (BVI) Limited and Phoenix Satellite Television Development Limited, all of which are wholly-owned subsidiaries of the Company. Phoenix has also established non wholly-owned subsidiaries, including PCNE Holdings Limited, PHOENIXi Inc., Hong Kong Phoenix Weekly Magazine Limited, Phoenix Satellite Television Development Limited, Guofeng On-line and Phoenix Film. The boards of all such subsidiaries are controlled by the Company. Further details concerning the incorporation and share capital of these subsidiary companies and the corporate reorganisation of Phoenix are set out in Appendix VI to this prospectus.

REORGANISATION

CORPORATE STRUCTURE

The following chart sets out the corporate structure of the Company, its parent companies and its subsidiaries immediately following completion of the Share Offer (assuming the Over-allotment Option is not exercised):



Notes:

1. Star TV Holdings is an indirect wholly-owned subsidiary of News Corporation.
2. Today's Asia is beneficially owned as to approximately 93.3% by Mr. LIU, Changle, the chairman of the Company.
3. China Wise is beneficially wholly-owned by Bank of China with its headquarters in Beijing, PRC.
4. The acquisition of the Phoenix CNE Channel (details of which are set out in the paragraph headed "Phoenix CNE Channel" under the section headed "Business") is yet to be completed. PCNE Holdings Limited was incorporated for the purpose of acquiring the Phoenix CNE Channel and it is at present held as to 50% by Phoenix Satellite Television (Europe) Limited and 50% by Techvast Limited. If the acquisition of the Phoenix CNE Channel is

REORGANISATION

completed, Phoenix Satellite Television (Europe) Limited will hold a 70% of interest in PCNE Holdings Limited and the remaining 30% interest will be held by Techvast Limited. China Wise holds 12% of the issued share capital of Techvast Limited as nominee for an independent third party and has no beneficial interest therein.

5. 國鳳在綫(北京)信息技術有限公司 (Guofeng On-line (Beijing) Information Technology Company Limited) was incorporated on 17th April, 2000 by PHOENIXi to carry out computer network information related technology and Internet technology.
6. Phoenix Film and Television (Shenzhen) Company Limited was incorporated in March 2000 in the PRC. The existing joint venture partners are Phoenix Satellite Television Development Limited, 五洲傳播出版社, 深圳市藍天空電視廣播有限公司 and 深圳市龍領實業發展有限公司. The joint venture is principally engaged in the provision of ancillary services relating to programme production.

INTRODUCTION

Phoenix is the leading foreign satellite television operator broadcasting into China, which is the largest television market in the world with approximately 305 million television households. Phoenix owns and operates the un-encrypted Phoenix Chinese Channel and the encrypted Phoenix Movies Channel, which were launched on 31st March, 1996, and 28th August, 1998, respectively. As of September 1999, approximately 42 million households in the PRC, or approximately 13% of all Chinese television households, were able to receive and view the Phoenix Chinese Channel, according to a survey conducted by China Mainland Marketing Research Company commissioned by Phoenix. The Directors believe that the Phoenix Chinese Channel is currently the most widely watched foreign television channel in China. The Phoenix Movies Channel is a movie channel targeted, at present, exclusively at audiences in China. There were approximately 2,300 entities subscribing to the Phoenix Movies Channel as of 31st December, 1999. The Directors believe that the Phoenix Movies Channel has more subscribers than any other encrypted foreign television channels in China.

Outside China, by utilising the ASIASAT 3S satellite, the Phoenix Chinese Channel can be received in an area that includes Hong Kong, Taiwan, Japan, Southeast Asia, Australia and the Middle East. In August 1999, Phoenix began participating in the operation of the CNE Channel which was subsequently re-named as the Phoenix CNE Channel, which broadcasts Chinese language programmes to 25 countries in Europe, intending to serve Chinese speaking communities in such countries.

COMPETITIVE STRENGTHS

From its home base in Hong Kong and drawing on its shareholders' strengths, Phoenix is uniquely positioned to provide a variety of high quality, market-driven television news and entertainment programmes that are not otherwise consistently available to the general television audience in the PRC. As a satellite television broadcaster, Phoenix can also provide programmes to the large and still growing Chinese-speaking communities outside the PRC. The Directors believe that the strengths of Phoenix are:

Diverse, comprehensive and entertaining programmes. The launch of the Phoenix Chinese Channel fulfils a growing market need in China for more diverse, comprehensive and entertaining television programmes. Because of the lack of sophistication as well as institutional and ideological constraints, PRC television broadcasters have not been able to fully meet such needs. In contrast, as a Hong Kong-based satellite television broadcaster, Phoenix is not subject to the same constraints. Phoenix also has a broader and more immediate access to programme sources from all over the world. Phoenix has capitalised on these advantages effectively. Its programmes include news, entertainment, lifestyle, in-depth reports, coverage of live events, documentaries and talk shows. The Directors believe that such programmes are of high quality, are highly informative and entertaining and thus have a broad appeal in the PRC. In addition, by employing sophisticated western programme packaging techniques and effective promotion efforts (including promotion of its own television personalities), Phoenix has quickly established a recognised channel image and style that is unique in the PRC television market.

Flexibility in programming and marketing. Phoenix can quickly fine-tune its programmes and advertising to adjust to the tastes of its various target audiences. This "bottom-up" consumer-focused approach contrasts with the "top-down" government-directed approach of the

typical PRC television broadcasters, which lack the flexibility required to service advertising clients effectively. Phoenix's marketing of its services is likewise more flexible and effective than that of the PRC domestic television broadcasters.

High level of public awareness and recognition. The name of Phoenix is widely recognised in China. According to surveys conducted by the Gallup Organisation published in the *Fortune* magazine in October 1999, approximately 36% of those surveyed recognised the Phoenix name, making it as well-known as the names of McDonald's and General Motors in China. The Directors believe that the achievement of such a high level of name recognition, with only 13% of the television households receiving Phoenix broadcasts, suggests that there is a significant potential for increasing market penetration and advertising revenue. Furthermore, Phoenix plans to capitalise on such brand recognition by launching additional channels and by developing other distribution media such as the Internet.

Utilisation of technologically advanced satellite television and multimedia delivery. Since its establishment, Phoenix has recognised the importance of being at the forefront of technological development in the television and entertainment industry. By incorporating the technological infrastructure for providing satellite television, Phoenix is well positioned to expand its services into pay television through direct-to-home and other broadband delivery methods. The Directors believe that this technological positioning distinguishes Phoenix from the domestic television broadcasters in China.

Strength of shareholders. Immediately before the Share Offer, the Company has three shareholders: Star TV Holdings, Today's Asia and China Wise. Star TV Holdings is a wholly-owned subsidiary of News Corporation, an internationally recognised multimedia company engaged in the production and distribution of motion pictures and television programming, satellite and cable broadcasting as well as the publishing industry. Today's Asia is a company that is owned and controlled as to 93.3% by Mr. LIU, Changle, Chairman of the Board. Mr. LIU, Changle has extensive experience and in-depth knowledge of the media industry and has been engaged in such business in the PRC for more than 10 years. China Wise is beneficially owned by Bank of China, which is headquartered in Beijing and is one of the largest financial institutions in China with an aggregate asset value of approximately RMB2,900 billion (US\$347 billion) as at 31st December, 1999. This shareholder group combines world class media content and expertise with strong and in-depth local knowledge and therefore represents a solid foundation for the future growth of Phoenix's business.

Strength of management and television personalities. Based in Hong Kong, Phoenix has been able to recruit and retain high quality management, production, technical, sales and marketing executives who have in-depth knowledge of and expertise in the television and entertainment industry. Leveraging the experience of the Star TV Group in managing television business, Phoenix adopts modern and creative techniques in managing its business. Phoenix has also been able to attract television personalities from outside China, some of whom have become popular household names in China.

BUSINESS STRATEGY

Leveraging its position as the leading foreign satellite television operator broadcasting into China, Phoenix intends to expand its penetration into PRC television households, increase television advertising revenue and develop new sources of revenue. The Directors anticipate that the Chinese television industry will be further liberalised over time, which will facilitate the development of additional revenue sources (such as higher subscription fees for cable television and pay-per-view programmes) and new programme delivery technologies, including the Internet. Phoenix's goals are to:

Strengthen existing channel operations. Phoenix intends to continue to broadcast a variety of high quality television programmes that cater to diverse viewer groups. It also plans to continue to optimise programme scheduling so as to be more attuned to viewer habits and increase viewer retention. In addition, Phoenix intends to produce more programmes in-house to better fulfil its audience's demands. As regards advertising, Phoenix plans to increase the prime time advertising rates on the Phoenix Chinese Channel, which has experienced significant growth in demand for advertising time due to the channel's growing popularity. Phoenix also plans to produce more attractive programming for non-prime time slots on the Phoenix Chinese Channel in order to attract more advertisements during non-prime time hours.

Launch new channels. Phoenix intends to launch new channels that appeal to different segments of the television viewing market. Phoenix intends to launch the InfoNews Channel in the second half of 2000, which will focus on business and financial news reporting and commentaries, the North America Channel and the Cantonese Channel. Other channel themes which Phoenix is exploring include music, sports, lifestyle and humour. By launching more channels that can share a common central cost base and utilise resources more efficiently, Phoenix expects to create more advertising time slots and thus generate more advertising revenue with relatively low marginal costs.

Develop pay television. Phoenix launched the Phoenix Movies Channel in order to be at the forefront of the development of the pay-television industry in China. Phoenix believes that it possesses the essential elements in developing a viable pay-television business, namely a multiple-channel broadcast platform, a solid audience base and a good distribution network. Phoenix has already launched its first subscription based channel, the Phoenix Movies Channel, and a multiple-channel platform is being created. Phoenix has a sizeable audience base and its advertising sales network through Shenzhou and Star TV serves as a solid base for future pay-television operations. In the long run, Phoenix intends to develop pay television business in different formats including cable television, broadband delivery and direct-to-home television broadcasting when such broadcasting is permitted under PRC laws and regulations. Phoenix is currently in contact with certain cable television stations in Guangdong PRC concerning the launch of encrypted channels on their networks and sharing their subscription revenue.

Pursue high growth media content distribution businesses. Phoenix intends to actively pursue high growth content distribution businesses such as the Internet, broadband access and direct-to-home television. Phoenix is currently planning the development of a comprehensive

BUSINESS

Chinese language Internet portal. The portal will incorporate Phoenix's unique and extensive Chinese-language content in news, sports, music and entertainment and is intended to offer a variety of services complementary to Phoenix's television business.

Become a dominant Chinese content provider. Phoenix plans to increase the volume of self-produced television programmes, thereby establishing, over time, its own library of high quality, market-driven Chinese-language media content. This library will represent an additional revenue source, since it can be licensed to other television, Internet and media operators, potentially generating additional revenue for Phoenix. In particular, Phoenix intends to position itself as a dominant content provider of Chinese television programmes distributed by satellite, cable redistribution, and broadband Internet services, and to reach all Chinese speaking communities around the world.

PRINCIPAL ACTIVITIES OF PHOENIX

At present, the principal activities of Phoenix consist of acquiring and producing Chinese language television programmes and broadcasting them via the ASIASAT 3S satellite to audiences in the Asia Pacific Region, with China as the primary target market. Currently, Phoenix owns and operates the Phoenix Chinese Channel and the Phoenix Movies Channel and participates in the operation of the Phoenix CNE Channel. The following table shows the revenue generated from the Phoenix Chinese Channel and the Phoenix Movies Channel in the financial years ended 30th June, 1998 and 1999.

	For the financial year ended 30th June, 1998 HK\$'000	For the financial year ended 30th June, 1999 HK\$'000
Phoenix Chinese Channel	174,805	301,064
Phoenix Movies Channel*	<u>N/A</u>	<u>13,599</u>
	174,805	314,663

* *The Phoenix Movies Channel was launched on 28th August, 1998.*

In July 1999, Phoenix entered into a conditional acquisition agreement whereby Phoenix will acquire 70% of a newly established company which would acquire all the assets, business and properties necessary for the operation of the Phoenix CNE Channel from Phoenix Chinese News Entertainment Limited ("Phoenix CNE Ltd."). Since then, Phoenix began to provide funding for the operation of the Phoenix CNE Channel and to participate in the operation of this channel.

CHANNELS

Phoenix Chinese Channel

The Phoenix Chinese Channel, which is operated by Phoenix Satellite Television (Chinese Channel) Limited, was launched on 31st March, 1996. On the day of the launch of this channel, its broadcasts were made via satellite on the technical platform originally used by a Chinese language channel which was previously operated by Star TV Group but which, by agreement, ceased such operation in the PRC on the day of the launch of the Phoenix Chinese Channel.

The Phoenix Chinese Channel is an un-encrypted television channel broadcasting 24 hours daily. Its programming features news, entertainment, documentaries and lifestyle programmes. A number of programmes broadcast on this channel, such as *Good Morning China* (鳳凰早班車), *Sally's Eye on the World* (小莉看時事), *News Line* (時事開講), *Trendy Guide* (完全時尚手冊), *Phoenix Tonight* (相聚鳳凰台) and *Perfect Match* (非常男女), have become well-known in many parts of the PRC.

Phoenix Chinese Channel — Penetration

Penetration plays a very important role in the television industry, in particular with respect to un-encrypted television channels, such as the Phoenix Chinese Channel. The Directors believe that this is one of the most important factors considered by advertisers when purchasing advertising air-time.

The penetration of the Phoenix Chinese Channel has increased since its launch. According to surveys conducted by China Mainland Marketing Research Company, which were commissioned by Phoenix, the number of household units having access to the Phoenix Chinese Channel increased from approximately 36 million in 1996 to approximately 42 million in 1999. However, some of these household units do not have the proper approval to receive the broadcasts of the Phoenix Chinese Channel. For details of the regulatory restrictions relating to the reception of foreign satellite broadcasts within the PRC, please refer to Appendix V to this prospectus as well as the paragraph headed “PRC regulatory restrictions on the reception and rebroadcast of foreign satellite television programmes” under the section headed “Risk Factors” of this prospectus.

A survey conducted in 1999 also indicated that approximately 56% of the Phoenix Chinese Channel's viewers in the PRC were between the age of 20 to 39. The majority of the viewers of the Phoenix Chinese Channel were located in coastal areas of the PRC.

According to a survey conducted by ACNielsen (China) Ltd, in 1999, approximately 8% of the total surveyed households in the PRC earned a monthly household income of more than RMB4,000. However, among those surveyed households in the PRC which were able to receive and view the Phoenix Chinese Channel, approximately 15% of Phoenix's audience earned a monthly household income of more than RMB4,000.

According to the Office for the Telecommunication Authority of Hong Kong, as at 31st January, 2000, approximately 544,500 Hong Kong households were able to receive and view the Phoenix Chinese Channel.

In Singapore, the Phoenix Chinese Channel is broadcast via the Singapore CableVision network and reached a total of approximately 200,000 households in October 1999. In Malaysia, the Phoenix Chinese Channel is broadcast via the ASTRO network operated by Measat Broadcast Network Systems Sdn Bhd. and reached a total of approximately 300,000 households as of January 2000. In the Philippines, the Phoenix Chinese Channel is broadcast via the networks of SKY Cable and HOME Cable through which the Directors estimate that it reached a total of approximately 690,000 households as of June 1999. In Brunei, the Phoenix Chinese Channel is broadcast via the Kristal-Astro Network operated by Kristal-Astro Sdn Bhd. and reached a total of approximately 16,900 households as of February, 2000.

Phoenix Chinese Channel — Sales and Marketing

I. Income

The Phoenix Chinese Channel generates its income mainly from advertising revenues. It receives advertising fees from selling prime-time and non-prime time advertising slots. In addition, the channel also receives subscription fees from subscribers in Singapore and Malaysia.

Most of Phoenix's revenue derives from the Phoenix Chinese Channel. For each of the two financial years ended 30th June, 1998 and 1999, and the six months ended 31st December, 1999, the advertising revenue generated from the Phoenix Chinese Channel contributed approximately 98%, 96% and 95%, respectively, of the total revenue of Phoenix.

II. Customers

Customers referred to Phoenix by Shenzhou contributed approximately 73%, 84% and 88% of the advertising revenue generated by the Phoenix Chinese Channel for the financial years ended 30th June, 1998 and 1999, and the six months ended 31st December, 1999, respectively. Since its inception, Phoenix has not relied on any one single customer in its business. For the financial year ended 30th June, 1999, the total advertising revenue generated from the five largest advertising customers of the Phoenix Chinese Channel amounted to approximately HK\$47.3 million which represents approximately 16% of the total advertisement revenue of the Phoenix Chinese Channel and approximately 15% of Phoenix's total revenue for the same period. For the financial year ended 30th June, 1999, Bank of China, the largest advertising customer of the Phoenix Chinese Channel accounted for 4% of the total advertising revenue of the Phoenix Chinese Channel. The largest advertising customers advertising on the Phoenix Chinese Channel for the financial year ended 30th June, 1999, included 中國銀行 (Bank of China), 遠大中央空調有限公司 (Broad Air Conditioning Limited), 四川長虹電子集團公司 (Sichuan Changhong Electric Co. Ltd.) and 珠海格力集團 (Zhuhai Gree Electric Appliances, Inc.).

Save as the interests of 中國銀行 (Bank of China) in China Wise as disclosed in the paragraph "Sponsors' interest" in Appendix VI to this prospectus, none of the Directors, the Company, Today's Asia, China Wise, Star TV Holdings nor any of their respective associates has any interest in any of the largest customers.

III. *Advertising Time Slots and Fees*

The ability of Phoenix to generate advertising revenue depends in part on the total number and length of commercial breaks that may be aired. Pursuant to the existing licence of Hutchvision granted by the Hong Kong Government through which Phoenix is provided with certain uplink and downlink services, the total period for transmitting advertising material and material for promotion in each broadcasting hour shall not exceed 12 minutes. Currently, Phoenix, as a policy, uses only 10 minutes in each broadcasting hour for advertising time slots, and uses the remaining two minutes to broadcast self-promotion programmes.

It is Phoenix's current practice to emphasise packaged sales of advertising air-time. The main type of packaged sales is programme sponsorship, whereby a customer sponsors a programme by purchasing certain advertising air-time during that programme. The amount of the advertising fee for a sponsored programme depends on the popularity of the programme, but is usually higher than the average fee for non-packaged sales. In addition, Phoenix offers packages by which customers commit to purchase advertising air-time for specific periods.

IV. *Sales and Marketing of Advertising Air-Time*

Advertising air-time sold by the Phoenix Chinese Channel has doubled in the last three years, from approximately 1.2 million seconds in 1997 to approximately 2.4 million seconds in 1999. In addition, its advertising rates have also increased. The advertising revenue of the Phoenix Chinese Channel increased from approximately HK\$120 million for the financial year ended 30th June, 1997, to approximately HK\$298 million for the financial year ended 30th June, 1999. The number of sponsors of programmes on this channel also increased from 41 in 1997 to 105 in 1999.

Phoenix utilises a variety of marketing methods to generate sales of the Phoenix Chinese Channel's advertising air-time. Phoenix has a marketing team in Hong Kong which is responsible for the promotion and advertising sales of Phoenix in Hong Kong and the coordination of all marketing activities worldwide. Direct sales and marketing in China are mainly conducted by Phoenix's PRC sales agent, Shenzhou, an advertising agency company in the PRC and a related party of Phoenix prior to the completion of Share Offer. Phoenix also cooperates with Star TV Group closely on international sales of advertising air-time.

According to the relevant laws and regulations of the PRC, the placement of advertisements in Hong Kong for PRC entities can only be made through Designated Advertisement Agencies. For details of these regulations, please refer to the section headed "Regulation of PRC Entities Advertising in Hong Kong" in Appendix V to this prospectus. Pursuant to the service agreement between Phoenix and Shenzhou, Shenzhou shall promote and procure the sale of advertisement timeslots for Phoenix. Generally, contracts were concluded between Phoenix (or Shenzhou acting on its behalf) and such advertising agencies representing the advertising clients pursuant to which Phoenix shall pay a commission to Shenzhou. For the last two financial years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999, Phoenix paid commissions of approximately HK\$23 million, HK\$45 million and HK\$32 million, respectively, to Shenzhou as advertising agent for Phoenix and to such advertising agencies.

Despite that Phoenix has from time to time received complaints from its advertising customers that some cable operators in the Guangdong Province and other provinces, when transmitting programmes of the Phoenix Chinese Channel, replace the original advertisements from such programmes with their own advertisements, Phoenix believes that its advertising revenues have not been materially affected by this phenomenon.

V. Arrangement with Shenzhou

Phoenix has entered into a service agreement with Shenzhou⁽¹⁾ for a term of 5 years, whereby Shenzhou promotes and procures the sale of advertising air-time and programme sponsorships on the Phoenix Chinese Channel as well as additional channels operated by the Group upon its requests for Phoenix. All such services are conducted in accordance with Phoenix's advertising fee structure, and terms and conditions. Shenzhou is also responsible for collecting advertising revenues for Phoenix in the PRC and remitting the same to Phoenix in Hong Kong after deducting its commission and other service charges payable to it pursuant to the agreement. Phoenix and Shenzhou have established a close co-operation relationship. Pursuant to the agreement, Shenzhou is entitled to a commission of not more than 5% on gross advertising sales, less any commission paid or payable to third party advertising agents. The exact percentage is to be agreed at the beginning of every quarter of the year between the parties. For details of the arrangement between Phoenix and Shenzhou, please refer to the paragraph "Summary of Material Contracts" under Appendix VI to this prospectus. Without the prior written approval of Phoenix, Shenzhou shall not act as the advertising sales agent for any other party operating business similar to that of Phoenix.

Shenzhou maintains sales offices in the following large cities in China: Beijing, Shanghai, Guangzhou, Chengdu, Jinan, Shenyang, Hangzhou, Xian, Nanjing and Wuhan. Five to seven sales people are employed in each office. Shenzhou provides training programmes to its sales team. Presentations and sales conferences are held regularly in Hong Kong and in major cities in the PRC to introduce new programmes and sales policies to customers.

The Directors believe that the arrangement between Shenzhou and Phoenix has provided Phoenix with an efficient mechanism for generating sales in the PRC advertising market. As part of these arrangements, Phoenix's employees work closely with Shenzhou's in making presentations and conducting joint sales activities. In addition, Phoenix maintains direct contacts with certain key customers of the Phoenix Chinese Channel. The Directors believe that Phoenix's relationship with these key customers would not be materially adversely affected even if Shenzhou ceased to provide the aforesaid services to Phoenix.

Note (1): Mr. CHUI, Keung, a Director, indirectly held a 16% interest in Shenzhou. Mr. CHUI disposed his entire interest in Shenzhou to an independent third party and such disposal was approved by SAIC Beijing Branch on 11th May, 2000. The other 84% interest of Shenzhou are also held by parties who are not connected persons to Phoenix.

VI. Arrangement with Star TV Group

Star TV Group refers international customers to Phoenix for which Star TV Group receives a commission at the rate of 20% of the net advertising income in respect of the sale of advertising air time (being the gross advertising income, less any commission fee paid to third-party agencies). Star

TV Group maintains sales offices in the United States, the United Kingdom, Japan, Singapore and Taiwan. The Directors believe that Phoenix is better positioned to access internationally well-known customers through the services provided by Star TV Group.

Phoenix Chinese Channel — Programming Strategies

The Phoenix Chinese Channel focuses on news, documentaries, entertainment and lifestyle programmes. Phoenix intends to broadcast more hours of information and entertainment programmes in the future in response to the strong interest in such programmes in the PRC.

All the programmes broadcast by the Phoenix Chinese Channel are in Chinese. The target audiences are urban residents in the PRC from the higher income and well educated sectors of the community. Programmes selected for broadcast are intended to cater to the needs and demands of such audiences. The Directors believe that such an approach and market positioning are conducive to capturing the high quality advertising customers both inside and outside the PRC.

Phoenix Chinese Channel — Source of Programmes

Phoenix produces or re-packages a majority of programmes (self-produced programmes) broadcast on the Phoenix Chinese Channel. Phoenix plans to increase the proportion of programmes produced in-house for broadcasting on the Phoenix Chinese Channel. The remaining programmes are purchased from local and international production houses and studios. Star TV Group also provides support to Phoenix in such production, mainly by way of the provision of studios, equipment and creative services.

Currently, most of the self-produced programmes pertain to news, current affairs, documentaries, and talk shows. It is Phoenix's plan to produce more music and entertainment programmes in the future. The Directors believe that self-produced programmes can more efficiently fulfil needs of the audience and at the same time promote the name of Phoenix.

Generally speaking, the average cost of a self-produced programme is higher than that of a purchased programme. In 1999, the average hourly production cost was about HK\$44,000 for a self-produced programme, whereas the average hourly production costs ranged from HK\$15,000 to HK\$62,000 for a purchased programme. However, the Directors believe that the advantages of more targeted, self-produced programmes outweigh the higher costs that are incurred to support the needs of self-production. Phoenix has a team of experienced and well-known programme hosts. In addition, Phoenix has a close cooperative relationship with Shenzhou and Sino (H.K.), which provides technical, logistical and human resources support to Phoenix. There is a staff secondment arrangement between Sino (H.K.) and Phoenix. Phoenix also produces programmes in collaboration with PRC television stations.

Since its inception, Phoenix has not relied on any single programme supplier in the operation of its business. For the financial year ended 30th June, 1999, costs incurred and payable to the five largest suppliers of programmes to the Phoenix Chinese Channel amounted in aggregate of approximately HK\$17.2 million, representing approximately 66% of the total costs incurred by Phoenix for purchases of programmes broadcast on this channel, or approximately 31% of the total costs incurred by Phoenix for purchases of programmes broadcast on all its channels. For the financial year ended 30th June, 1999, ATV Enterprises Ltd., the largest supplier of programmes to the Phoenix Chinese Channel

accounted for 12.6% of the total costs incurred by Phoenix for the purchase of programmes on all its channels. The largest suppliers of programmes broadcast on the Phoenix Chinese Channel for the financial year ended 30th June, 1999, included ATV Enterprises Ltd., Pan American Civilisation International Co. Ltd. (泛美文化事業有限公司), Nippon Television Network Corporation and BBC Worldwide Limited.

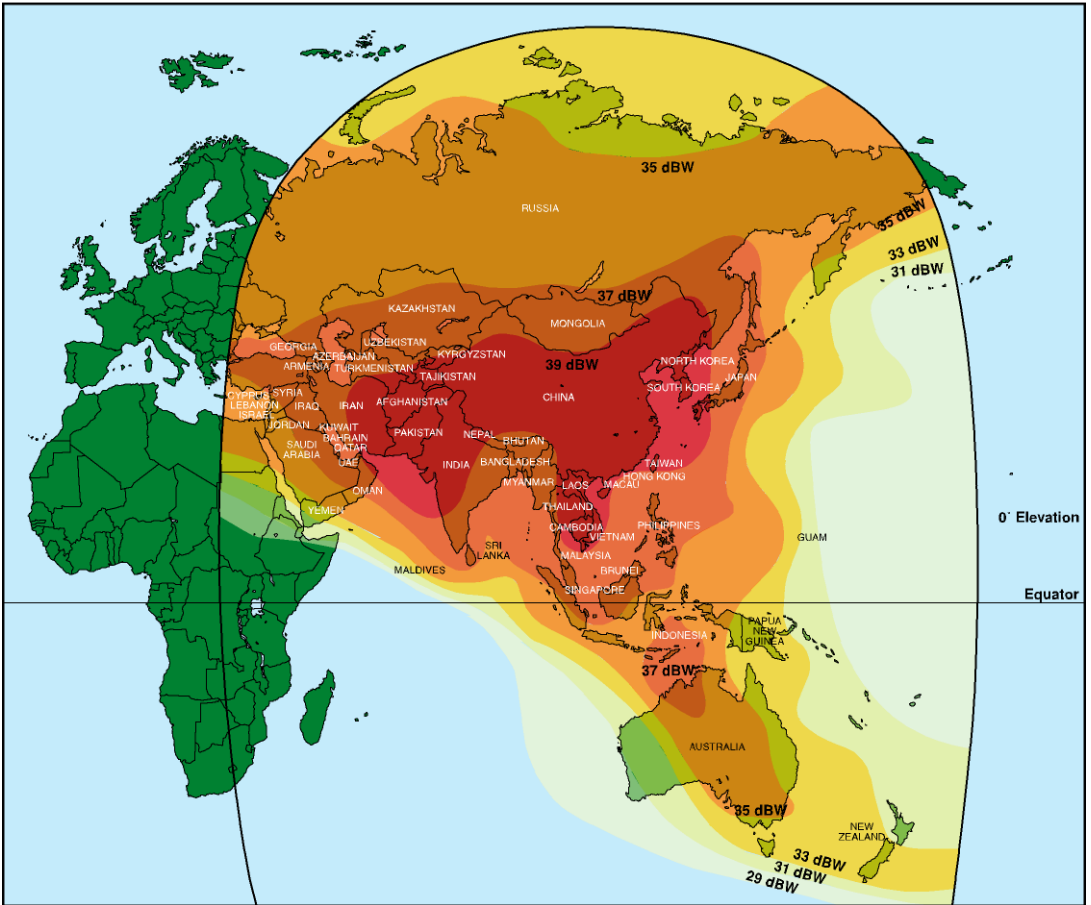
Mr. LIU, Changle, the Chairman of the Company holds an indirect interest of approximately 14% in ATV, the holding company of ATV Enterprises Ltd. Save as disclosed in this prospectus, none of the Directors, the Company, Today's Asia, China Wise, Star TV Holdings nor any of their respective associates has any interest in any of the above largest programme suppliers.

Phoenix Chinese Channel — Technical Arrangements

Phoenix uses certain equipment and facilities of Satellite Television pursuant to which signals of the Phoenix Chinese Channel are transmitted. Under the agreement between Satellite Television and Phoenix, Satellite Television provides sufficient transponder capacity for the transmission of the existing channels owned by Phoenix on the ASIASAT 3S satellite, together with other operating and uplinking services for a period of three years, subject to the right of Phoenix to terminate the whole of the agreement or certain services related thereto by notice. For details of the contractual agreements in relation to such technical arrangements, please refer to the section headed "Connected Transactions" in this prospectus. Currently, the Phoenix Chinese Channel broadcasts via the ASIASAT 3S satellite. ASIASAT 3S has a C-Band coverage over virtually the entire Asian region, with a footprint stretching from Russia to Australia and from Japan to the Middle East. Approximately two-thirds of the world's population are covered by the ASIASAT 3S satellite.

The footprint of the ASIASAT 3S satellite is shown on the following map.

ASIASAT 3S C-Band EIRP footprint



Phoenix Chinese Channel — Communication with viewers

The Internet website of Phoenix, www.phoenixtv.com, provides, among other things, information about the programmes of the Phoenix Chinese Channel. In addition, Phoenix also systematically monitors its audiences' opinions on programmes. Phoenix has set up an internal department to oversee the quality of its programmes and to organise market and penetration surveys on the penetration, the demographics of the audiences and their opinions on the programmes. Phoenix makes use of the statistics collected from these surveys to formulate its development plans and its programming and market strategies.

Furthermore, viewers' opinions can be sent to Phoenix by mail or e-mail. It is Phoenix's policy that all viewer comments shall be replied by officers in charge of viewer comments. The Directors believe that this policy encourages a responsive and ongoing relationship between Phoenix and its viewers.

Phoenix Movies Channel

To further Phoenix's business strategy of expanding the pay-television market, Phoenix established the Phoenix Movies Channel on 28th August, 1998, by acquiring a movie channel and its existing subscription contracts from Star TV Group. The Phoenix Movies Channel is operated by Phoenix Movies and is currently a Chinese language movie channel by subscription only in China. The Directors believe that the establishment of the Phoenix Movies Channel was a significant achievement in transforming Phoenix from a single channel television station to a multi-channel broadcaster with a pay-television platform.

Phoenix Movies Channel — Number of Entities Subscribing to this Channel

The Phoenix Movies Channel is an encrypted channel which broadcasts movies and related programmes 24 hours daily. Currently, the Phoenix Movies Channel is only offered for subscription in the PRC.

The number of entities subscribing to this channel increased from approximately 1,500 on 28th August, 1998, the date this channel was launched, to approximately 2,300 on 31st December, 1999. The subscribers are either hotels or other authorised institutions and entities such as residential compounds and educational institutions. In the PRC, there are subscribers in every province, autonomous region and municipality under the direct administration of the Central Government. Under the current laws and regulations of the PRC, only certain categories of entities are permitted to install facilities to receive foreign satellite transmitted television programmes. Currently, the Phoenix Movies Channel is one of the 18 approved encrypted foreign satellite television channels in the PRC. For details of these restrictions, please refer to the sub-section headed "Regulation of the Television Broadcasting Industry in the PRC" in the section headed "Industry Overview" and the paragraph headed "PRC regulatory restrictions on the reception and rebroadcast of foreign satellite television programmes" in the section headed "Risk Factors" of this prospectus.

Phoenix Movies Channel — Sales and Marketing

The Phoenix Movies Channel derives its revenue from two sources, the sales of decoders and the annual subscription fees payable by subscribers. To receive and view broadcasts of the Phoenix Movies Channel, a subscriber needs to purchase a decoder from an agent of Phoenix authorised by the provincial department in charge of the radio and television industry in the PRC. Currently, only CITV is authorised to import decoders into the PRC. The annual subscription fee is based on the number of rooms or households served within the building.

Phoenix has entered into a sale and distribution agency agreement with CITV for the sale and promotion of the decoders and for the collection and remittance of the annual subscription fees to Phoenix in Hong Kong. The service fee charged by CITV is calculated by reference to the amount of subscription fees received by CITV on behalf of Phoenix. Pursuant to such agreement, CITV is entitled to receive a commission representing 25% and 20% of the subscription fees in respect of the new subscribers and recurring subscribers respectively. The Directors believe that the Phoenix Movies Channel is currently the only Chinese language pay television being promoted by CITV. Phoenix maintains a close relationship with CITV in order to facilitate its selling activities in the PRC. The Directors believe that this arrangement has enabled Phoenix to effectively penetrate the PRC pay-television market.

Phoenix Movies Channel — Source of Programmes

All of the motion pictures broadcast on the Phoenix Movies Channel are purchased from outside sources. One of the major suppliers is Star Filmed. Since August 1998, Star Filmed has been licensing motion pictures to Phoenix Movies for the operation of the Phoenix Movies Channel pursuant to a memorandum of understanding made amongst, Star Filmed, Satellite Television, Phoenix Movies, and Phoenix Satellite TV. On 15th June, 2000, Phoenix Movies entered into a licence agreement with Star Filmed which superseded the memorandum of understanding. Pursuant to the licence agreement, Phoenix Movies has non-exclusive access to the Chinese language film library of Star Filmed for a period of 10 years from 28th August, 1998 to 27th August, 2008. Such film library consists of approximately 500 titles, including Hong Kong motion pictures from one of the largest film producers in Hong Kong, Golden Harvest Ltd. There are about 350 titles in the film library which Phoenix broadcasts from time to time. These movies are mostly Chinese language movies produced in Hong Kong in the 1980s. There is no limitation on the number of times the Phoenix Movies Channel may broadcast such titles. A licence fee is payable by Phoenix Movies which comprises a base fee of US\$237,500 per month and an additional fee of 12.5% of the amount of net revenues of the Phoenix Movies Channel exceeding US\$18 million per annum on the condition that the aggregate amount of additional fees payable by Phoenix Movies shall not exceed US\$36 million for the entire licence period. Licence fees incurred by Phoenix Movies to Star Filmed for the financial year ended 30th June, 1999, and the six months ended 31st December, 1999, were approximately HK\$26 million and approximately HK\$18 million, respectively.

Phoenix also purchases motion pictures from other studio and production houses through its programme acquisition and sales team. Normally, the title providers authorise Phoenix to broadcast their titles for at least ten runs a year. Phoenix incurred approximately HK\$368,000 in purchasing broadcasting rights to titles from sources other than Star TV Group for the six months ended 31st December, 1999.

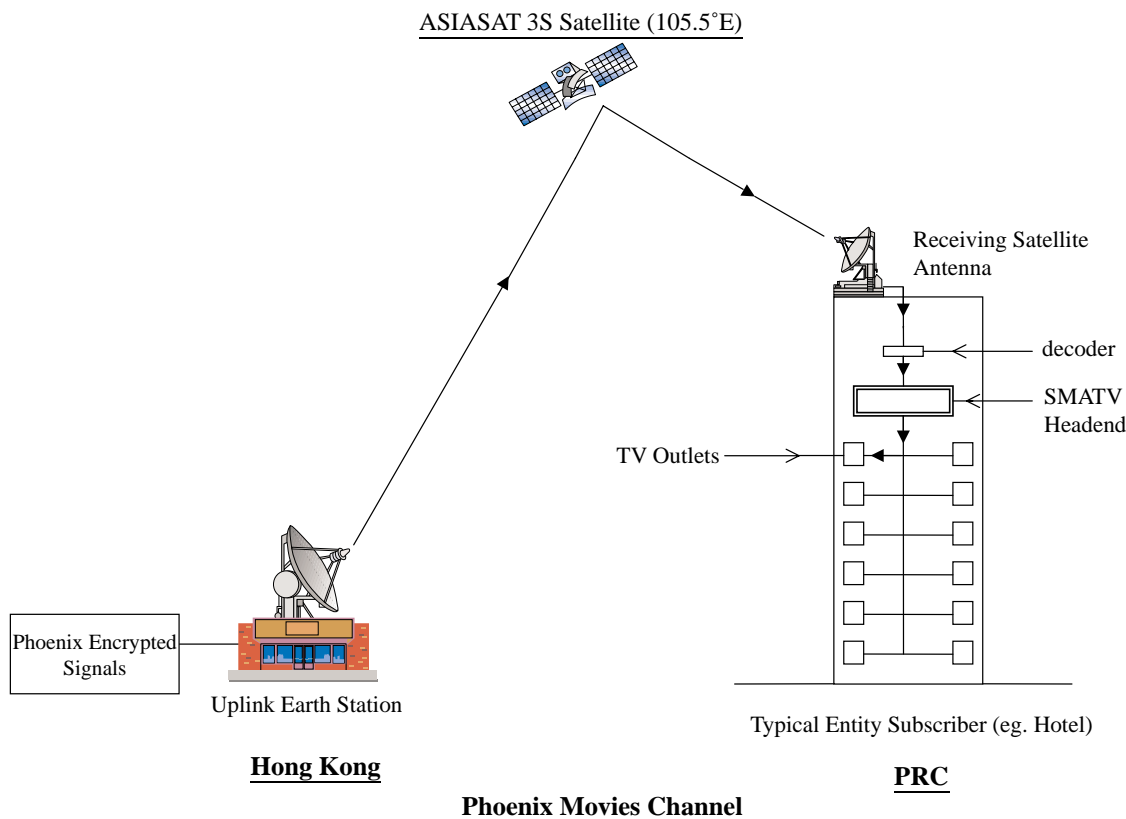
Phoenix dubs the non-Mandarin motion pictures in Mandarin or inserts Chinese sub-titles to such pictures. The Directors believe that such dubbing and sub-titling are crucial to increase subscription rates to the Phoenix Movies Channel, as the majority of viewers in the PRC do not understand English or Cantonese.

Phoenix Movies Channel — Technical arrangements

The programmes of the Phoenix Movies Channel are transmitted via the ASIASAT 3S satellite under the contractual arrangements as described in more details above under the paragraph headed “Phoenix Chinese Channel — Technical Arrangements.”

BUSINESS

Phoenix Movies Channel's transmission signals are in digital encrypted format, which signals can be decoded by decoder boxes sold to subscribers. Digital signals require less bandwidth and hence lower transponding costs. The following is an illustration of the transmission of the Phoenix Movies Channel:



Phoenix CNE Channel

Currently, Phoenix CNE Channel is operated by Phoenix CNE Ltd. which is a wholly-owned subsidiary of Techvast Limited⁽¹⁾.

Note (1): Currently, China Wise holds 12% of the issued share capital of Techvast Limited as nominee for an independent third party and has no beneficial interest therein. The other shareholders of Techvast Limited are third parties independent of Phoenix.

On 11th July, 1999, Phoenix Satellite Television (Europe) Limited and an independent third party representing the shareholders of Techvast Limited entered into a conditional acquisition agreement. Pursuant to this agreement, it was envisaged that Phoenix Satellite Television (Europe) Limited and Techvast Limited would subscribe for 70% and 30%, respectively, of the share capital of a newly established company which would acquire all the assets, business and properties necessary for the operations of the Phoenix CNE Channel from Phoenix CNE Ltd. in consideration of Phoenix's agreement to provide funding to such newly established company. Pursuant to the conditional acquisition agreement, Phoenix has to provide funding of not less than US\$8.4 million to Phoenix CNE Ltd. for the next three years for an annual funding of not less than US\$2.8 million in the form of

an unsecured, interest-free shareholder loan with no fixed term of repayment. Phoenix will be responsible for 100% of the Phoenix CNE Channel's operating costs while Techvast Limited is not required to provide any additional funding to Phoenix CNE Ltd. during such period.

Phoenix and Techvast Limited are currently re-negotiating the acquisition mechanism. Each of Phoenix and Techvast Limited has been issued one share at par of a newly established company, PCNE Holdings Limited. It is proposed by Phoenix that PCNE Holdings Limited shall acquire 100% of the share capital of Phoenix CNE Ltd. from Techvast Limited. Upon the closing of the transaction, PCNE Holdings Limited will issue new shares so that its total issued capital will be held as to 70% by Phoenix and as to 30% by Techvast Limited.

Currently, Phoenix and Techvast Limited are in the process of finalising the negotiations and settling the relevant legal documentation pertaining to this transaction. Since Phoenix is still conducting the relevant financial due diligence, the Directors believe that the acquisition will not be completed prior to the Share Offer. Although the documentation concerning the Phoenix CNE Channel has not been completed, Phoenix has since August 1999 been funding and participating in the operation of the Phoenix CNE Channel and the channel has already been renamed as Phoenix CNE Channel. As of April 2000, Phoenix has funded approximately £1.25 million (HK\$16,250,000) for the operations of this channel in the form of an unsecured loan with no interest and fixed term of repayment. The Company intends to continue to provide funding in the future to the Phoenix CNE Channel by way of shareholders' loan. Upon completion of the acquisition, Phoenix CNE Ltd. will formally become part of the Group and may generate revenue for Phoenix.

Phoenix CNE Channel is still in its development stages. Currently, the Phoenix CNE Channel covers 25 countries in Europe, including the United Kingdom, France, Germany, Austria and Spain. The target audience of the Phoenix CNE Channel is the overseas Chinese speaking community in Europe.

In launching the Phoenix CNE Channel, Phoenix was able to leverage its strengths with respect to news, entertainment, current affairs and commentary programmes as well as the high degree of awareness of the name of Phoenix to reach other parts of the world. The Directors believe that the launch of the Phoenix CNE Channel is an important step in achieving Phoenix's business goal of reaching Chinese speaking communities all over the world.

Phoenix CNE Channel — Sales and Marketing

The Phoenix CNE Channel generates income for Phoenix mainly from advertising revenue. It receives advertising fees which may vary depending on whether it is a programme-specific advertisement or a time-slot specific advertisement.

The sales and marketing activities of the Phoenix CNE Channel are carried out by Phoenix CNE Ltd. under the direct supervision of the head office of Phoenix. In addition, through its own connections with advertising agencies, Phoenix's advertising team in Hong Kong also provides assistance to the Phoenix CNE Channel with respect to the sales and marketing activities.

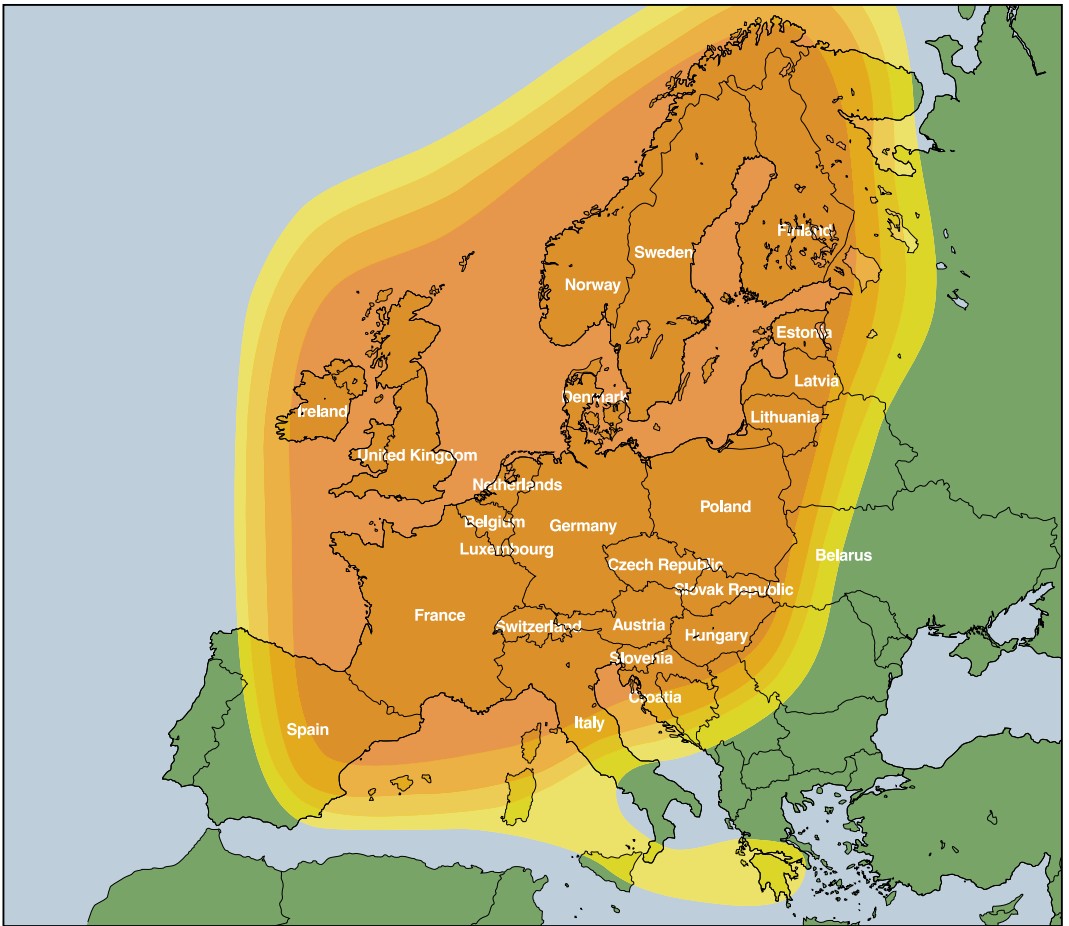
Phoenix CNE Channel — Source of programmes

The Phoenix CNE Channel broadcasts a wide range of programmes including news, entertainment, current affairs and documentaries. Currently, the Phoenix CNE Channel relies on Phoenix to source programmes. Some of the programmes are provided by the Phoenix Chinese Channel and some are acquired jointly with the Phoenix Movies Channel. The Phoenix CNE Channel currently broadcasts six hours of programmes daily. All of the programmes broadcast by the Phoenix CNE Channel are Chinese programmes.

Certain programmes produced for broadcast on the Phoenix Chinese Channel are also broadcast on the Phoenix CNE Channel. Currently, most of the programmes broadcast on the Phoenix CNE Channel are sourced externally by Phoenix. As the Phoenix CNE Channel develops, Phoenix may consider producing more programmes specifically for the Phoenix CNE Channel.

Phoenix CNE Channel — Technical arrangements

The Phoenix CNE Channel broadcasts via the ASTRA 2A satellite utilising transponders leased by BSkyB, a company 40% owned by News Corporation, with a footprint extending over 25 countries. Under the Heads of Agreements dated 11th June, 1998 entered into between BSkyB and Phoenix CNE Ltd., Phoenix CNE Ltd. is entitled to use certain digital transponder capacity on the ASTRA 2A satellite including uplinking and electronic programme guide services provided by BSkyB for a period of three years from the date of the launch of the Phoenix CNE Channel on 21st August, 1999. The footprint of the ASTRA 2A satellite is shown on the following map:



Phoenix's Internet Strategy

Phoenix believes that as technology further develops, Internet will gradually converge with the traditional broadcasting media. Thus, an Internet strategy is critical for Phoenix to maintain its role as a leading player in the PRC media market.

Phoenix aims to launch an infotainment vertical portal in Chinese through its Internet subsidiary, PHOENIXi, to target PRC users and users with an active interest in China related news and infotainment in other parts of the world. PHOENIXi established Guofeng On-line in the PRC in April 2000 to engage in the development of network technology and related technical consultation and

technological services. Based on the advice of its PRC legal counsel, PHOENIXi is implementing its Internet business in the PRC initially through contractual arrangements between this wholly owned subsidiary and Tianying Jiuzhou, a 100% Chinese owned PRC domestic company.

The current website of Phoenix

On 1st June, 1998, Shenzhou as representative of Phoenix launched the Phoenix Website. The Phoenix Website currently provides information about Phoenix and Phoenix's television programmes, as well as biographies and pictures of the Phoenix Chinese Channel's popular television personalities. In addition, the Phoenix Website provides videos on special events, such as China's National Day celebration. It also allows viewers to provide feedback on Phoenix's television programmes. As at January 2000, the Phoenix Website received approximately 180,000 page views per day.

The current operation of the Phoenix Website is governed by an agreement made between Phoenix Satellite TV and Tianying Jiuzhou. Pursuant to the agreement, Tianying Jiuzhou provides ICP services to Phoenix Website. The Company has been advised by Jingtian Associates, its PRC legal counsel, that since Phoenix is not participating in the operation or management of the Phoenix Website, Phoenix is not required to apply for any specific PRC Internet related licence. For details of PRC regulations relating to Internet, please refer to Appendix V to this prospectus.

The PRC Internet Market

Although the Internet penetration rate in China is still very insignificant as compared to the United States, Internet in China has experienced tremendous growth in recent years and is projected to have significant increase in the coming years. International Data Corporation forecasted that PRC Internet commerce revenue will reach approximately US\$11.7 billion in 2004. Forrester Research, Inc. in 1999 also forecasted that Internet advertising spending will reach US\$440 million in 2004.

Phoenix's Niche in developing a Successful Chinese Portal

PHOENIXi intends to build an "infotainment" vertical portal targeting Chinese viewers around the world. Building on its strength in television broadcasting, Phoenix aims to become in the long term a dominant content provider of Chinese television programming through satellite, cable redistribution, and broadband Internet services targeting the Greater China and other Chinese speaking communities around the world. The Directors believe that PHOENIXi is uniquely positioned to develop a successful Internet business targeting Chinese users because of the following competitive strengths: (1) content origination capabilities; (2) well established brand name in China; (3) access to advertisers; and (4) strong management team.

Content Origination Capabilities

PHOENIXi distinguishes itself from many portals which rely on third party content providers. Whereas most portals commit substantial resources to develop or acquire content from third parties, Phoenix has a ready and diverse supply of news, current affairs, sports and entertainment content that is of proven quality and popularity. Phoenix's available content will further increase with the launch of the InfoNews Channel in the second half of 2000 and the development of other channel themes such as music, sports, lifestyle and humour in the future. Phoenix will in the future offer PHOENIXi the exclusive publishing and distribution rights for

Phoenix's television and magazine content over the Internet. This substantially reduces the cost of sourcing content and allows Phoenix much better control over the availability and quality of content compared to other portals.

Well-established Brand Name in China

Phoenix's established and popular brandname in China is an effective tool in marketing its portal to Internet users and advertising clients. Compared to a typical portal which spends a large part of its revenues on marketing, Phoenix builds on the popularity of its brand name and current website and could save brand development and marketing cost through cross promotion among its website, television channels and magazine. In addition, the Phoenix television celebrities are very popular among its target community and are instrumental in solidifying user loyalty and creating a cohesive Phoenix Internet community. Phoenix has also been able to enhance its brand image and that of its television personalities through interactive features on its current website.

Access to Advertisers

PHOENIXi enjoys immediate access to Phoenix's existing client base for advertisement. As advertisement is expected to remain the primary source of revenue for Chinese websites in the near future, having existing advertising clients is a definite competitive advantage for PHOENIXi. In addition, there is a significant overlap between Phoenix's television audience and current Chinese Internet users in China: the relatively young, well educated and high income segment of the population. The overlap in target audience appeals to advertising clients and creates synergies for content creation and sale and marketing efforts. Phoenix will consider offering multi-media and interactive advertising packages to clients who place advertisement on both of its television channels and portal.

Strong Management Team

PHOENIXi has a strong management team with solid experience and in-depth understanding of the media business in China. In addition, Mr. Mark Wong Van Haren, a co-founder of @Excite based in the United States and a minority shareholder of PHOENIXi, has been actively involved in the formulation and implementation of Phoenix's Internet business strategy.

Implementation of Phoenix's internet strategy

PHOENIXi intends to initially target the China market, and then to explore other Chinese speaking communities around the world in the longer term. Phoenix believes that as technology further advances and broadband access becomes more prevalent, convergence of the traditional television business and the Internet is inevitable. Thus, in the long term, Phoenix seeks to combine television and Internet content in an interactive setting. If and when the regulations in China permit, PHOENIXi intends to enter into partnerships with cable operators and/or other broadband access providers to develop interactive media.

PHOENIXi's short-term objectives are to increase web traffic, enhance viewer loyalty and create revenue through the following steps:

1. *Revitalise brand and increase traffic.* Phoenix aims to significantly increase its page views next year by revitalising its website content. Phoenix is currently in preliminary discussions with a number of Internet content providers in China to enhance content and generate web traffic.
2. *Enhance user loyalty by enhancing web features and building a Phoenix Internet community.* To further capitalise on its rich content, Phoenix intends to archive its content and develop a search engine, and continue to leverage on the popularity of its television personalities by using interactive communications via the Internet.
3. *Build up user database and facilitate targeted marketing and online advertising.* PHOENIXi will systematically analyse viewer behavior to tailor its content to viewers' specific needs and build up viewer database to enable targeted marketing activities.
4. *Expand revenue base through e-commerce.* In the short run, Phoenix's Internet revenue will be derived from advertisement and revenue sharing from content sales and other collaborative efforts with other sites. As Phoenix's long term goal is to become a multimedia content provider, its revenue base is expected to expand to commission from e-commerce transactions and fees for the provision for broadband Internet access in the future.
5. *Explore opportunities in broadband technology development and provision of broadband access solutions.*

The Directors believe that its Internet business is a natural extension of its existing core satellite television business and its newly launched magazine business. Phoenix's satellite television, magazine and Internet businesses complement one another because of their synergies and cross promotion opportunities, which makes Phoenix a unique portal among its competitors and positions Phoenix to be an integrated multi-media content provider in the PRC in the future.

The Company has been approached by certain potential strategic investors who indicate their interest in investing in PHOENIXi. Preliminary negotiations are being conducted between Phoenix and the potential investors but no agreement has been made. Should the investment arrangement be finalised, the Company shall make all necessary disclosure to the investing public as required by the GEM Listing Rules and/or make the relevant applications to the Stock Exchange if so required for the implementation of such investment arrangement.

Other Business

In addition to revenue from advertising fees and subscription fees, Phoenix also receives licensing fees by licensing the broadcasting rights of programmes to other un-encrypted broadcasters in the PRC and overseas. Phoenix's programme acquisition and sales teams carry out marketing activities for such licensing transactions in the PRC and overseas. Phoenix receives licence fees for the re-broadcast rights of programmes produced by Phoenix and re-broadcast rights of programmes

purchased by Phoenix. For the two financial years ended 30th June, 1998, and 30th June, 1999, and the six months ended 31st December, 1999, Phoenix received such licence fees of approximately HK\$317,000, HK\$292,000 and HK\$507,000, respectively.

Intellectual Property Rights

Phoenix has registered its trademarks in various countries. Details of the trademarks can be found in the section headed “Statutory and General Information — Intellectual Property Rights of Phoenix” in Appendix VI to this prospectus.

Competition

The television industry is highly competitive. Phoenix competes for audience, programming and advertising revenues with other television stations in the PRC and the Asia Pacific region. For advertising revenues, Phoenix also competes with other forms of advertising media, such as radio, newspapers, magazines, outdoor advertising, online advertising and direct mail. Some competitors are government-sponsored stations or are part of larger corporations with substantially greater financial resources than Phoenix. The principal competitors of Phoenix are providers of Chinese language television programmes in the PRC market, including PRC based national and regional television broadcasters and non-PRC based satellite television broadcasters.

Among the PRC-based un-encrypted television broadcasters, CCTV, which is owned and operated by the Central Government in the PRC, is the dominant television operator in the PRC. CCTV owns and operates eight Chinese channels broadcasting throughout the PRC. Phoenix also faces competition for viewers and the advertising customers from other major PRC regional television broadcasters such as Beijing Television, Shanghai Television, Oriental Television, Hunan Television and Guangdong Television, which also broadcast via satellite and therefore are also able to attract large national audiences. In addition, as PRC-based cable television operators offer self-produced programmes, they are also competing for advertising revenues.

As a result of the economic reforms in the PRC, the quality of the programmes of PRC based television broadcasters has improved due to a greater degree of freedom and flexibility in producing television programmes and in deciding what programmes to air.

Phoenix also competes with a number of other non-PRC based satellite television channels, such as Star TV Group, China Entertainment TV, CNN and CNBC which also broadcast to the PRC. Some of these channels broadcast limited Mandarin programmes to the PRC, which are similar to programmes offered by the Group in the sense that they are non-traditional and are directed at specific groups in the PRC.

In Hong Kong, Phoenix competes with TVB, ATV and Hong Kong Cable. TVB and ATV have a penetration rate of nearly 100%.

Statement of Active Business Pursuits

The table below summarises the achievements of Phoenix since its inception:

<p>Period from 31st March, 1996 to 31st December, 1998</p>	<p>Period from 1st January, 1999 to 31st December, 1999</p>
<p><i>Development of New Channels</i></p> <ul style="list-style-type: none"> ● The Phoenix Chinese Channel was launched on 31st March, 1996, and the Phoenix Movies Channel was launched on 28th August, 1998. <p><i>Penetration</i></p> <ul style="list-style-type: none"> ● The penetration of the Phoenix Chinese Channel and the number of subscribers to the Phoenix Movies Channel increased. 	<ul style="list-style-type: none"> ● On 11th July, 1999, Phoenix entered into a conditional acquisition agreement for the acquisition of a 70% interest in a newly established company, intended to hold the assets, business and properties necessary for the operation of the Phoenix CNE Channel and Phoenix began to participate in the operation of this channel. ● The Phoenix CNE Channel was launched on 21st August, 1999. ● The penetration of the Phoenix Chinese Channel and the number of subscribers to the Phoenix Movies Channel increased to approximately 42 million households and approximately 2,300 subscribers, respectively.

<p>Period from 31st March, 1996 to 31st December, 1998</p>	<p>Period from 1st January, 1999 to 31st December, 1999</p>
<p><u>Extent of Reach</u></p> <ul style="list-style-type: none"> ● The footprint of the satellite transmitting the Phoenix Chinese Channel and the Phoenix Movies Channel included more than 38 countries in the Asia Pacific region. ● By the end of 1996, Phoenix Chinese Channel entered the network of Singapore Cable Television Co., Singapore CableVision in Singapore. ● In June 1997, Guangdong Provincial and Municipal Cable Network began to broadcast the Phoenix Chinese Channel. <p><u>Programme Development</u></p> <ul style="list-style-type: none"> ● The number of hours of self-produced programmes for the financial years ended 30th June, 1997 and ended 30th June, 1998 were approximately 1,230 and approximately 1,660, respectively. ● The number of hours of purchased programmes for the financial years ended 30th June, 1997 and ended 30th June, 1998 were 1,530 and 1,566 respectively. 	<ul style="list-style-type: none"> ● 25 European countries were covered by the footprint of the satellite transmitting the Phoenix CNE Channel. ● In 1999, the Phoenix Chinese Channel began broadcasting in the Philippines and Malaysia. ● The number of hours of self-produced programmes increased to approximately 2,000 while the number of hours of purchased programmes decreased to approximately 1,190.

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Period from 31st March, 1996 to 31st December, 1998	Period from 1st January, 1999 to 31st December, 1999
<p><u>Technical Arrangements</u></p> <ul style="list-style-type: none"> ● Channels of Phoenix were uplinked to the ASIASAT 1 satellite, the predecessor of ASIASAT 3S which was equipped with 24 C-Band transponders which had a footprint covering more than 38 countries with approximately 50% of the world's population, including most of Asia. 	<ul style="list-style-type: none"> ● The Phoenix Chinese Channel uplinked to the ASIASAT 3S satellite, which has a C-Band footprint stretching from Japan to the Middle East and from Russia to Australia, which covers almost two-thirds of the world's population.

STATEMENT OF BUSINESS OBJECTIVES

I. Business Objective

Phoenix aims to become a dominant content provider of Chinese television programming distributed via satellite, cable redistribution and the Internet targeting the Greater China area and Chinese speaking communities around the world.

II. Future Plans and Prospects

In order to meet Phoenix's business objectives, the Directors believe that it is important for Phoenix to further develop its satellite television business and to implement its Internet strategy. To further enhance its satellite television business, the Company intends to launch the InfoNews Channel, the North America Channel and the Cantonese Channel in the next two years. The new channels will better position Phoenix to eventually evolve into a pay-television business model when the restrictions on the reception and re-broadcast of foreign television programmes are relaxed. In order to develop more tailor-made television programmes to be broadcast on the new channels as well as the Phoenix Chinese Channel, the Company intends to further develop its programme production capabilities and establish a programme production centre. To implement its Internet strategy, Phoenix intends to develop its existing website into a vertical portal that will capitalise on the synergies between Phoenix's television content and the Internet user communities. In the future, as technology develops and as Phoenix's television and Internet content becomes well established, Phoenix will explore ways to converge the content delivered by satellite television and the Internet. Phoenix may secure its technological advancement and content enhancement through acquisitions, forming strategic partnerships and/or other forms of strategic alliances with other Internet companies, cable operators or television content providers or broadcasters.

Channel Development

Phoenix will strengthen its television business by establishing new channels, producing more programmes for Phoenix through a new production centre and publishing the *Phoenix Weekly*.

- *New channels*

Apart from strengthening the operation of its existing channels, the Directors believe there is a strong demand from its targeted viewers in China in news and financial oriented programmes and Cantonese programmes. As a result, Phoenix intends to set up new channels, including the InfoNews Channel focusing on news and documentaries and the Cantonese Channel providing Cantonese programmes. In addition, Phoenix intends to target the significant Chinese speaking communities in North America by launching the North America Channel, which will broadcast Chinese programmes on one of the direct-to-home platforms in the United States.

- *New production centre and more programme sources*

Phoenix intends to set up a new production centre in Shenzhen, the PRC. A Sino-foreign equity joint venture, Phoenix Film, has been set up to provide services ancillary to film and television programme production (including leasing film studios and sites, equipment, costumes and stage property). Phoenix holds 60% interest in such joint venture company, with the remaining interest held by independent third parties. Phoenix also intends to acquire more movies from independent third parties for the Phoenix Movies Channel..

- *Phoenix Weekly*

Phoenix intends to publish a magazine to be named the *Phoenix Weekly*, to cover the television programmes and personalities on its channels. It intends to form partnerships with distributors for the marketing and distribution of the *Phoenix Weekly*.

III. Implementation Schedule

Business Plan for the Latest Practicable Date – December 2000

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Prepare and launch the InfoNews Channel ● Increase production of programmes for the Phoenix Chinese Channel through additional production support from China ● Acquire more third-party movies for the Phoenix Movies Channel ● Prepare for the establishment of a production centre in Shenzhen, the PRC ● Prepare and launch the North America Channel ● Begin publication of the Phoenix Weekly and form partnerships with other companies for its distribution 	<ul style="list-style-type: none"> ● Complete corporate organisation ● Improve on the Phoenix Website to build an “infotainment” vertical portal linking all relevant Phoenix television and magazine content and personalities with the Internet community ● Leverage on Phoenix’s brand name to promote the Phoenix portal ● Develop online fulfilment e-commerce platform

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	Channel Development	Internet Strategy
Implementation	<ul style="list-style-type: none"> ● Locate suitable technical support services for the broadcasting of the new channels ● Expand operation team for the InfoNews Channel ● Set up a preparation team for the production centre in Shenzhen, PRC for site development and recruitment ● Formulate the development plan for the production centre in Shenzhen, PRC ● Enter into co-operation arrangement with local network operators in the United States of America for North America Channel ● Expand the operation team for the North America Channel ● Expand editorial, sales and distribution teams for its magazine business 	<ul style="list-style-type: none"> ● Cross promotion between the Phoenix Website, television channels and magazine ● Establish strategic partnerships (both content providers and technical partners) to enhance contents and portal features ● Expand the Internet content production team for graphic design, editorial, content research and archiving ● Expand the technical team for Internet content database, viewer database, portal infrastructure and system integration ● Generate advertising revenue through existing advertising customers

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Business Plan for January – June 2001

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Establish alliance with content providers for the InfoNews Channel ● Increase broadcasting hours of the Phoenix CNE Channel ● Subject to obtaining the relevant regulatory approval, begin construction of the production centre in Shenzhen, PRC ● Conduct feasibility study and prepare development plan for Cantonese broadcasting capabilities and begin preparation for the launch of the Cantonese Channel 	<ul style="list-style-type: none"> ● Identify loyal sub-communities to facilitate e-commerce opportunities ● Explore new services that strengthen the tie between Phoenix television and its Internet communities ● Expand content and feature ● Complete initial trial for broadband platform
Implementation	<ul style="list-style-type: none"> ● Establish correspondence stations in key cities for the InfoNews Channel for better news and information collection ● Expand the provision of ancillary programme production services at the production centre in Shenzhen, PRC ● Train and develop hosts for the InfoNews Channel 	<ul style="list-style-type: none"> ● Continue to source and establish strategic partnerships with both content providers and technological partners ● Enhance community and personalisation features ● Provide target customers advertising opportunity to create higher advertising revenue ● Further develop e-commerce platform to expand revenue base, including content sales

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Business Plan for July – December 2001

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Continue to strengthen coverage and content for the InfoNews Channel ● Increase production hours to enhance the programming for the Phoenix Chinese Channel ● Explore the feasibility of and prepare for the launch of the Cantonese Channel ● Expand penetration of the North America Channel through alternative delivery medium e.g. by developing the DTH platform ● Continue to create brandname awareness of “Phoenix” through various promotional activities ● Continue to enhance the functions of correspondence stations for the InfoNews Channel in connection with news and information for better content enhancement 	<ul style="list-style-type: none"> ● Begin to implement broadband services in phases in major cities ● Further explore e-commerce opportunities with business partners ● Continue to monitor the market for new trends and technologies ● Selectively invest in key strategic content or solution partners to explore other business opportunities
Implementation	<ul style="list-style-type: none"> ● Continue to establish correspondence stations in key cities for the InfoNews Channel ● Research on market development and formulate the appropriate programming strategy 	<ul style="list-style-type: none"> ● Identify and establish strategic partnership with broadband infrastructure providers ● Develop specific content and features targeting mobile phone service providers ● Continue with the development of content and features for broadband services

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Business Plan for January – June 2002

	Channel Development	Internet Strategy
Objectives	<ul style="list-style-type: none"> ● Production centre becomes fully operational and will be further strengthened to accommodate increasing programming demands for the Phoenix Channels ● Continue to increase self-produced programme production capacity on all channels to 10 hours per day from its current capacity ● Strengthen sales teams in Europe and North America ● Launch the Cantonese Channel ● Continue to create brandname awareness of “Phoenix” through various promotional activities ● Continue to enhance the functions of correspondence stations for the InfoNews Channel in connection with news and information for better content enhancement 	<ul style="list-style-type: none"> ● Launch broadband services in both major cities and second tier cities ● Further research on media product and content sales market and suggest B2B service strategies ● Become the infotainment centre for the global Chinese community
Implementation	<ul style="list-style-type: none"> ● Expand content library for the Cantonese Channel ● Expand reporting and news coverage teams ● Research on market development and formulate the appropriate programming strategy 	<ul style="list-style-type: none"> ● Continue to effect revamping and enhancing the functions of the website as appropriate ● Further enhance the strategic partnership on broadband services ● Further expand the technology, marketing, content sourcing and business development teams ● Continue to monitor the market for new trends and technologies

IV. Bases and Assumptions

Based on the existing business development of Phoenix and the worldwide development trends of the television broadcasting and entertainment industry, the Directors believe that the present business of Phoenix can be further developed from a satellite television platform to a multimedia entertainment platform, including satellite television broadcasting, cable television redistribution and the Internet business.

In formulating and preparing the statement of business objectives of Phoenix through 30th June, 2002, the Directors have adopted the following bases and assumptions:

Market Conditions

1. Both the PRC and other overseas markets with Chinese speaking communities will generate strong demand for Chinese language programmes.
2. Advertising expenditure in the PRC will continue to grow.
3. Companies in the PRC will generate strong demand for advertising overseas.
4. The Internet will become another common entertainment media worldwide, including in the PRC.
5. There will be a continuing increase in the number of advertisers using the Internet as an advertising medium.

Human Resources

There will be an adequate supply of human resources, including programme designers, production and packaging specialists, marketing personnel and Internet engineers, in the industry in which Phoenix operates.

Legal environment

1. Although legal impediments to foreign participation in the PRC pay-television market will continue, the regulatory regime will be gradually liberalised over time.
2. There will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC or any countries in which Phoenix broadcasts.

Funding

1. The Directors assume that the net proceeds of the Share Offer should be adequate to finance the capital investment and working capital requirements of Phoenix's business plans.
2. Phoenix will be able to arrange any additional finance for its business development.

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The aforesaid plans are based on the existing plans and intentions of Phoenix which are either at a conceptual stage or a preliminary stage. Furthermore, such intentions and plans are based on assumptions of future events, which by their nature are subject to uncertainty. Phoenix's actual course of action may therefore vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid terms and timeframe, there can be no assurance that the plans of Phoenix will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that, the objectives of Phoenix will be fully accomplished or accomplished at all.

Expansion and acquisition strategies will play a significant role in Phoenix's future growth plans. Through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures, Phoenix will continue to seek out suitable investment candidates and business partnerships. The Directors are currently evaluating a number of business opportunities. However, the evaluation and related negotiations with the relevant parties are only at a preliminary stages and there is no assurance that any of these negotiations will be consummated.

Any future acquisition or disposal of assets by Phoenix is subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders when any acquisition or disposal of assets by Phoenix is proposed, irrespective of the size of such acquisition or disposal and in particular when such acquisition or disposal represents a departure from the principal activities of Phoenix. The Stock Exchange also has the authority, pursuant to the GEM Listing Rules, to aggregate a series of acquisitions or disposals by Phoenix and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the GEM Listing Rules.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds from the Share Offer will provide funding for the development plans of Phoenix.

The net proceeds from the Share Offer (after deducting related expenses payable by the Company in relation to the Share Offer, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.10 per Share, being the midpoint of the proposed Offer Price range of HK\$0.91 to HK\$1.29) are estimated to be about HK\$739 million. The Directors presently intend to use such net proceeds as follows:

- as to approximately HK\$260 million, for the enhancement of the programme production capability for Phoenix and its content development, including the establishment of a production centre in Shenzhen;
- as to approximately HK\$185 million, for the development of new channels, including the North America Channel, the InfoNews Channel and the Cantonese Channel;

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- as to approximately HK\$148 million, for the development of the www.phoenixtv.com web page into an “Infotainment” vertical Chinese portal, aiming to capitalise on the synergies between Phoenix’s television content and the Internet user communities;
- as to the balance of approximately HK\$109 million, for strategic investments and additional general working capital of Phoenix; and
- as to approximately HK\$37 million, for the development of the Group’s magazine, the *Phoenix Weekly*, to be distributed in the PRC.

On the basis that the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$1.10 (being the midpoint of the proposed Offer Price range of HK\$0.91 to HK\$1.29), the Company will receive additional net proceeds of about HK\$114 million which together with the net proceeds from the Share Offer, after deducting related expenses, will amount to approximately HK\$853 million. The Directors intend to use the additional proceeds raised from the Over-allotment Option for strategic investments and additional general working capital of Phoenix.

In the event that there are any material changes or modification to the use of proceeds as a result of the Offer Price being fixed at below the proposed Offer Price, appropriate announcement will be made by the Company.

In the event that part of the business plans of Phoenix does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of Phoenix and/or to hold it as short term deposit for so long as the Directors consider it to be in the best interest of the Company and its shareholders taken as a whole.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term deposit with financial institutions in Hong Kong.

YEAR 2000 ISSUE

The year 2000 problem arises primarily because some system engineers tended to use only two digits to represent the year in databases to save storage space in the past as the cost of computer data storage had been high then. However, the production costs of data storage have decreased with the advances in technology and with the increasing caution towards the year 2000 problem, recently developed products in the market are all fully year 2000 compliant.

Phoenix mainly utilises computer application software for inventory, customer information and accounting at office. The Group has reviewed all its computer hardware and application software to ensure that they are Year 2000 compliant. The review revealed and confirmed that all of Phoenix's hardware and application software are Year 2000 compliant. Phoenix has been advised by its accounting application software supplier that the accounting application software used by Phoenix is currently Year 2000 compliant. The Directors therefore believe that they have taken all necessary steps to ensure the computer systems of Phoenix are Year 2000 compliant.

In the event that Phoenix adopts any new computer application in the future, Phoenix will take into account the Year 2000 issue and will ensure that the new systems are Year 2000 compliant. There is no assurance that Phoenix's computer system or facilities will continue to function properly and that the steps taken by Phoenix will be sufficient to avoid or prevent the Year 2000 issue as far as Phoenix is concerned.

DIRECTORS

Executive Directors

Mr. LIU, Changle (劉長樂), aged 48, appointed on 2nd February, 2000, is the Chairman and the Chief Executive Officer of the Company. Mr. LIU graduated from the Beijing Broadcasting Institute in the early 1980s and joined China Central People's Radio Station with which he has held over the years the positions of reporter, editor, news commentator and senior management and participated in the reporting and commentary of a number of important national occasions and events. Mr. LIU is a visiting professor of the Beijing Broadcasting Academy.

Mr. LIU's PRC domestic and overseas investments include petroleum, infrastructure construction, real estate development, trading and cultural businesses.

On 31st March, 1996, Mr. LIU, through Today's Asia which is 93.3% owned by him, together with Satellite Television and China Wise, jointly founded Phoenix Satellite TV. He became and remains the Chairman of the Board and the Chief Executive Officer of Phoenix.

In the January 2000 issue of the "*Voices of China*" monthly magazine, Mr. LIU was elected as one of the top ten personalities of the "*Voices of China*".

Mr. LIU is one of the substantial shareholders of ATV and a member of the International Board of the US National Academy of Television Arts and Sciences.

Mr. CHUI, Keung (崔強), aged 48, appointed on 5th June, 2000, is the Deputy Chief Executive Officer of the Company. Mr. CHUI graduated from the department of journalism of Fudan University in Shanghai and served in the China Central People's Radio Station for over 10 years. Since the establishment of Phoenix on 31st March, 1996, he has been in charge of the overall daily operations, the public relations and promotion strategies of Phoenix, and the coordination of the relationships with PRC government entities. He also assists in establishing and implementing the corporate development strategies of the Company.

Throughout the term of office with the Group, Mr. CHUI has been instrumental in Phoenix's PRC domestic business development, programme production, advertising operation, marketing network and public relations. In 1996, he was in charge of the production of "Flying over the Yellow River", a major television programme of Phoenix, which achieved popular success and heightened the popularity of Phoenix in the PRC and overseas Chinese communities.

Prior to joining Phoenix, Mr. CHUI was a director and the general manager of Tianhua International Culture and Art Company Limited in Beijing focusing on developing various cultural, arts and publication businesses.

Non-executive Directors

Mr. MURDOCH, James Rupert, aged 27, appointed on 5th June, 2000, Executive Vice President of News Corporation, is responsible for building the digital media assets and strategy for News Corporation on a global basis. Currently, he is also the Chairman and the Chief Executive Officer of Star TV.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Before becoming the Executive Vice President of News Corporation in September 1999, Mr. MURDOCH was, since the division's inception in November 1997, the President of News Digital Media (formerly known as News America Digital Publishing — NADP), the digital media arm of News Corporation.

Mr. MURDOCH was formerly Vice President for New Media in News Corporation, prior to serving as President of NADP. Mr. MURDOCH serves on News Corporation's Executive Committee.

Mr. CHURCHILL, Bruce Barrett, aged 43, appointed on 5th June, 2000, is the President and Chief Operating Officer of Star TV.

Mr. CHURCHILL is responsible for operations across the entire company and plays a key role in determining and implementing Star TV's development strategy.

Mr. CHURCHILL joined Star TV in 1996 from Fox Television ("Fox") in Los Angeles, where he was Senior Vice President, Finance. At Fox, he managed the overall financial, corporate development and administrative functions for Fox Broadcasting, Fox Television Stations, Fox Cable Networks and Twentieth Century Television domestic syndication.

Before moving to Fox, Mr. CHURCHILL spent a year as Senior Vice President at Paramount Technology Group, following four years as vice president, strategic planning at Paramount Pictures.

In 1984, he graduated with his Masters in Business Administration from the Harvard Business School. Subsequently, Mr. CHURCHILL joined McKinsey and Company Inc. as an associate. He worked with McKinsey and Company Inc. for four years, specialising in media and consumer products, until joining Paramount Technology Group in 1989. Prior to commencing his studies at business school, Mr. CHURCHILL worked at the Crocker National Bank as a corporate lending officer. He has a Bachelor of Arts degree in American Studies from Stanford University.

As part of his duties at Star TV, Mr. CHURCHILL is also Chairman of Channel [V] and ESPN STAR Sports.

Mr. LAU, Yu Leung, John (劉禹亮), aged 37, appointed on 5th June, 2000, holds the position of Chief Financial Officer of Star TV. Mr. LAU has overall responsibility for all financial matters of Star TV, including corporate accounting, management and financial reporting, internal audit, treasury and tax.

Prior to joining Star TV, Mr. LAU was the Chief Financial Officer of San Miguel Brewing International Ltd. with similar functional responsibilities covering the company's operations throughout Asia Pacific.

Before this role, Mr. LAU was the Director of Finance and Business Development, Asia Pacific for GE Information Services, a wholly owned subsidiary of General Electric Company in the U.S. In that capacity, Mr. LAU oversaw both the finance and business development functions and was instrumental in setting up and managing various joint ventures of the companies with local partners in the region.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Other roles that Mr. LAU has held include Senior Accountant for Philip Morris Asia Inc. and Senior Accountant of Deloitte & Touche in Los Angeles.

Mr. LAU graduated from Brigham Young University in Utah in August 1988, with Masters in Accountancy and Information Systems and a Bachelor of Science degree in Accounting. He is a current member of the California Institute of Certified Public Accountants.

Mr. CHEUNG, Chun On, Daniel (張鎮安), aged 41, appointed on 5th June, 2000, joined Star TV in 1991 and is now the Executive Vice President, Hong Kong and Taiwan. He is responsible for the content development and development of new subscription television services for Hong Kong.

Before assuming his present position, Mr. CHEUNG was the General Manager of Star TV in Taiwan when he was responsible for advertising sales, subscription television service and television programme production. Under Mr. CHEUNG's leadership, Star TV's television channels, namely STAR Chinese Channel, STAR International Movies, STAR Mandarin Movies, Channel [V] achieved more than 90% penetration of Taiwan's cable systems.

Mr. CHEUNG graduated from the Hong Kong Polytechnic in Electronic Engineering. Before he joined Star TV, he was the technical consultant of Cable and Wireless HKT Limited for the Global Virtual Private Network.

Mr. LIANG, Xiaoting (梁小庭), aged 48, appointed on 5th June, 2000, is a director of Bank of China, Deputy Chief Executive of Bank of China, Hong Kong Macau Regional Office and First Deputy General Manager of Bank of China Hong Kong Branch. Since August 1998, he has been appointed as the director of BOC International Holdings Limited.

Mr. LIANG joined Bank of China in 1980. Prior to his present assignments, he had assumed various positions at Bank of China, including: Deputy General Manager of the International Business Department, Beijing Head Office, Chairman of China Development Finance Company (Hong Kong) Limited and Vice Chairman and Chief Executive Officer of BOC International Holdings Ltd.

Within the Bank of China Group, Mr. LIANG is Chairman of Bank of China Group Insurance Co. Ltd., Chairman of Sun Chung Estate Co. Ltd. and Chairman of Kiu Kwong Investment Corporation Ltd. Apart from being an Exchange Fund Advisory Committee member of the Hong Kong Monetary Authority, he is also a board member of the Hong Kong Airport Authority, a member of the Securities and Futures Commission ("SFC") Advisory Committee, SFC Takeovers & Mergers Panel, SFC Takeovers & Appeal Committee, non-executive director of Sinolink Worldwide Holdings Ltd., General Committee member of the Hong Kong General Chamber of Commerce, Standing Committee Member of the Chinese General Chamber of Commerce, and member of the Hong Kong Polytechnic University Council.

Mrs. CHAN, Fung Kit Ching (陳馮潔清), aged 54, appointed on 5th June, 2000, graduated with the Bachelor degree of Commerce, *cum laude*, from the Department of Accountancy and Finance Faculty of the Chinese University of Hong Kong in 1967. Mrs. CHAN is currently a director of Chartermis Limited. Her husband, Mr. CHAN Wing Kee is a shareholder and director of both Today's Asia and ATV.

Independent non-executive Directors

Dr. LO, Ka Shui (羅嘉瑞), aged 53, appointed on 5th June, 2000, is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is a director of CDL Hotels International Limited, The HSBC China Fund Limited, The Hongkong and Shanghai Banking Corporation Limited and Shanghai Industrial Holdings Limited. He is also a director of Hong Kong Exchanges and Clearing Limited and Chairman of the Listing Committee of the GEM, a Vice President of the Real Estate Developers Association of Hong Kong, a member of the University Grants Committee and a member of the Council of Advisors on Innovation and Technology. He graduated with a Bachelor of Science degree from McGill University and M.D. from Cornell University, certified in Cardiology. He has more than 20 years' experience in property and hotel development and investment both in Hong Kong and overseas.

Mr KUOK, Khoon Ean, aged 45, appointed on 5th June, 2000, has been with the KUOK Group since 1978 and is the Chairman of South China Morning Post (Holdings) Limited. He is a director of Kerry Media Limited, Kerry Holdings Limited and Kerry Group Limited. He is also a director of a number of publicly listed companies in Malaysia and Singapore. He graduated from Nottingham University, United Kingdom with a bachelor's degree in economics.

SENIOR MANAGEMENT

Mr. LEUNG, Noong Kong (梁濃剛), aged 51, currently holds the position of Deputy Chief Executive Officer of the Company. Mr. LEUNG had been instrumental in setting up Phoenix project and has been part of its senior management team ever since its inception. His primary responsibilities include the supervision of the day-to-day operations of Phoenix, the establishing of management structures pertaining to the evolving operations of Phoenix, as well as the mapping out of strategies, in conjunction with the Chief Executive Officer of the Company, for the business development of Phoenix.

Mr. LEUNG joined Star TV in 1991. From 1991 to 1995, he was involved in various tasks relating to the development of Star TV's business in the Greater China region. He also played a pivotal role in the launching of Star TV's Chinese Channel and Star Movies Channel in 1991 and 1993, respectively. Following the formation of Phoenix Star TV, Mr. LEUNG was again instrumental in the launching of the Phoenix Chinese Channel, the Phoenix Movies Channel and the Phoenix CNE Channel in 1996, 1998 and 1999 respectively.

Mr. LEUNG is a well-known figure in the Hong Kong media and broadcasting field. He hosted a film magazine programme for TVB Jade in the late 1960s. He then worked as an editor and journalist for one of Hong Kong's first finance newspapers, Ming Pao Evening News, in the early 1970s. From 1971 to 1978, he worked respectively for the United States Information Service in Hong Kong as editor and the BBC External Services in London as programme producer/news announcer. From 1978 to 1988, he spent 10 years with TVB, programming for its Chinese channel (Jade) and English channel (Pearl) at different times. He had also been with ATV for one year after that, looking after the station's programming administration side. While at TVB and ATV, and subsequently at Star TV, he set up the internal standards and practices departments for all three and he was well versed in all the regulatory issues involved in television broadcasting.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Apart from being a distinguished personality in the media field, Mr. LEUNG is also a renowned writer on the cinema and on cultural studies in Hong Kong and Taiwan, as well as a published author and translator of several books in these fields. He had also been a programme consultant to many international film festivals, including the Hong Kong International Film Festival, and had sat on the editorial boards for many prestigious publications at various times.

Mr. WANG, Jiyao (王紀言), aged 51, joined Phoenix Satellite TV in March 1996. Mr. WANG is the Vice President of Phoenix Satellite TV and the Company and Head of the Phoenix Chinese Channel. Mr. WANG has taught in Beijing Broadcasting Institute for more than twenty years.

Mr. WANG is one of the leading television programme producers in China and participated in the direction and production of a number of television programmes in early years. His television programme productions have won numerous domestic and overseas awards.

Mr. WANG is also a scholar in the television industry and has been the panelist of various international television festivals and the presenter of international Chinese language television festivals. He is also a renowned media educator. During the two decades of teaching in the Beijing Broadcasting Institute, he was the head of the television department for over ten years and was the deputy dean of the Beijing Broadcasting Institute for six years.

Mr. YEUNG, Ka Keung (楊家強), aged 41, Vice President and Chief Financial Officer of Phoenix Satellite TV and the Company, is in charge of corporate finance and administration.

Mr. YEUNG joined Phoenix in March 1996 and has been in charge of all of Phoenix's internal and external financial management and arrangements as well the supervision of administration and personnel matters.

Mr. YEUNG graduated from the University of Birmingham and remained in the United Kingdom until 1992 after obtaining his qualification as a chartered accountant. Upon returning to Hong Kong, he worked at Hutchison Telecommunications and Star TV in the field of finance and business development.

Mr. YU, Tungbo (余統浩), aged 53, joined Phoenix Satellite TV in March 1996. He is the Vice President of Phoenix Satellite TV and the Company in charge of advertising and marketing networks.

Mr. YU graduated from the International Politics Department of the People's University of China. He is a well-known personality in television broadcast and was the head of Guangdong Broadcasting Station and Zhuhai Economic Broadcasting Station; the deputy editor-in-chief of the Television Broadcasting Bureau of Guangdong Province, the deputy general manager of Television Broadcast International Economic and Technical Cooperation Group Company of China and a director of the Television Broadcast Institute of China.

Mr. YU's professional ability in respect of television broadcasting has been recognised by the industry. In the 1980's, he was elected the founder and first president of the Economic Broadcasting Station Research Institute of China. In 1994, he was engaged by TCI, one of the largest cable television companies in the United States, as its China advisor. In January 2000, he was voted Chairman of the Association of Hong Kong Advertising Industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

Overview of staff numbers

As at the Latest Practicable Date, Phoenix had 152 full-time employees. An analysis by function of Phoenix's full-time staff is as follows:

Management	13
Finance and Administration	13
Advertising Sales	10
Distribution and Marketing	5
Programmes Acquisition	7
Phoenix Chinese Channel	88
Phoenix Movies Channel	4
Others	<u>12</u>
Total	<u><u>152</u></u>

Phoenix's relationship with staff

Phoenix has not experienced any significant labour disputes or substantial change in the number of its employees during the past 24 months which led to the disruption of its normal business operations. The Directors consider Phoenix's relationship with its employees to be good.

Share option schemes

Under the Pre-IPO Share Option Plan, certain employees (including the executive Directors) of the Group have been granted options to acquire Shares. In addition, Phoenix has conditionally adopted the Share Option Scheme and approved the PHOENIXi Plan. The principal terms of the Pre-IPO Share Option Plan, the Share Option Scheme and the PHOENIXi Plan are summarised in the section headed "Share Option Schemes" in Appendix VI to this prospectus.

Benefits

The staff of Phoenix is currently participating in the provident fund scheme and medical insurance scheme of Satellite Television. Phoenix's Hong Kong employees are members of a defined contribution provident scheme. All contributions are made by Phoenix currently at 10% of the employee's basic salary.

Audit committee

The Company has established an audit committee in accordance with the guidelines set out in "A Guide for the Formation of an Audit Committee" prepared by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of Phoenix. The audit committee comprises, Mr. LAU, Yu Leung John, Mr. LO, Ka Shui and Mr. KUOK, Khoon Ean.

CONNECTED TRANSACTIONS

Upon completion of the Share Offer, Phoenix will have certain ongoing connected transactions and continuing connected transactions pursuant to the following arrangements and/or agreements:

Exempt Connected Transaction

(a) Licence of Office Premises

Pursuant to a licence agreement dated 15th June, 2000 entered into between Phoenix Satellite TV and Satellite Television, an indirect wholly-owned subsidiary of Star TV which beneficially owns 100% of Star TV Holdings, Satellite Television granted to Phoenix Satellite TV a licence to use 19,675 sq.ft. of the office premises at 9th Floor, One Harbourfront, No. 18 Tak Fung Street, Hungghom, Kowloon (the “Premises”) from 1st July, 2000 to 14th July, 2003 with an option (the “Option”) which may be granted to Phoenix Satellite TV to extend the term for a further term of three years if Satellite Television shall exercise its option under its tenancy agreement with Rhine Office Investments Limited, Elbe Office Investments Limited and Hutchison Hotel Hong Kong Limited (the “Landlord”) of the office premises occupied by it (including the Premises).

A licence fee of HK\$396,057.75 per month, service fees (including management fee, air-conditioning fee and electricity and water charges) of HK\$103,490.50 per month, government rates of HK\$31,480 per month and fitting out cost of HK\$101,130 per month which fitting out costs will cease to be payable after 30th April, 2001, are payable by Phoenix Satellite TV. The licence fee payable by the Group has been determined by reference to the area of space occupied by Phoenix Satellite TV and is therefore proportional to the total rental payable by Satellite Television in respect of the area occupied by it under its lease with the Landlord. From the commencement of operation of the Group in March 1996 up to the execution of the licence agreement, Satellite Television has been providing office premises to the Group on similar terms.

The aggregate licence fee paid for the Premises in the financial years ended 30th June, 1998 and 1999, and for the six months ended 31st December, 1999 amounted to approximately HK\$8.9 million, HK\$8.9 million and HK\$3.7 million, respectively. The aggregate licence fee payable by Phoenix Satellite TV per annum for each of the two financial years ending 30th June, 2002 and the period commencing from 1st July, 2002 and ending on 14th July, 2003, is expected not to exceed HK\$8.0 million, HK\$6.4 million and HK\$7.2 million, respectively. It should be noted that the government rates are subject to change and the air conditioning fee may increase if extended hours of supply is required outside normal working hours.

American Appraisal Hongkong Limited, an independent valuer has confirmed that the licence fee payable for the Premises is fair and reasonable and the terms of this licence are at arm’s length and on normal commercial terms.

The above licence will fall within Rule 20.24 of the GEM Listing Rules as the annual total consideration or value of the transaction (when aggregated or treated on an individual basis) is less than the higher of (a) HK\$10,000,000 or (b) 3% of the net tangible assets of the Company. Such transaction will therefore be exempt from the reporting, announcement and shareholders’ approval requirements of Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

In the event that Phoenix Satellite TV exercises the Option, full compliance with the GEM Listing Rules is required unless a waiver from strict compliance with such Rules is granted.

Non-exempt Continuing Connected Transactions

(b) Technical and Administrative Services

Pursuant to an agreement (“Star Services Agreement”) between Phoenix Satellite TV and Satellite Television dated 15th June, 2000, Satellite Television agreed to supply to Phoenix the following services for the production and broadcast of the Phoenix Movies Channel and the Phoenix Chinese Channel:

- transponder capacity on the ASIASAT 3S satellite or its successor satellite;
- uplink and downlink services;
- network services (including network creative services, programming services, subscriber management services and network marketing services);
- broadcast operations and engineering services (including services provided through the use of production and post production facilities and transmission facilities, presentation suites, master control room/control technical area, digital compression facilities and conditional access facilities);
- general services, including access to, and the use of, general office facilities, human resources and administrative services, management information system services and network traffic services.

The term of the Star Services Agreement is three years commencing from 1st July, 2000, subject to the right of earlier termination by both parties on default of the other party, and by Phoenix Satellite TV upon giving advance notice to Satellite Television in respect of specific services. A monthly service fee is payable which is based on arm’s length negotiations. A fixed fee is payable for the use of each of the transponder capacity, uplink and downlink services, network services and general services. A fixed fee and a variable fee depending on the usage of facilities based on fixed rates are payable for the use of broadcast operation and engineering services. The fees and rates of all services (except transponder capacity which fees shall be increased by 3% per year) shall be modified from 1st July, 2001 by the multiplication thereof the aggregate of 100% and the lesser of (i) 70% of the increase between the Composite Consumer Price Index of Hong Kong (“CPI”) for the immediately preceding calendar year and the CPI for the calendar year prior to the immediately preceding calendar year, and (ii) 6%. From the commencement of the operation of Phoenix in March 1996 up to the execution of the Star Services Agreement, Satellite Television has been providing the aforesaid services to Phoenix.

For the financial years ended 30th June, 1998 and 1999 and for the six months ended 31st December 1999, the total amount of fees incurred by Phoenix for the use of the aforesaid services were approximately HK\$75.8 million, HK\$77.9 million and HK\$38.4 million,

CONNECTED TRANSACTIONS

respectively. The Company anticipates that the amount of the service fees payable by the Group will not exceed HK\$178.0 million per annum for each of the three financial years ending 30th June, 2003.

The Directors believe that the cap represents a reasonable estimation of the anticipated increase in programme productions by and/or channels of Phoenix meaning an increase in the volume of broadcast operations and engineering services, which are charged by the rates and accounted for approximately an average of 33% of the total services fees paid by the Group for the last two financial years ended 30th June, 1999.

(c) *Advertising Sales Agent*

Pursuant to the Star Services Agreement, Phoenix Satellite TV appointed Satellite Television as its exclusive advertising sales agent for all territories outside the PRC to sell advertising air time for the Phoenix Chinese Channel, Phoenix Movies Channel and such additional channels operated by the Group subject to mutual agreement through Satellite Television's international sales network and its advertising agencies, and to collect advertising revenues for the Group (except that Phoenix may promote and sell advertising airtime for all its channels in Hong Kong and Macau to PRC "window" companies as defined therein) through Phoenix's sales team. Such appointment may be terminated by either party serving a three months' notice which may only be served within 30 days of the end of the 12-month period ending on 1st July during the term. Satellite Television is entitled to receive from Phoenix Satellite TV a commission of 20% of the net advertising income (being the gross advertising income in respect of the sale of the channels' advertising air time less any third party agency fees incurred) generated by Satellite Television). The Directors believe that the commission rate is justified as they estimate that it will cost more for Phoenix to carry out the activities itself. From the commencement of the operation of the Group in March 1996 up to the execution of the Star Services Agreement, Satellite Television has been providing the aforesaid services to the Group on similar terms.

For the financial years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999, the amounts of commission paid by the Group to Satellite Television were approximately HK\$7.7 million, HK\$7.9 million and HK\$4.5 million, respectively. The Company anticipates that for each of the three financial years ending 30th June, 2003, the commission payable by Phoenix to Satellite Television per annum shall not exceed HK\$25.0 million.

The Directors consider that the caps are reasonable in view of the setting up of new channels by the Group in the near future. The Directors believe that it is more cost effective to the Group to rely on Satellite Television's sales network at the present level of advertising income generated from non-PRC territories. The Company will consider establishing an international sales network if such income increases substantially.

(d) *Commission for promoting subscriptions*

Pursuant to the Star Services Agreement, Phoenix Satellite TV has appointed Satellite Television as its agent to promote subscriptions of the Phoenix Chinese Channel and such additional channels of Phoenix subject to mutual agreement. Such appointment may be terminated by either party serving a three months' notice which may only be served within 30

CONNECTED TRANSACTIONS

days of the end of 12-month period ending on 1st July during the term. Satellite Television is entitled to a commission of 15% of the gross subscription fees in respect of the subscribers referred to Phoenix Satellite TV by Satellite Television. From the commencement of the operation of the Phoenix Chinese Channel in March 1996, up to the execution of the Star Services Agreement, Satellite Television has been providing the aforesaid services to Phoenix on similar terms.

For the financial years ended 30th June, 1998 and 1999, and for the six months ended 31st December, 1999, the amount of commission paid by the Group to Satellite Television were approximately HK\$536,000, HK\$565,000 and HK\$401,000, respectively. The Company anticipates that for each of the three financial years ending 30th June, 2003, the commission payable by Phoenix to Satellite Television per annum shall not exceed HK\$2.5 million.

The Directors consider that the caps are reasonable in view of the setting up of new channels by the Group in the near future. The Directors believe that it is more cost effective to Phoenix to rely on Satellite Television's sales network to promote the Phoenix Channels at the present level of subscription income. The Company will consider setting up its own international sales network if such income increases substantially.

(e) *Purchase of Decoders*

Pursuant to the Star Services Agreement, Satellite Television agreed to supply to Phoenix Satellite TV, from time to time and at a price based on the cost to Satellite Television, decoders for the Phoenix Movies Channel and such additional channels of Phoenix subject to mutual agreements. From the commencement of the operation of the Phoenix Movies Channel in August 1998 up to the execution of the Star Services Agreement, Satellite Television has been providing decoders to Phoenix on similar terms.

For the financial year ended 30th June, 1999, and for the six months ended 31st December, 1999, the amount paid by Phoenix to Satellite Television were approximately HK\$4.5 million and HK\$0, respectively.

Phoenix will order additional decoders from Satellite Television when its current stock runs out. The Company anticipates that the amount payable by Phoenix will not exceed HK\$6.5 million, HK\$7.5 million and HK\$8.5 million per annum for each of the three financial years ending 30th June, 2003, respectively.

The Directors believe that these transactions are beneficial to Phoenix as it, requiring a relatively small quantity of decoders, can enjoy the discount offered to Satellite Television which is a bulk purchaser of decoders.

(f) *Licence of Film Titles*

Pursuant to the Phoenix Movies Channel License Agreement ("Movie Agreement") dated 15th June, 2000, entered into between Star Filmed, an indirect wholly-owned subsidiary of Star TV, which beneficially owns 100% of Star TV Holdings, and Phoenix Movies, which superseded all previous agreements, Star Filmed granted to Phoenix Movies a non-exclusive licence to engage in non-standard television exhibition of a certain selection of movies on the Phoenix

CONNECTED TRANSACTIONS

Movies Channel in the PRC (excluding Hong Kong and Taiwan, but including Macau) for a term of 10 years commencing from 28th August, 1998 at a base fee of US\$237,500 per month payable by Phoenix Movies to Star Filmed. Star Filmed will also be entitled to charge an additional fee equivalent to 12.5% of the amount of the Net Revenues (being the gross revenues of the Phoenix Movies Channel less agency commissions and tax for the relevant period) of Phoenix Movies Channel exceeding US\$18 million (HK\$139.5 million) provided that the aggregate amount of additional fees payable by Phoenix Movies shall not exceed US\$36 million (HK\$279 million) for the entire licence period. Since the fees payable under the Movie Agreement is 50% less than the previous arrangements, Phoenix Movies is entitled to a monthly abatement of approximately US\$19,398 (HK\$150,334). In return, Phoenix agreed to permit or procure the permission of, at no charge, the transmission of the Phoenix Chinese Channel and any other free-to-air Chinese language channels operated by the Group and transmitted from the ASIASAT 3S satellite or any ASIASAT successor satellite within three years from the date of the agreement from any pay television platform within Hong Kong and Macau in which News Corporation has at least a 20% interest subject to such other terms and condition as set forth in the Movie Agreement.

From the commencement of the Phoenix Movies Channel in August 1998 and up to the execution of the Movie Agreement, Star Filmed has supplied to Phoenix the same selection of movies at a fee of US\$4 million and US\$5 million for the period from 28th August, 1998 to 27th August, 1999 and the period from 28th August, 1999 to 27th August, 2000, respectively. For the financial year ended 30th June, 1999 and for the six months ended 31st December, 1999, the total amount of fee incurred by Phoenix were approximately HK\$25.8 million and HK\$17.9 million, respectively. For each of the three financial years ending 30th June, 2003, the Company anticipates that the annual fee payable to Star Filmed pursuant to the Movie Agreement will not exceed HK\$23 million.

(g) *Programmes Supply from Satellite Television*

Phoenix has from time to time acquired the right to broadcast television programmes, a substantial portion of which are documentary and special programmes, from Satellite Television by way of a licence or sub-licence primarily for the use of the Phoenix Chinese Channel. Each of these licences or sub-licences is for the broadcast of a television programme or a series of programmes and the terms thereof have been negotiated on arm's length based on normal commercial terms on a case by case basis.

For the financial years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999, the total amount of licence fees incurred by Phoenix were approximately HK\$2.3 million, HK\$7.7 million and HK\$6.9 million respectively. At times, Phoenix may, apart from self-use, further sub-licence such right to independent third parties and, as a result, receive additional income. Phoenix will continue to source its supply of quality programmes from suppliers all over the world, including Satellite Television.

The Company anticipates that the licence fees payable by Phoenix per annum for each of the three financial years ending 30th June, 2003 will not exceed HK\$55.0 million. The Directors believe that the caps are reasonable as Phoenix will require a larger variety of new programmes in the following years.

CONNECTED TRANSACTIONS

(h) *Programmes Supply to Satellite Television*

Satellite Television has from time to time acquired the right to broadcast television programmes from Phoenix by way of licence or sub-licence, a substantial portion of which are special programmes and dramas. Each of such licence or sub-licence is for the broadcast of a television programme or a series of programmes and the terms thereof have been negotiated on arm's length based on normal commercial terms on a case by case basis.

For the financial years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999, the total amount of licence fees received by Phoenix from Satellite Television were approximately HK\$46,000, HK\$1.8 million and HK\$0, respectively. The Directors believe that Phoenix will continue to supply programmes to Satellite Television or any other associates of Star TV on an arm's length basis similar to and consistent with Phoenix's treatment of independent third parties. The Company anticipates that the licence fees receivable by Phoenix per annum for each of the three financial years ending 30th June 2003 will not exceed HK\$9 million.

(i) *Provision of services by BSkyB*

Pursuant to a conditional agreement between Phoenix Satellite Television (Europe) Limited ("Phoenix Europe") and a third party representing the shareholders of Techvast Limited ("Techvast") dated 11th July, 1999, Techvast has agreed, inter alia, to transfer all assets, business and properties necessary for the continued operations of the Phoenix CNE Channel (previously known as the Chinese News and Entertainment Channel) to a newly established company, which is now known as PCNE Holdings Limited and is 50% held by each of Phoenix Europe and Techvast. However, the conditions of the agreement have not been fulfilled and the Group has proposed to Techvast that PCNE Holdings Limited shall acquire 100% of Phoenix CNE Ltd. which operates the Phoenix CNE Channel. Phoenix is presently finalising negotiations and preparing the necessary legal documentation for the acquisition by the Group of the issued share capital of PCNE Holdings Limited. Following the completion of the acquisition, Phoenix CNE Ltd. will be a subsidiary of the Group. In any event, the Group has, since August 1999, been funding and participating in the operation of the Phoenix CNE Channel. Since the Group is still conducting financial due diligence on Phoenix CNE Ltd., the Directors believe that the acquisition may not be completed prior to the Share Offer.

BSkyB, which beneficially owns 100% of Star TV, launch a digital television service in, inter alia, the United Kingdom. Pursuant to the heads of agreement dated 11th June, 1998, as subsequently amended on 19th August, 1999 between BSkyB and Phoenix CNE Ltd. (collectively, "Heads of Agreement"), BSkyB granted to Phoenix CNE Ltd. a sub-lease to use its transponder capacity, uplinking and MPEG encoding services for a term of three years from 21st August, 1999, the date on which the Phoenix CNE Channel was launched ("Channel Launch Date") subject to the provisions for early termination as therein provided. A fee of approximately HK\$2.0 million per annum is payable, which sum will increase on each anniversary of the Channel Launch Date in accordance with any increase in the United Kingdom's retail price index over the previous 12 months. Phoenix CNE Ltd. is at present not a subsidiary of the Company and the transactions therein contemplated will be deemed to be connected only when the transaction between the Group and Techvast is completed. If the

CONNECTED TRANSACTIONS

acquisition of Phoenix CNE Ltd. by the Group is completed on or before 1st July, 2000, which is an anticipated time frame only, the Company anticipates that the amount payable to BSkyB will not exceed HK\$3.2 million for each of the three financial years ending 30th June, 2003.

The Directors believe that it is in the best interests of the Group to continue with the present arrangement between BSkyB and Phoenix CNE Ltd. to ensure the smooth operation of the Phoenix CNE Channel.

(j) *Programmes Supplied from ATV Enterprises*

The Group has acquired and may from time to time acquire from ATV Enterprises Limited (“ATV Enterprises”), a wholly owned subsidiary of ATV, the right to broadcast drama series and other television programmes by way of licence or sub-licence primarily for the use of the Phoenix Chinese Channel and the Group may also sub-licence such rights to independent third parties. Mr. LIU Changle and Mr. CHAN Wing Kee, being two of the Initial Management Shareholders of the Company, through several intermediate companies at different levels, indirectly owns approximately 14% and 18% respectively in ATV. ATV is therefore considered a connected person of the Company pursuant to the GEM Listing Rules. Each such licence or sub-licence is for the broadcast of a television programme or series and the terms thereof will be negotiated on arm’s length based on normal commercial terms on a case-by-case basis. For the years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999, the total amount of licence fees incurred by Phoenix were HK\$5,531,182, HK\$8,984,865 and HK\$6,833,274, respectively. The licence fees payable by Phoenix to ATV Enterprises and any associates of ATV per annum for each of the years ending 30th June 2001, 2002 and 2003 will not exceed HK\$57.5 million.

The Directors believe that the caps are reasonable as Phoenix will acquire more Chinese language programmes, in particular drama series, from ATV Enterprises and other associates of ATV due to the Phoenix Chinese Channel’s demand for more new programmes.

(k) *Programmes Supply to ATV*

ATV or its associates has acquired and may from time to time acquire the right to broadcast television programmes from the Group by way of licence or sub-licence. The terms of such licence or sub-licence will be negotiated on arm’s length based on normal commercial terms on a case by case basis. No licence fee was received by the Group for the years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999. The Company anticipates that the licence fees receivable by the Group from ATV and its associates per annum for each of the three years ending 30th June, 2003 will not exceed HK\$1,200,000.

CONNECTED TRANSACTIONS

The Directors confirm that save as disclosed above, there are no other connected transactions in which Phoenix is involved which have been done and/or will continue after the completion of the Share Offer. In the opinion of the Directors, the transactions referred to above and the respective agreements (if any) governing such transactions, are:

- (i) entered into by Phoenix in its ordinary and usual course of business;
- (ii) either on normal commercial terms or, where there is no available comparison, on terms no less favourable to Phoenix than those available to or acquired from independent third parties; and
- (iii) on terms that are fair and reasonable so far as the Company's shareholders are concerned.

The transactions described above constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are therefore subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and/or the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 20.35 and Rule 20.36 of the GEM Listing Rules and the Stock Exchange has granted such waiver on the conditions, among others, that the Company will comply with Rules 20.26(1), 20.26(2), 20.27, 20.28 and Rule 20.30 of the GEM Listing Rules. Please refer to the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" for details of such waiver and the conditions for the granting thereof.

Solely based on the documents and information provided by Phoenix and relying upon the representations and confirmations made by the Directors and upon the information and/or independent professional opinions (by American Appraisal Hongkong Limited as to the premises occupied by the Group) provided to the Joint Sponsors, the Joint Sponsors are of the view, based on the foregoing but without any independent verification, that the connected transactions referred to above are in the ordinary and usual course of Phoenix's business and fair and/or reasonable so far as the Company's shareholders are concerned as a whole and in the interest of the Company having regard to the circumstances in which they were entered into. The Joint Sponsors therefore, in reaching their view with respect to the connected transactions, relied very significantly upon such information and presentation.

COMPETING BUSINESSES OF INITIAL MANAGEMENT SHAREHOLDERS

Today's Asia, Star TV Holdings and China Wise are shareholders of the Company holding 1,854,000,000, 1,854,000,000 and 412,000,000 shares immediately after the Share Offer, and will be entitled respectively to exercise or control the exercise of 38.25%, 38.25% and 8.5% of the voting power at general meetings of the Company immediately after the Share Offer (assuming that the Over-allotment Option is not exercised). Today's Asia (together with its shareholders, Mr. LIU, Changle and Mr. CHAN, Wing Kee), Star TV Holdings, and China Wise will also be deemed to be the initial management shareholders of the Company, as defined under the GEM Listing Rules.

Star TV Holdings, together with its 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 and distribution of motion pictures and television programming; television, satellite and cable broadcasting; the publication of newspapers, magazines, books; the production and distribution of promotional and advertising products and services; the development of digital broadcasting; and the creation and distribution of popular interactive programming. Pursuant to a press release issued on 14th February, 2000, News Corporation announced that it has under consideration plans to consolidate its worldwide satellite platforms and certain related assets under one umbrella entity. However, the Company has no disclosable information on the final format of this umbrella entity, the make up of its assets or the identity of its investors. The Directors believe that if such plan materialised, there will be no material adverse impact on the operations of the Group. Currently, Star TV, the immediate holding company of Star TV Holdings, engages in the ownership and operation of multimedia digital platforms, including satellite television, in the Asia Pacific region. Star TV Group operates and broadcasts a range of channels, such as Channel [V] and Star Chinese Channel (which presently only broadcasts in Taiwan). Its broadcasting coverage includes China, Taiwan, Hong Kong, countries in South East Asia and the Middle East.

Mr. LIU, Changle and Mr. CHAN Wing Kee, the two of Initial Management Shareholders of the Company, respectively hold through several intermediate companies at different levels approximately 14% and 18% of ATV, a Hong Kong based television broadcasting company. ATV is deemed to be a connected person of the Company pursuant to the GEM Listing Rules. Primarily aiming at audiences in Hong Kong, ATV broadcasts its programmes via terrestrial transmission through two channels, one in Cantonese and the other in English. The Directors understand that the business of Phoenix may have direct competition with ATV in Hong Kong and certain other areas covered by ATV's broadcasts, such as parts of Guangdong Province of the PRC.

NON-DISPOSAL UNDERTAKINGS

As required by the GEM Listing Rules, the three Initial Management Shareholders of the Company, Star TV Holdings, Today's Asia and China Wise, shall respectively undertake with the Stock Exchange that (i) for a period of two years from the Listing Date, they will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interests in the Shares held upon completion of the Share Offer (generally, the "Relevant Securities"); (ii) they will place in escrow, with an escrow agent acceptable to the Stock Exchange, their Relevant Securities for a period of two years from the date on which dealings in the Shares first commence on GEM; and (iii) they will comply with the requirements under Rule 13.20 of the GEM Listing Rules.

As a result of an application made by the Company on behalf of each of Star TV Holdings, Today's Asia and China Wise, the Stock Exchange, having regard to the exceptional circumstances of this case, has granted the following waivers to the effect:

Initial Management Shareholders	Number of Shares subject to the 1st 6-month lock-up period after listing (“1st Moratorium Period”)	Percentage of Shares subject to the 1st Moratorium Period	Number of Shares subject to the 2nd 6-month lock-up period after listing (“2nd Moratorium Period”)	Percentage of Shares subject to the 2nd Moratorium Period
Today's Asia (<i>Notes 1, 2 & 4</i>)	1,854,000,000	38.25%	1,696,471,000	35%
Star TV Holdings (<i>Notes 2, 3, 4 & 5</i>)	1,854,000,000	38.25%	1,696,471,000	35%
China Wise (<i>Note 6</i>)	412,000,000	8.50%	N/A	N/A

Note 1: Mr. LIU, Changle and Mr. CHAN, Wing Kee are the beneficial owners of Today's Asia and each of them holds 93.3% and 6.7% interests therein respectively. Each of Mr. LIU, Changle and Mr. CHAN, Wing Kee has undertaken to the Company and the Underwriters that he will not for a period of 12 months after the Listing Date dispose of any of his interests in the shares of Today's Asia.

Note 2: Each of Today's Asia and Star TV Holdings has undertaken to the Stock Exchange that it will not dispose of any of its interests in the Company in the 1st Moratorium Period and will not in the 2nd Moratorium Period dispose of its interests in the Company to the effect that its beneficial shareholdings in the Company will be less than 35% of the issued share capital of the Company.

Note 3: Star TV is the beneficial owner of the entire issued share capital of Star TV Holdings and News Corporation is the ultimate beneficial owner of the entire issued share capital of Star TV. Star TV has undertaken to the Stock Exchange to procure that Star TV Holdings will comply with its undertakings stated in Note 2 above where News Corporation has undertaken to the Stock Exchange to procure that Star TV will comply with its undertakings as mentioned herein.

Note 4: Each of Today's Asia and Star TV Holdings has undertaken to the Company and the Underwriters that it will not for a period of 12 months from the Listing Date dispose of any of its interests in the Company.

Note 5: Star TV has undertaken to the Underwriters to procure that Star TV Holdings will comply with its undertakings stated in Note 4 above.

NON-DISPOSAL UNDERTAKINGS

Note 6: China Wise has undertaken to the Stock Exchange and the Underwriters that it will not for the 1st Moratorium Period dispose of any of its interests in the Company. China Wise is wholly-owned by Bank of China with headquarters in Beijing, the PRC. Bank of China has undertaken to the Stock Exchange to procure that China Wise will comply with its undertaking as mentioned herein and that it will not for the first six months from the Listing Date dispose of its shares in China Wise to the effect that its beneficial shareholding in China Wise will be less than 35% of the entire issued share capital of China Wise.

SUBSTANTIAL SHAREHOLDERS

Immediately after completion of the Share Offer, so far as the Directors are aware, the only persons directly or indirectly holding interest in 10% or more of the Shares will be:

Name	Number of Shares	Approximate percentage of holding⁽¹⁾
Star TV Holdings ⁽²⁾	1,854,000,000 Shares	38.25%
Today's Asia ⁽³⁾	1,854,000,000 Shares	38.25%

Notes:

- (1) If the Over-allotment Option is exercised, the percentage share holding of Star TV Holdings and Today's Asia will be reduced to 37.41% and 37.41%, respectively.
- (2) Star TV Holdings is ultimately wholly-owned by News Corporation.
- (3) Today's Asia is ultimately beneficially owned as to 93.3% by Mr. LIU, Changle, the Chairman of the Company and, as to 6.7% by Mr. CHAN, Wing Kee.

Star TV Holdings and Today's Asia are regarded as the controlling shareholders of the Company under the GEM Listing Rules. Save as disclosed herein but taking no account of any Shares which may be taken up under the Share Offer, the Directors are not aware of any person who will, immediately following completion of the Share Offer, be directly or indirectly interested in 10% or more of the Shares then in issue or equity interest in any member of Phoenix representing 10% or more of the equity interest in such company.

SHARE CAPITAL

HK\$

Authorised share capital:

<u>10,000,000,000</u>	Shares	<u>1,000,000,000</u>
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Shares issued and to be issued, fully paid or credited as fully paid:

4,120,000,000	Shares in issue including 4,119,998,280 Shares in issue pursuant to the issue of new Shares to Star TV Holdings, Today's Asia and China Wise after exercising their rights of conversion under the convertible notes	412,000,000
<u>727,060,000</u>	New Shares to be issued under the Share Offer	<u>72,706,000</u>

Total:

<u>4,847,060,000</u>	Shares	<u>484,706,000</u>
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Assumption

This table assumes that the Share Offer becomes unconditional.

It takes no account of (i) any Shares which may be issued under the Over-allotment Option; or (ii) any Share which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Plan, or options granted under the Share Option Scheme; or (iii) under the general mandate to issue Shares (see below) or Shares which may be bought back by the Company (see below).

Ranking

The Offer Shares will rank equally with all Shares now in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

Share Option Schemes

Phoenix has adopted the Pre-IPO Share Option Plan and conditionally granted "Pre-IPO" share options thereunder to 152 persons, being the full-time employees as defined in the Pre-IPO Share Option Plan (which means an employee of the Company or any of its subsidiaries who spent not less than 20 hours per week in providing services to the Group) to subscribe for 59,742,000 Shares (representing 1.45% of the enlarged issued share capital of the Company, assuming the Over-allotment Option is not exercised) and executive Directors of the Group. A summary of the main terms of the Pre-IPO Share Option Plan and particulars of the options granted thereunder are set out in the section headed "Share Option Schemes" in Appendix VI to this prospectus. All options under the Pre-IPO Share Option Plan have been granted.

Phoenix has also conditionally adopted the Share Option Scheme, a summary of the main terms of which is set out in the section headed "Share Option Schemes" in Appendix VI to this prospectus. Under the Share Option Scheme, full-time employees (including executive Directors) of Phoenix may

SHARE CAPITAL

be granted options which entitle them to subscribe for Shares representing up to a maximum, when aggregated with any securities subject to any other share option scheme(s) of Phoenix including the “Pre-IPO” share options referred to above, of 30% of the issued share capital of Phoenix from time to time (excluding Shares which have been issued upon the exercise of option granted under any other share option schemes).

PHOENIXi, a member of the Group, has adopted the PHOENIXi Plan, a summary of which is set out in the section headed “Summary of terms of the PHOENIXi 2000 Stock Incentive Plan” in Appendix VI to this prospectus.

No options have yet been granted under the Share Option Scheme.

General mandate to issue Shares

The Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer (such share capital shall include the Shares which may be issued pursuant to the Over-allotment Option); and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

The mandate will expire:

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company is required by the Companies laws or any other applicable laws of the Cayman Islands or by its articles of association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

For further details of this general mandate, see the section headed “Written resolutions of all the shareholders of the Company passed on 7th June, 2000” in Appendix VI to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue following the completion of the Share Offer (including the Shares which may be issued pursuant to the Over-allotment Option).

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in Appendix VI to this prospectus.

The mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- at the expiration of the period within which the Company is required by the Companies Law or any other applicable laws of the Cayman Islands or its articles of association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

For further details of this general mandate, see the section headed "Written resolutions of all the shareholders of the Company passed on 7th June, 2000" in Appendix VI to this prospectus.

FINANCIAL INFORMATION

All figures appeared in the section “Financial Information” were rounded off to the nearest single digit decimal. In the case of percentages, all percentages were rounded off to the nearest integer.

INDEBTEDNESS

Borrowings

On 30th April, 2000, being the Latest Practicable Date for the purpose of this indebtedness statement, Phoenix had aggregate outstanding borrowings of HK\$538.9 million, of which HK\$503.0 million represented unsecured and non-interest bearing amounts due to shareholders of the Company and HK\$35.9 million represented current accounts with related companies which were unsecured and non-interest bearing.

Phoenix had no secured borrowings outstanding.

Mortgages and charges

As at 30th April, 2000, Phoenix had no mortgages or charges.

COMMITMENTS AND CONTINGENT LIABILITIES

a. Film rights and programme acquisition

As at 30th April, 2000, Phoenix had aggregate outstanding film rights and programmes related commitments of approximately HK\$169.2 million of which approximately HK\$168.6 million was in respect of a film rights acquisition agreement with Star Filmed extending to 27th August, 2008 and approximately HK\$0.6 million was in respect of other programmes acquisition agreements with third parties. The amounts of commitments which are payable within the next twelve months, analysed according to the period in which the agreements expire, are as follows:

	<i>HK\$'m</i>
Expiring in the first year	0.6
Expiring in the second to fifth years inclusive	—
Expiring after the fifth year	<u>20.5</u>

b. Service charges

As at 30th April, 2000, the Group had total committed service charges payable to Satellite Television of approximately HK\$8.8 million, in respect of a service agreement expiring in June 2000, the amount are fully payable within the next twelve months.

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c. Funding commitment

Pursuant to a conditional agreement signed on 11th July, 1999, the Group has committed to provide funding of not less than US\$8.4 million (equivalent to approximately HK\$64.9 million) to Phoenix CNE Limited for the next three years with annual funding of amount not less than US\$2.8 million (equivalent to approximately HK\$21.6 million). As at 30th April, 2000, Phoenix has funded approximately £1.25 million (HK\$16.3 million) for the operations of the Phoenix CNE Channel.

d. Operating lease commitment

As at 30th April, 2000, the Group had outstanding operating lease commitment in respect of a director's quarters of approximately HK\$0.4 million which is fully repayable within the next twelve months.

Disclaimer

Except as otherwise disclosed herein and apart from intra-group liabilities, as at the close of business on 30th April, 2000, none of the companies in Phoenix had outstanding any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

No material change

The Directors confirm that except for those disclosed herein, there has been no material change in the indebtedness and contingent liabilities of Phoenix since 30th April, 2000.

The following transactions took place subsequent to 30th April, 2000:

- (1) the aggregate non-interest bearing amounts due to shareholders of the Company amounting to HK\$503.0 million were capitalised as payment in full for the issuance of 4,119,998,280 new shares of the Company with a par value of HK\$0.10 each to Star TV Holdings, Today's Asia and China Wise after exercising their rights of conversion under the convertible notes. The excess of the shareholders' loan amounts capitalised over the total par value of the shares issued amounted to HK\$91.0 million and was credited to the Company's share premium account; and
- (2) Phoenix was granted unsecured banking facilities totalling HK\$3.5 million which represented the credit limit for corporate credit cards issued to the Group personnel.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 30th April, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Since the commencement of its business, Phoenix has generally financed its operations and met its capital expenditure requirements through interest-free shareholder loans and from operating cash flows. Phoenix had no external financing arrangements for the financial years ended 30th June, 1997,

FINANCIAL INFORMATION

1998 and 1999, and the ten months ended 30th April, 2000. As at 30th April, 2000, Phoenix had aggregate outstanding borrowings from the shareholders of the Company of HK\$503.0 million, which are long term, non-interest bearing and not repayable within the next twelve months. Phoenix does not intend to rely on shareholder loans for its future financing requirements and such loans have been capitalised as payment in full for the issuance of new Shares to Star TV Holdings, Today's Asia and China Wise after exercising their rights of conversion under the convertible notes. Phoenix had negative operating cash flow of HK\$140.6 million, HK\$174.3 million, HK\$67.7 million and HK\$29.0 million for the financial years ended 30th June, 1997, 1998 and 1999, and the ten months ended 30th April, 2000, respectively.

Net current assets

As at 30th April, 2000, being the Latest Practicable Date for the purpose of this statement, Phoenix had current assets of HK\$216.5 million and current liabilities of HK\$123.3 million. The current assets comprised cash and bank deposits of HK\$13.3 million, purchased programme rights of HK\$17.8 million, self produced programmes of HK\$14.4 million, inventories of decoders of HK\$0.4 million, accounts receivable of HK\$56.6 million, amount due from related companies of HK\$101.1 million (of which HK\$16.9 million represent an unsecured loan receivable from Phoenix Chinese News and Entertainment Limited) and prepayments and deposits and other current assets of HK\$12.9 million. The current liabilities comprised deferred subscription income of HK\$9.7 million, accounts payable and accruals of HK\$77.7 million, and amounts due to related companies of HK\$35.9 million.

Capital resources

Phoenix has not incurred significant capital expenditures since its inception due to its contractual arrangements with Star TV Group, which provides Phoenix with office premises, facilities and equipment. Pursuant to such arrangements, Phoenix has operating leases for its premises and certain office equipment, some of which do not allow for early termination by Phoenix without cause and have future minimum lease payments.

Phoenix's capital expenditures for the three financial years ended 30th June, 1997, 1998 and 1999, and the ten months ended 30th April, 2000 were HK\$2.8 million, HK\$1.2 million, HK\$0.8 million and HK\$2.3 million, respectively. These capital expenditures were used primarily for office improvements.

As at 30th April, 2000, Phoenix has no outstanding capital commitment nor material contingent liabilities outstanding for the remaining period of the financial year ending 30th June, 2000. Subject to obtaining the relevant PRC regulatory approvals, Phoenix intends to construct a programme production centre over a two-year period. Construction cost relating to the production centre will be capitalised as fixed assets.

Phoenix expects to meet its anticipated cash needs, including for capital expenditures and working capital, principally through:

- cash generated from operations;
- the use of a portion of the net proceeds of the Share Offer; and
- other financings.

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Phoenix may require additional cash resources if it pursues new projects or business conditions change. If cash flow from operations is not adequate to satisfy its cash requirements, Phoenix may need to raise additional funds through debt or equity offerings, placements, credit facilities from financial institutions or through the sale of assets. In the event that such financings cannot be obtained, Phoenix may be required to scale back its business expansion plans and existing operation.

Rules 17.15 to 17.21 of the GEM Listing Rules

As at the latest Practicable Date, no controlling shareholder had pledged its interests in Shares to secure debts, guarantees or support of other obligations of Phoenix or entered into any loan agreements, imposing specific performance obligations on any controlling shareholder nor had Phoenix made any advance to any entity or provided financial assistance to its affiliated companies for an amount exceeding 25% of the net tangible assets of Phoenix. The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

Overview

The Company was incorporated under the laws of the Cayman Islands in February 2000. The following discussion reflects Phoenix's financial condition and results of operations. The Reorganisation was accounted for as a reorganisation of businesses under common control in a manner similar to a pooling of interests. Accordingly, Phoenix's combined financial statements were prepared on the basis of historical costs and as if the combined companies had been part of Phoenix throughout the relevant periods.

Phoenix is principally engaged in satellite television broadcasting of programmes in Chinese in the Asia-Pacific region (including the PRC, Hong Kong, and southeast Asian countries) through the Phoenix Chinese Channel and the Phoenix Movies Channel. Phoenix transmits its programming signals via the ASIASAT 3S satellite pursuant to a service agreement with Satellite Television. See the section headed "Connected Transactions" of this prospectus.

Reception of foreign satellite television such as the Phoenix Chinese Channel and the Phoenix Movies Channel is extensively regulated in the PRC. Under the current regulations promulgated by the PRC State General Administration of Radio, Film and Television, only the following types of entities are eligible to apply to receive foreign satellite programming: hotels with a ranking of at least three stars; educational, research, news, financial, economic and trade institutions; and residential buildings for non-PRC residents. See the paragraph "Regulation of Television Broadcasting Industry in the PRC" under the section headed "Industry Overview" of this prospectus.

Revenue of Phoenix consists of advertising revenues and subscription fees from the Phoenix Chinese Channel and the Phoenix Movies Channel. 95% of Phoenix's revenue in the six months ended 31st December, 1999, was generated from advertising revenues from the Phoenix Chinese Channel. The Phoenix Movies Channel commenced operation in August 1998 and broadcasts movies in digital encrypted signals, which are received through subscription with the use of decoders sold by Phoenix's agent in the PRC. Approximately 3.4% of Phoenix's revenue in the six months ended 31st December, 1999, was generated from subscription revenues of the Phoenix Movies Channel. Sales of decoders are

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accounted for under “Other Income.” Phoenix expects that subscription revenues as a percentage of total revenues will increase in the future as the number of subscribers of the Phoenix Movies Channel increases.

Advertising revenues represent the gross value of advertisements broadcast during the financial year and are recognised when the relevant advertisements are broadcast, provided that collection of the resulting receivable is probable. Substantially all advertising revenues are attributable to the Phoenix Chinese Channel. In the financial year ended 30th June, 1999, 84% of Phoenix’s advertising revenue is generated from the PRC. Advertising timeslots of the Phoenix Chinese Channel are sold either on the basis of rates per 30-second timeslot or pursuant to specific programme sponsorship. The advertising rate for specific programme sponsorship varies depending on the popularity of the programmes and the type of sponsorship. Phoenix normally will conduct an annual review on the charge rate of the advertising fee and taking into the consideration of the then market conditions adjust the charge rate. It is the intention of Phoenix to adjust the rate of advertising fee in the near future.

Subscription revenues are generated mainly from annual subscription fees for the Phoenix Movies Channel. The annual subscription fees from subscribers of the Phoenix Movies Channel are recognised when receivable by Phoenix through its distributors CITV and its authorised sub-agent with whom Phoenix has distribution arrangements. Such distributors are entitled to receive a commission representing 25% and 20% of the subscription fees in respect of the new subscribers and recurring subscribers respectively. The subscription revenue of Phoenix represents the income generated from subscription sales net of the commission paid to such distributors. Generally, Phoenix collects the net subscription fees from its distributor every month. As of 31st December, 1999, Phoenix had approximately 2,300 subscribers of the Phoenix Movies Channel.

Phoenix’s expenses principally consist of:

Operating Expenses

- programming costs;
- commissions;
- staffing costs; and
- transponder charges;

Selling, General and Administrative Expenses

Operating Expenses

Programming costs consist principally of amortisation costs of acquired programmes, movie and music licensing fees, and production costs for self-produced programmes. In addition, Phoenix pays to Star TV Group a licensing fee for the rights to access Star TV Group’s film library for unlimited broadcasts of films on the Phoenix Movies Channel. The licensing fee mainly comprises a base fee currently amounting to HK\$22.0 million per annum. Phoenix also purchases programmes from other studio and productions houses with limited broadcast rights. For the financial year ended 30th June, 1999, programming costs accounted for 30% of Phoenix’s total expenses.

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Commissions include a commission of 15% on the gross advertising revenues paid to advertising agencies. In addition, a commission calculated based on the advertising revenues generated from the PRC (after the 15% commission) and collected on Phoenix's behalf is paid to Shenzhou for its sales, marketing and fee collection services. For advertising revenues generated outside the PRC, a commission calculated based on the net advertising revenues generated from outside the PRC is paid to Star TV Group for sales and marketing services provided by Satellite Television.

Staffing costs account for 16% of Phoenix's total expenses for the financial year ended 30th June, 1999. Staffing costs consist principally of salaries, contributions to a provident fund and other staff benefits.

Transponder charges consist of transmission charges paid to Star TV Group for transmitting Phoenix's programme signals for both the Phoenix Chinese Channel and the Phoenix Movies Channel through the ASIASAT 3S satellite. Prior to the Share Offer, transponder charges were fixed fees renegotiated on a year-to-year basis. Transponder charges accounted for approximately 5% of Phoenix's total expenses for the financial year ended 30th June, 1999.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include depreciation and amortisation, service fees paid to Star TV Group for the network services, uplink charges, rental, maintenance, legal and professional fees, and other expenses incurred for administration, and corporate support services and service fees paid to Shenzhou for its administrative assistance in connection with Phoenix's business. The charges paid to Star TV Group and Shenzhou by Phoenix for the financial year ended 30th June, 1999, accounted for 74% of Phoenix's selling, general and administrative expenses.

Other income principally consists of income derived from sales of decoders for the Phoenix Movies Channel, interest income, foreign exchange gains and sales of Phoenix's self-produced and other programming.

As at 30th April, 2000, Phoenix had incurred aggregate net losses of HK\$379.0 million since Phoenix commenced its operations in 1996. Phoenix expects to continue to incur net losses in the near future. Achieving profitability will depend on the growth of Phoenix's existing business and the success of the new businesses it may develop in the future.

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Results of Operations

Phoenix's financial year commences on 1st July and ends on 30th June of the following year. The following table summarises the historical results of operations of Phoenix under Hong Kong GAAP for the three financial years ended 30th June, 1997, 1998 and 1999 and for the six months ended 31st December, 1998 and 1999 ("the Relevant Period").

	Financial year ended 30th June,			Six months ended	
	1997	1998	1999	31st December, 1998	1999
	<i>(HK'000)</i>			<i>(HK'000)</i>	
Revenue:					
Phoenix Chinese Channel	119,536	174,805	301,064	119,822	218,512
Phoenix Movies Channel	<u>—</u>	<u>—</u>	<u>13,599</u>	<u>2,471</u>	<u>9,405</u>
Total	<u>119,536</u>	<u>174,805</u>	<u>314,663</u>	<u>122,293</u>	<u>227,917</u>
Operating expenses:					
Programming costs	(100,073)	(85,545)	(122,335)	(61,215)	(72,459)
Commissions	(26,949)	(31,733)	(60,545)	(26,325)	(41,750)
Staffing costs	(45,841)	(55,672)	(66,372)	(31,394)	(34,757)
Transponder charges	<u>(16,228)</u>	<u>(17,803)</u>	<u>(21,128)</u>	<u>(10,073)</u>	<u>(10,593)</u>
Total operating expenses	(189,091)	(190,753)	(270,380)	(129,007)	(159,559)
Selling, general and administrative expenses	<u>(92,123)</u>	<u>(117,415)</u>	<u>(132,264)</u>	<u>(63,320)</u>	<u>(72,016)</u>
Total expenses	(281,214)	(308,168)	(402,644)	(192,327)	(231,575)
Loss from operations	(161,678)	(133,363)	(87,981)	(70,034)	(3,658)
Other income	<u>6,142</u>	<u>2,258</u>	<u>9,515</u>	<u>6,377</u>	<u>1,750</u>
Net loss before tax	(155,536)	(131,105)	(78,466)	(63,657)	(1,908)
Provision for income taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss	<u>(155,536)</u>	<u>(131,105)</u>	<u>(78,466)</u>	<u>(63,657)</u>	<u>(1,908)</u>
<i>Loss per Share (cents)</i>	<i>(3.78)</i>	<i>(3.18)</i>	<i>(1.90)</i>	<i>(1.55)</i>	<i>(0.05)</i>
<i>Depreciation of fixed assets and amortisation and write off of pre-operating expenses</i>					
	<u>(1,198)</u>	<u>(1,151)</u>	<u>(2,354)</u>	<u>(1,091)</u>	<u>(6,405)</u>

Notes:

1. Combined results of Phoenix for the two financial years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999, as stated above, are prepared based on the Accountants' Report set out in Appendix I.

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2. Combined results of Phoenix for the year ended 30th June, 1997 and the six months ended 31st December, 1998 are prepared based on the management accounts of Phoenix without being audited.
3. The above combined results summary of Phoenix includes results of the companies now comprising the Group, since 1st July, 1996 or the respective dates of incorporation or establishment, where this is a shorter period.
4. The calculations of loss per Share is based on the combined loss attributable to shareholders for the Relevant Period and 4,120,000,000 Shares in issue at the date of this Prospectus deemed to be in issue throughout the Relevant Period on the assumption that the Reorganisation has been effective on 1st July, 1996.

The following table summarises the historical revenues of the two channels operated by Phoenix based on the nature of revenue and geographical regions for the financial years ended 30th June, 1997, 1998 and 1999 and for the six months ended 31st December, 1998 and 1999.

	Financial year ended 30th June,			Six months ended	
	1997	1998	1999	31st December, 1998	1999
	<i>(HK'000)</i>			<i>(HK'000)</i>	
Chinese Channel:					
Advertising income	119,536	171,766	297,865	118,117	216,238
Subscription income	<u>—</u>	<u>3,039</u>	<u>3,199</u>	<u>1,705</u>	<u>2,274</u>
Total	<u>119,536</u>	<u>174,805</u>	<u>301,064</u>	<u>119,822</u>	<u>218,512</u>
Movies Channel:					
Advertising income	—	—	2,996	—	—
Subscription income	<u>—</u>	<u>—</u>	<u>10,603</u>	<u>2,471</u>	<u>9,405</u>
Total	<u>—</u>	<u>—</u>	<u>13,599</u>	<u>2,471</u>	<u>9,405</u>
Analysis by Geographical Regions:					
China	55,571	126,004	264,331	94,119	199,185
International	<u>63,965</u>	<u>48,801</u>	<u>50,332</u>	<u>28,174</u>	<u>28,732</u>
	<u>119,536</u>	<u>174,805</u>	<u>314,663</u>	<u>122,293</u>	<u>227,917</u>

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The following table summarises the historical revenues of the two channels operated by Phoenix as a percentage of total revenue of Phoenix for the financial years ended 30th June, 1997, 1998 and 1999 and for the six months ended 31st December, 1998 and 1999.

	Financial year ended 30th June,			Six months ended	
	1997	1998	1999	31st December, 1998	1999
Revenue:					
Phoenix Chinese Channel	100%	100%	96%	98%	96%
Phoenix Movies Channel	<u>0%</u>	<u>0%</u>	<u>4%</u>	<u>2%</u>	<u>4%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>

The following table summarizes Phoenix's historical operating expenses as a percentage of total revenue for the financial years ended 30th June, 1997, 1998 and 1999 and for the six-month periods ended 31st December, 1998 and 1999.

	Financial year ended 30th June,			Six months ended	
	1997	1998	1999	31st December, 1998	1999
Operating expense:					
Programming costs	84%	49%	39%	50%	32%
Commissions	23%	18%	19%	22%	18%
Staffing cost	38%	32%	21%	26%	15%
Transponder charges	14%	10%	7%	8%	5%
Selling, general and administrative expenses	<u>77%</u>	<u>67%</u>	<u>42%</u>	<u>52%</u>	<u>32%</u>
Total expenses	<u><u>236%</u></u>	<u><u>176%</u></u>	<u><u>128%</u></u>	<u><u>158%</u></u>	<u><u>102%</u></u>

CURRENCY EXCHANGE

A significant portion of Phoenix's advertising revenue is denominated in Renminbi, whereas almost all of Phoenix's operating expenses were paid in Hong Kong dollars or other foreign currencies. Phoenix converts most of its Renminbi revenues into Hong Kong dollars and remits such revenues to Hong Kong through Shenzhou. Pursuant to the service contract between Phoenix and Shenzhou, Shenzhou deposits the revenues in separate bank accounts designated by Phoenix and remits the same to Phoenix according to its instructions. Phoenix's subscription revenue is denominated in US dollars.

There were no material operating trends or effects on liquidity as a result of fluctuations in currency exchange rates. The Company does not engage in any financial contract or other arrangement to hedge its foreign currency exposure.

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Six months ended 31st December, 1999 compared to six months ended 31st December, 1998

Revenue

Revenue increased 86% to HK\$227.9 million for the six-month period ended 31st December, 1999, from HK\$122.3 million for the same period in 1998. The increase in revenue was due to both higher advertising revenues and higher subscription revenues. Higher advertising revenues were primarily a result of a higher average advertising rate and higher advertising sales volume from the Phoenix Chinese Channel. Higher subscription revenues were primarily due to the increase of the number of subscribers of the Phoenix Movies Channel.

Phoenix Chinese Channel. Advertising revenues contributed 99% of the total revenue of the Phoenix Chinese Channel for the six months ended 31st December, 1999. Advertising revenues increased 83% to HK\$216.2 million for the six-month period ended 31st December, 1999, from HK\$118.2 million for the same period in 1998. 88% of the advertising revenues were generated from the PRC, 12% were generated from outside the PRC through Satellite Television and Phoenix itself. The increase in advertising revenues was primarily a result of the increase in advertising rates and the increased sales of programme sponsorships, which contributed to higher utilisation of available advertising time slots, both primetime and non-prime time.

Phoenix Movies Channel. Revenue of the Phoenix Movies Channel for the six months ended 31st December, 1999, consisted solely of subscription fees. Subscription revenues increased 276% to HK\$9.4 million for the six-month period ended 31st December, 1999 from approximately HK\$2.5 million for the same period in 1998. The increase was due to significant increase of the number of subscribers in the second year of operation of the Phoenix Movies Channel.

Expenses

Phoenix's total expenses increased 20% to HK\$231.6 million for the six months ended 31st December, 1999, from HK\$192.3 million for the same period in 1998.

Operating Expenses

Programming costs. Programming costs increased 18% to HK\$72.5 million for the six-month period ended 31st December, 1999, from HK\$61.2 million for the same period in 1998. Despite the 18% increase in programming costs, total revenue increased 86%. Therefore, programming costs as a percentage of total revenue decreased to 32% for the six-month period ended 31st December, 1999, from 50% for the same period in 1998. Advertising revenues can be affected by a variety of factors, of which programming costs is only one, and programming costs and the advertising revenue generated from such programmes are not always directly positively correlated. Therefore, it is not uncommon to have a more significant increase in revenue than increase in programming costs. The increase in programming costs was primarily due to the acquisition of more high quality programmes, addition of new programmes as well as increased quantity of self-produced programmes.

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Commissions. Cost of commissions for the six months ended 31st December, 1999, increased 59% to HK\$41.8 million from HK\$26.3 million for the same period in 1998, primarily as a result of the 83% increase in advertising revenues of the Phoenix Chinese Channel. Commissions paid in connection with advertising revenues generated from the PRC and outside the PRC increased 86% and 0.2%, respectively.

Staffing costs. Staffing costs increased 11% to HK\$34.8 million for the six months ended 31st December, 1999, from HK\$31.4 million for the same period in 1998. Staffing costs rose as a result of the increase in the number of employees as well as increase in salaries.

Transponder charges. Transponder charges increased 5% to HK\$10.6 million for the six months ended 31st December, 1999, from HK\$10.1 million for the same period in 1998. The increase was mainly due to the transfer of the transponder for the Phoenix Chinese Channel from the ASIASAT 1 satellite to the ASIASAT 3S satellite in May 1999.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 14% to HK\$72.0 million for the six months ended 31st December, 1999, from HK\$63.3 million for the same period in 1998. The increase was mainly due to additional expenses incurred in connection with the marketing and promotion of the Phoenix Chinese Channel and provisions for bad debt as a result of increases in revenues. For the six months ended 31st December, 1999, expenses paid to Satellite Television and Shenzhou for general operating services accounted for 66% of total selling, general and administrative expenses.

Loss from Operations

Phoenix recognised an operating loss of HK\$3.7 million for the six months ended 31st December, 1999, as compared to an operating loss of HK\$70.0 million for the same period in 1998. The improvement was primarily due to the increase in advertising revenues.

Other Income

Other income, consisting of sales of decoders to CITV and sales of programmes and interest income, decreased 72% to HK\$1.8 million for the six months ended 31st December, 1999, from HK\$6.4 million for the same period in 1998. The decrease was primarily a result of surplus inventory of decoders purchased by Phoenix's authorised agent, CITV in 1998, resulting in no sales of decoders for the six-month period ended 31st December, 1999.

Net Loss

Phoenix recorded a net loss of HK\$1.9 million for the six months ended 31st December, 1999, a 97% decrease as compared to a net loss of HK\$63.7 million for the same period in 1998.

FINANCIAL INFORMATION

Financial year ended 30th June, 1999 compared to financial year ended 30th June, 1998

Revenue

Revenue increased 80% to HK\$314.7 million for the financial year ended 30th June, 1999, from HK\$174.8 million for the financial year ended 30th June, 1998. The increase was due to both the increase in advertising revenues from the Phoenix Chinese Channel, and the increase in subscription revenues as a result of the launch of the Phoenix Movies Channel in August 1998.

Phoenix Chinese Channel. Revenue from the Phoenix Chinese Channel increased 72% to HK\$301.1 million for the financial year ended 30th June, 1999, from HK\$174.8 million for the financial year ended 30th June, 1998. The increase in revenue was primarily a result of the increase in the advertising revenues due to a higher average advertising rate and higher advertising sales volume.

Phoenix Movies Channel. Phoenix began to collect subscription revenues from the Phoenix Movies Channel in August 1998. Total subscription revenues in the financial year ended 30th June, 1999, were HK\$10.6 million, or 78% of the total revenue of the Phoenix Movies Channel. The remaining 22% of the total revenue was attributable to advertising revenue.

Expenses

Total expenses were HK\$402.6 million for the financial year ended 30th June, 1999, an increase of 31% from HK\$308.2 million for the financial year ended 30th June, 1998.

Operating Expenses

Programming costs. Programming costs increased 43% to HK\$122.3 million for the financial year ended 30th June 1999 from HK\$85.5 million for the financial year ended 30th June, 1998. The increase was primarily due to increases in self-produced programming. The programming costs increase was also due to movie licensing costs attributable to the first year operation of the Phoenix Movies Channel. Despite the 43% increase in programming cost, total revenue increased 80%. Therefore, programming costs as a percentage of total revenue decreased to 39% for the financial year ended 30th June, 1999 from 49% for the financial year ended 30th June, 1998.

Commissions. Commission costs for the financial year ended 30th June, 1999 increased 91% to HK\$60.5 million from HK\$31.7 million for the financial year ended 30th June, 1998, primarily as a result of the 75% increase in advertising revenues. Commissions paid in connection with advertising revenues generated from the PRC and outside of the PRC increased 166% and 3%, respectively, to HK\$45.5 million and HK\$15.0 million, respectively, in the financial year ended 30th June, 1999, from HK\$17.2 million and HK\$14.5 million, respectively, in the financial year ended 30th June, 1998.

Staffing costs. Staffing costs increased 19% to HK\$66.4 million for the financial year ended 30th June, 1999 from approximately HK\$55.7 million for the financial year ended 30th June, 1998, largely as a result of increases in salaries to prevent attrition in a competitive market and to attract new hires.

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Transponder charges. Transponder charges increased 19% to HK\$21.1 million for the financial year ended 30th June, 1999 from HK\$17.8 million for the financial year ended 30th June, 1998. The increase was mainly due to additional transponder charges as a result of the launch of the Phoenix Movies Channel in August 1998.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 13% to HK\$132.3 million for the financial year ended 30th June, 1999 from HK\$117.4 million for the financial year ended 30th June, 1998. The increase was mainly due to higher costs associated with increased operating activities such as the promotion of the Phoenix Movies Channel and the expanded advertising sales in China. For the financial year ended 30th June, 1999, expenses paid to Satellite Television and Shenzhou for general operating services accounted for 74% of total selling, general and administrative expenses.

Loss from Operations

Phoenix recognised an operating loss of HK\$88.0 million for the financial year ended 30th June, 1999 as compared to an operating loss of HK\$133.4 million for the financial year ended 30th June, 1998. The improvement in Phoenix's results of operations was primarily due to increases in advertising sales and subscription fees.

Other Income

Other income for Phoenix increased 321% to HK\$9.5 million for the financial year ended 30th June, 1999 from HK\$2.3 million for the financial year ended 30th June, 1998, largely as a result of increase in interest income and sale of decoder boxes (of HK\$6.3 million). Interest income increased to HK\$2.3 million in the financial year ended 30th June, 1999 from HK\$1.9 million in the financial year ended 30th June, 1998.

Net Loss

Phoenix recorded a net loss of HK\$78.5 million for the financial year ended 30th June, 1999, a 40% decrease from a net loss of HK\$131.1 million for the financial year ended 30th June, 1998.

Financial year ended 30th June, 1998 Compared to financial year ended 30th June, 1997

Revenue

Phoenix Chinese Channel. Revenues increased 46% to HK\$174.8 million for the financial year ended 30th June, 1998 from HK\$119.5 million for the financial ended 30th June, 1997. The increase was primarily the result of a 44% increase in advertising revenues due to a higher average rate and better utilisation of time slots. Advertising revenues increased 44% from HK\$119.5 million to HK\$171.8 million in the financial year ended 30th June, 1998.

Expenses

Expenses increased 10% to HK\$308.2 million for the financial year ended 30th June, 1998 from HK\$281.2 million for the financial year ended 30th June, 1997.

FINANCIAL INFORMATION

Operating Expenses

Programming costs. Programming costs decreased 15% to HK\$85.5 million for the financial year ended 30th June, 1998 from HK\$100.1 million for the financial year ended 30th June, 1997 primarily as a result of a change in the amortisation period with respect to acquired programmes. Prior to July 1997, the cost of acquired programmes was amortised over a period (usually a few months) during which the particular program was shown for the first and second time. Since that time, the amortisation period had been changed to include the entire licence period (usually two to three years) of the acquired program if the licence allows multiple showings during the licence period. The latter is consistent with Satellite Television's practice in the area. Programming costs as a percentage of total revenue decreased to 49% for the financial year ended 30th June, 1998 from 84% for the financial year ended 30th June, 1997.

Commissions. Commission costs for the financial year ended 30th June, 1998 increased 18% to HK\$31.7 million from HK\$27.0 million for the financial year ended 30th June, 1997, primarily as a result of the 44% increase in advertising revenue. Commissions paid in connection with advertising revenues generated from the PRC increased 152% to HK\$17.2 million in the financial year ended 30th June, 1998 from HK\$6.8 million in the financial year ended 30th June, 1997. Commission paid in connection with advertising revenues generated from outside the PRC decreased 27% to HK\$14.5 million in the financial year ended 30th June, 1998 from HK\$20.2 million in the financial year ended 30th June, 1997.

Staffing costs. Staffing costs increased 21% to HK\$55.7 million for the financial year ended 30th June, 1998 from HK\$45.8 million for the financial year ended 30th June, 1997. The increase was a result of an increase in salaries and addition of new hires in connection with the expansion of Phoenix's operations.

Transponder charges. Transponder charges increased 10% to HK\$17.8 million for the financial year ended 30th June, 1998 from HK\$16.2 million for the financial year ended 30th June, 1997. The increase was due to increased rates charged by Satellite Television.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 27% to HK\$117.4 million for the financial year 1998 from HK\$92.1 million for the financial year ended 30th June, 1997 due to increased operating activities such as the increase in marketing and promotional activities in the PRC.

Loss from Operations

Phoenix recognised an operating loss of HK\$133.4 million for the financial year ended 30th June, 1998 as compared to an operating loss of HK\$161.7 million for the financial year ended 30th June, 1997. The improvement in Phoenix's results of operations was primarily due to improved operating efficiency following the launch of the business.

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Other Income

Other income consisting primarily of interests on bank deposits and programme sales was HK\$2.2 million for the financial year ended 30th June, 1998 and HK\$6.1 million for the financial year ended 30th June, 1997. The decrease in other income was due to the decrease in programme sales for the year ended 30th June, 1998.

Net Loss

Phoenix recorded a net loss of approximately HK\$131.1 million for the financial year ended 30th June, 1998, a 16% decrease as compared to a net loss HK\$155.5 million for the financial year ended 30th June, 1997.

TAXATION

Phoenix had no permanent establishment in the PRC during the Relevant Period. Therefore, the Group was not subject to PRC tax on income generated in the PRC during such period. The Group has not paid Hong Kong profits tax since inception because of losses incurred to date.

PROPERTY INTERESTS

Property leased in Hong Kong

The Group licenses from Satellite Television 19,675 square feet of the office premises at 9th Floor, Office Tower One, The Harbourfront, 18–22 Tak Fung Street, Hunghom, Kowloon, Hong Kong, from 1st July, 2000 to 14th July, 2003 at a monthly licence fee of HK\$396,057 a monthly service fee of HK\$103,490, government rates of HK\$31,480 per month and fitting out costs of HK\$101,130 per month (fitting out cost will cease to be payable after 30th April, 2001). The premises are currently occupied by the Group as its head office in Hong Kong.

Phoenix is the licensee or tenant (as the case maybe) of:

- (i) a car parking space no. 277 on Car Park Floor P2 situate at Section B, Phase 1 car parking spaces of Kornhill, No. 10 Hong Yue Street, Hong Kong;
- (ii) a serviced apartment 5006 of The Atrium situate at Pacific Place, 88 Queensway, Central, Hong Kong;
- (iii) a car parking space situate at Pacific Place, 88 Queensway, Central, Hong Kong; and
- (iv) five car parking spaces situate at The Harbourfront, Hunghom, Kowloon, Hong Kong.

The agreement referred to in (i) above commenced on 1st January, 1999 and continues on a monthly basis until terminated by the party on 15 days' notice. The monthly rental is HK\$2,200 and the licensor is Mass Transit Railway Corporation.

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The agreement referred to in (ii) above commenced on 8th November, 1999, and will continue for a term of 12 months less a day until 6th November, 2000. The monthly rental, inclusive of charges is HK\$72,000. The landlord is Pacific Place Holdings Limited. The premises are used by Mr. LIU, Changle as his residence in Hong Kong.

The agreement referred to in paragraph (iii) above commenced on 12th November, 1999, and continues on a monthly basis until terminated by either party on one calendar month notice. The monthly charge is HK\$4,200 and the licensor is Swire Properties Management Limited.

In respect of three of the car parking spaces referred to in paragraph (iv) above, the agreements commenced on 18th March, 1997, and continue on a month-to-month basis until terminated by either party on one month's notice. The monthly charges for each car parking space is HK\$3,800 and the licensor is Hutchison Estate Agents Limited. In respect of the remaining two car parking spaces referred to in paragraph (iv) above, the agreements commenced on 18th March, 1997 and 5th January, 1999 respectively, and continue on a month-to-month basis until terminated by either party on one month's notice. The monthly charges for each of the two remaining car parking spaces is HK\$4,900 and the licensor is Hutchison Estate Agents Limited.

The car parking spaces are used by certain senior employees (including the Directors) of Phoenix.

Property valuation

Phoenix has interests in certain properties licensed and occupied by it in Hong Kong. The property interests of the Group were valued by American Appraisal Hongkong Limited, an independent valuer, at no commercial value as at 30th April, 2000. The text of the letter and the valuation certificate of American Appraisal Hongkong Limited are set out in the section headed "Property valuation report" in Appendix III to this prospectus.

PROFIT FORECAST, DIVIDENDS AND WORKING CAPITAL

Profit forecast

The Directors forecast that, in the absence of unforeseen circumstances, and based on the assumptions set out in Appendix II to this prospectus, the combined profit after taxation and minority interests but before extraordinary items of Phoenix for the year ending 30th June, 2000 will amount to not less than HK\$27 million. The Directors are not aware of any extraordinary items which have arisen, or are likely to arise, during the financial year ending 30th June, 2000. The texts of letters from Arthur Andersen & Co, the reporting accountants of Phoenix, and from the Joint Sponsors in respect of the profit forecast are set out in Appendix II to this prospectus.

On the basis of the above forecast combined profit after taxation and minority interests but before extraordinary items and taking into account the 4,847,060,000 new Shares expected to be in issue following the Share Offer (taking no account, however, of any Shares which may be issued upon exercise of the Over-allotment Option, upon the exercise of options granted under the Share Option Scheme or the Pre-IPO Share Option Plan or which may fall to be issued or repurchased by the Company under the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the section headed "Statutory and General Information" in Appendix VI to this prospectus), the forecast combined net profit per Share for the financial year ending 30th June, 2000

FINANCIAL INFORMATION

will be approximately 0.56 cents. No account has been taken in the calculation of any interest which may have been earned if the estimated net proceeds of the Share Offer had been received on 1st July, 1999.

Dividend Policy

The Directors do not presently intend to recommend any dividend for the foreseeable future. The declaration of, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Company's future operations and earnings, setoff of accumulated losses, financial condition, cash requirements and availability and other factors as may be deemed relevant by the Directors.

Working Capital

Phoenix has been financing its operations through loans from shareholders which were fully capitalised on 15th June, 2000 pursuant to the issue of new Shares to Star TV Holdings, Today's Asia and China Wise after exercising their rights of conversion under the convertible notes. Hence, Phoenix did not have any debt securities or loan capital as at the same date which would require cash outlay for settlement.

Taking into account the estimated net proceeds of the Share Offer, the Directors are of the opinion that Phoenix has sufficient working capital for its present requirements.

Phoenix has a history of net losses and despite a profit forecast for the financial year ending 30th June, 2000, may continue to incur further operation losses in the near future due primarily to new channel and other business development. Consequently, the Group may need to seek additional funding from the equity or debt market.

DISTRIBUTABLE RESERVES

As at 31st December, 1999, the Company had not been incorporated, and hence there was no reserve available for distribution at that date.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of Phoenix is based on the combined net liabilities of Phoenix as of 31st December, 1999, as set out in the Accountants' Report in Appendix I to this prospectus.

	<i>HK\$'000</i>
Combined net liabilities of Phoenix as of 31st December, 1999, as set out in the Accountants' Report in Appendix I to this prospectus.	(407,976)
Unaudited profit for the four months ended 30th April, 2000	28,674
Capitalisation issue pursuant to the Reorganisation ⁽¹⁾	502,977
Estimated net proceeds from the Share Offer ⁽²⁾	<u>739,000</u>
Adjusted net tangible asset value	<u>862,675</u>
Adjusted net tangible asset value per Share ⁽³⁾	<u>HK\$0.18</u>

Notes:

1. The aggregate non-interest bearing amounts due to shareholders of the Company amounting to approximately HK\$503.0 million were capitalised as payment in full for the issuance of 4,119,998,280 new Shares of the Company with a par value of HK\$0.10 each pursuant to the issue of new Shares to Star TV Holdings, Today's Asia and China Wise after exercising their rights of conversion under the convertible notes. The excess of the shareholders' loan amounts capitalised over the total par value of the Shares issued amounted to approximately HK\$91.0 million and was credited to the Company's share premium account.
2. Assuming the Offer Price is HK\$1.10, being the midpoint of the proposed Offer Price range between HK\$0.91 and HK\$1.29.
3. The adjusted net tangible asset value per Share is arrived after the adjustments referred to in this section and on the basis of a total of 4,847,060,000 Shares expected to be in issue immediately following the completion of the Share Offer, but takes no account of any Shares which may be allotted and issued pursuant to the exercise of options that have been granted the Pre-IPO Share Scheme, and options that may be granted under the Share Option Scheme, or the Over-Allotment Option, or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue and purchase of Shares granted to the Directors. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share will be HK\$0.20.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of Phoenix since 31st December, 1999 (being the date to which the latest audited combined financial statements of Phoenix were made up).

SPONSORS' INTERESTS

Except as otherwise disclosed herein, neither BOCI Asia nor any of its associates expects to have accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (i) for the purpose of taking up the underwriting obligations under the underwriting agreement to the Share Offer;
- (ii) by way of underwriting commissions by BOCI Asia and/or its fellow subsidiaries by acting as one of the underwriters to the Share Offer;
- (iii) an advisory fee to be paid to it as the sponsor of the Share Offer;
- (iv) by a sponsorship agreement entered into between the Joint Sponsors and the Company pursuant to which the Joint Sponsors have been appointed as sponsors of the Company for the remainder of the financial year ended 30th June, 2000 of the Company and for the period of two years commencing from 1st July, 2000, and the Company shall pay an agreed amount of fee to the Joint Sponsors for their provision of services;
- (v) certain fellow subsidiaries of BOCI Asia, whose ordinary businesses involve the trading of and dealing in securities (including derivatives), may involve in the trading of and dealing in the securities (including derivatives) of the Company;
- (vi) certain of the group companies of BOCI Asia may subscribe for securities of the Company for investment purpose;
- (vii) one of the non-executive Directors of the Company, Mr. LIANG, Xiaoting, is a director of BOC International Holdings Limited, the immediate holding company of BOCI Asia; and Mr. LUO, Jiansheng, executive director of the Bank of China Group Investment Limited, has been nominated by China Wise and is appointed the director of eleven subsidiaries of Phoenix, namely Phoenix Satellite TV, Phoenix Satellite Television (Chinese Channel) Limited, Phoenix Satellite Television (Movies) Limited, Phoenix Satellite Television (Europe) Limited, Binji, Phoenix Satellite Television Information Limited, Phoenix Satellite Television (B.V.I.) Holding Limited, Phoenix Satellite Television (InfoNews) Limited, Phoenix Weekly Magazine (BVI) Limited, Phoenix Satellite Television Development (BVI) Limited and Phoenix Satellite Television Development Limited.

Neither Merrill Lynch Far East nor any of its associates expects to have accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (i) for the purpose of taking up the underwriting obligations under the underwriting agreement to the Share Offer;
- (ii) by way of underwriting commissions by Merrill Lynch Far East and/or its associates by acting as one of the underwriters to the Share Offer;

SPONSORS' INTERESTS

- (iii) by a sponsorship agreement entered into between the Joint Sponsors and the Company pursuant to which the Joint Sponsors have been appointed as sponsors of the Company for the remainder of the financial year ended 30th June, 2000 of the Company and for the period of two years commencing from 1st July, 2000, and the Company shall pay an agreed amount of fee to the Joint Sponsors for their provision of services;
- (iv) certain associates of Merrill Lynch Far East, whose ordinary businesses involve the trading of and dealing in securities (including derivatives), may involve in the trading of and dealing in the securities (including derivatives) of the Company; and
- (v) certain associates of Merrill Lynch Far East may purchase or sell securities of the Company for investment purpose.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

BOCI Asia Limited
Merrill Lynch Far East Limited
BNP Prime Peregrine Securities Limited
CLSA Limited
ING Barings Asia Limited as agent for ING Bank N.V.
Cazenove Asia Limited
China International Capital Corporation (Hong Kong) Limited
DBS Asia Capital Limited
HSBC Investment Bank Asia Limited

Public Offer Underwriters

BOCI Asia Limited
Merrill Lynch Far East Limited
HSBC Investment Bank Asia Limited
ICEA Capital Limited
CEF Capital Limited
Core Pacific-Yamaichi International (H.K.) Limited
First Shanghai Capital Limited
Platinum Securities Company Limited
Tai Fook Securities Company Limited
Worldsec Corporate Finance Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreements

Pursuant to the Underwriting Agreements, the Company is offering at the Offer Price (a) the Public Offer Shares for subscription on and subject to the terms and conditions of this prospectus and the application forms relating thereto; and (b) the Placing Shares for subscription by way of the Placing. Subject to the GEM Listing Committee granting listing of, and permission to deal in, the Shares (subject only to allotment) not later than 20th July, 2000, and to certain other conditions set out in the Underwriting Agreements, (a) the Public Offer Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the application forms relating thereto, for the Public Offer Shares now being offered and which are not taken up under the Public Offer; and (b) the Placing Underwriters have agreed to apply or procure places for the Placing Shares which shall not have been placed pursuant to the Placing.

UNDERWRITING

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares will be subject to termination if any of the following events occur prior to 6:00 p.m. on the day immediately preceding the Listing Date (expected to be on 29th June, 2000):

1. If there shall develop, occur or come into force:
 - (A) any event, or series of events, beyond the control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God) which in the reasonable opinion of the Joint Sponsors has or have the effect of making any material part of the Underwriting Agreements (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or
 - (B) any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters and/or disasters (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange) and if in the reasonable opinion of the Joint Sponsors any such change or disasters would materially and prejudicially affect the Share Offer; or
 - (C) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC or Hong Kong or any other jurisdictions relevant to the Company and its subsidiaries and if in the reasonable opinion of the Joint Sponsors any such new law or change materially and adversely affects or may be expected materially adversely affect the business, financial or other condition or prospects of the Group taken as a whole; or
 - (D) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the U.S. or by the European Union (or any member thereof) on the PRC if in the reasonable opinion of the Joint Sponsors any such imposition would make it inadvisable or inexpedient to proceed with the Share Offer; or
 - (E) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the PRC or Hong Kong and if in the reasonable opinion of the Joint Sponsors, any such change or development materially and adversely affects or may be expected materially and adversely affect the business, financial or other condition or prospects of the Group taken as a whole; or
 - (F) any litigation or claim of material importance to the business, financial or operations of the Company of any third party being instigated against any member of the Group.

UNDERWRITING

2. If there has come to the notice of any of the Joint Sponsors:
- (A) that any statement, in the reasonable opinion of the Joint Sponsors, considered to be material, contained in this prospectus, the application forms, or the offering circular in relation to the Share Offer was when any of such documents were issued, or has become, untrue, incorrect or misleading in any respect; or
 - (B) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or offering circular, constitute an omission therefrom, in the reasonable opinion of the Joint Sponsors, considered to be material; or
 - (C) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities referred to in Underwriting Agreements; or
 - (D) any material breach of any of the obligations imposed upon any party to the Underwriting Agreements (other than on any of the Underwriters); or
 - (E) any adverse change in the business or in the financial or trading position of any member of the Group which is material in the context of the Share Offer; or
 - (F) any breach, in the reasonable opinion of the Joint Sponsors, considered to be material, of any of the warranties contained in the Underwriting Agreements.

Commission and expenses

The Underwriters will receive a commission of 5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission, and BOCI Asia will in addition receive a financial advisory fee in relation to the Share Offer. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer are currently estimated to be approximately HK\$61 million in aggregate (without taking into account the Over-allotment Option and assuming the Offer Price of HK\$1.10, being the mid-point of the proposed Offer Price range between HK\$0.91 to HK\$1.29).

Underwriters' interests in the Company

Save as pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The maximum Offer Price of HK\$1.29 per Share plus 1% brokerage and 0.01% Stock Exchange transaction levy amounting to a total of HK\$2,606.06 per board lot of 2,000 Offer Shares is payable on application.

If the Offer Price, as finally determined in the manner as set out below, is lower than the maximum price, appropriate refund payments will be made. Further details are set out in the section headed “How to apply for Public Offer Shares”.

PRICING

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about 26th June, 2000.

Pricing of the Shares for the purposes of the Share Offer will be fixed by agreement between the Company and the Joint Sponsors on or before the Price Determination Date, which is 26th June, 2000. If the Joint Sponsors (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price or a postponement of the Price Determination Date by the Price Determination Date, the Share Offer will not become unconditional and will lapse.

The Offer Price will be not more than HK\$1.29 per Share and is currently expected to be not less than HK\$0.91 per Share. **Prospective investors should be aware that the Offer Price to be determined on/or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective professional and institutional investors (which generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities) during the book-building process, the Joint Sponsors (on behalf of the Underwriters, and with the consent of the Company) think it appropriate (for instance, the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the latest day for lodging application under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning on the day which is the latest day for lodging applications under the Public Offer, cause there to be published in South China Morning Post (in English), the Hong Kong Economic Journal (in Chinese), the Hong Kong Economic Times (in Chinese) and the GEM Internet website (in English and Chinese) notice of the reduction of indicative Offer Price range. **Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the latest day for lodging applications under the Public Offer, before submitting application for Shares prior to that date.** Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the forecasts for the year ending 30th June, 2000, the offer statistics, as currently set out in the paragraph headed “Summary” in this prospectus and any

STRUCTURE OF THE SHARE OFFER

other financial information which may change as a result of any such reduction. **Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the indicative Offer Price range is so reduced.**

The net proceeds from the Share Offer, assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.10 per Share (being the mid-point of the stated range of the Offer Price of between HK\$0.91 and HK\$1.29) and after deducting commissions and expenses, are estimated to be approximately HK\$739 million. If the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$1.10 per Share (being the midpoint of the indicative Offer Price range), Phoenix would receive additional net proceeds (after deducting commissions and expenses attributable to the exercise of the Over-allotment Option) of approximately HK\$114 million.

In the event that there are any material changes or modifications to the use of proceeds as a result of the Offer Price being fixed at below the indicative Offer Price range, appropriate announcement will be made by the Company.

The applicable Offer Price and basis of allocation between the Public Offer and the Placing are expected to be announced on 29th June, 2000 in South China Morning Post (in English), the Hong Kong Economics Times (in Chinese), the Hong Kong Economic Journal (in Chinese) and the GEM Internet website (in English and Chinese).

CONDITIONS OF THE SHARE OFFER

Acceptance of your applications for the Offer Shares is conditional upon:

(a) Listing

The GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in all the Shares in issue and to be issued as mentioned herein (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option, Pre-IPO Plan and the Share Option Scheme); and

(b) Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming unconditional which requires, amongst other things, the Underwriting Agreements not being terminated in accordance with its terms or otherwise prior to 6:00 p.m. on the day immediately preceding the Listing Date or such later date as the Joint Sponsors (on behalf of the Underwriters) may agree with the Company from time to time.

If these conditions are not fulfilled (or, where applicable, waived by the Joint Sponsors (on behalf of the Underwriters)) on or before 20th July, 2000, your application monies will be returned to you, without interest. The terms on which your money will be returned to you are set out in the section headed “Refund of your money” on the application form.

In the meantime, your application monies will be held in a separate bank account(s) with the receiving banker or any other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. The Offer Shares comprising in aggregate 727,060,000 Shares, will represent approximately 15% of the Company's enlarged issued share capital immediately following completion of the Share Offer.

The Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriters in each case on a several basis, each being subject to the conditions set out in the paragraph headed "Underwriting Arrangements and Expenses" under the section headed "Underwriting" in this prospectus.

The Public Offer

The Company is initially offering 72,706,000 Shares, representing approximately 10% of the Offer Shares for subscription in Hong Kong under the Public Offer at the Offer Price. The Public Offer is sponsored by the Joint Sponsors and is fully underwritten by the Public Offer Underwriters.

Applicants under the Public Offer are required to pay on application the Offer Price, together with a 1% brokerage fee and a 0.01% Stock Exchange transaction levy thereon.

The Placing

654,354,000 Offer Shares representing approximately 90% of the Offer Shares (assuming that the Over-allotment Option is not exercised) are offered by the Company at Offer Price for subscription and sale by way of international Placing. The Placing is managed by the Joint Sponsors and is fully underwritten by the Placing Underwriters pursuant to the Placing Underwriting Agreement.

- (i) *Placing to professional and institutional investors and investors anticipated to have sizable demand for Shares*

It is expected that the Placing Underwriters or selling agents nominated by them on behalf of the Company will conditionally place 632,542,200 Placing Shares at the Offer Price with professional and institutional investors and investors anticipated to have sizable demand for the Shares in Hong Kong, Europe and other jurisdiction outside the United States other than the PRC in offshore transactions in reliance on Regulation S, and in the United States with qualified institutional buyers in reliance on Rule 144A, subject to appropriate restrictions. Such professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares are unlikely to be allocated to individual investors.

Allocation of Placing Shares to professional and institutional investors and investors anticipated to have sizable demand for the Shares pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

STRUCTURE OF THE SHARE OFFER

(ii) *Placing to certain employees of the Company*

Up to 21,811,800 Placing Shares, representing 3% of the Offer Shares will be offered by the Company to certain employees (except the Directors and their associates) of the Company outside of the United States in reliance on Regulation S, under the terms and subject to the condition of the Share Offer by way of several placing letters between the Company and such employees.

The Placing is subject to the same conditions as stated in the paragraph headed “Conditions of the Share Offer” above. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Public Offer. Subject to any reallocation in the case of under-subscription of the Public Offer, the Placing Shares will represent approximately 13.5% of the issued Shares of the Company immediately after completion of the Share Offer (but before the exercise of the Over-allotment Option).

Reallocation of Offer Shares between the Public Offer and the Placing

The allocation of Offer Shares between the Placing and the Public Offer will not be subject to adjustment save that if any of the Public Offer Shares and/or Placing Shares is not taken up, the Joint Sponsors have the joint authority (but not the obligation) to re-allocate all or any of the untaken Shares originally included in the Public Offer to the Placing or vice versa, in such number as they deem appropriate.

OVER-ALLOTMENT OPTION

Pursuant to the Placing Underwriting Agreement, the Company has granted to the Joint Sponsors (on behalf of the Placing Underwriters) the right but not the obligation of the Over-allotment Option, exercisable for 30 days from the date of this prospectus, to require the Company to issue up to an aggregate of 109,059,000 additional Shares. These Shares will be issued at the Offer Price for the purpose of covering over-allocations in the Placing. In the event that the Over-allotment Option is exercised, the additional Shares issued will be allotted to the Placing at the discretion of the Joint Sponsors who may, at their option, also cover any over-allocations through stock borrowing arrangements and the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws.

The Joint Sponsors may choose to borrow Shares from China Wise, pending exercise of the Over-allotment Option or the secondary market acquisitions of Shares. Under the proposed stock borrowing arrangements, China Wise shall upon request by the Joint Sponsors lend up to 109,059,000 Shares to the Joint Sponsors before the commencement of dealings in the Shares on the Stock Exchange. A waiver has been granted by the Stock Exchange to China Wise from strict compliance with Rule 13.16 of the GEM Listing Rules which restrict the disposal of shares by initial management shareholders following a new listing, in order to allow China Wise to enter into such stock borrowing arrangements.

STRUCTURE OF THE SHARE OFFER

STABILISATION

In connection with the Share Offer, the Joint Sponsors (on behalf of the Placing Underwriters) may over-allocate up to an aggregate of 109,059,000 additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Offer Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Offer Shares, they will be done at the absolute discretion of the Joint Sponsors. The stabilisation price to cover the over-allocation must not be higher than the Offer Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

Non-issue undertakings

In connection with the Share Offer, each of the Company, the Executive Directors, Today's Asia, Star TV Holdings and China Wise has jointly and severally undertaken to and covenanted with the Underwriters to procure that the Company and its subsidiaries shall not, within a period of six months from the Listing Date:

- (a) allot or issue or agree to allot or issue any securities in the Company or any subsidiary (including warrants or other convertible securities (and whether or not of a class already listed)); or
- (b) grant or agree to grant any options or other rights carrying any right to subscribe for or otherwise acquire any securities of the Company or any of its subsidiary; or
- (c) enter in any swap or other arrangements that transfers, in whole or in part, any of the economic consequence of ownership of any Shares; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so;

other than any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the grant or the exercise of options under the Pre-IPO Share Option Plan and the Share Option Scheme.

HOW TO APPLY FOR PUBLIC OFFER SHARES

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Note: The Public Offer Shares are not available to the chief executive of the Company, the Directors, existing beneficial owners of Shares, or the associates (as defined in the GEM Listing Rules) of any of them.

WHERE TO COLLECT THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

Copies of this prospectus, together with the **WHITE** application forms, may be obtained from:

Any member of
The Stock Exchange of Hong Kong Limited

or

BOCI Asia Limited

35th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Merrill Lynch Far East Limited

17th Floor, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

HSBC Investment Bank Asia Limited

Level 15, One Queen's Road Central
Hong Kong

ICEA Capital Limited

43rd Floor, NatWest Tower
Times Square
Causeway Bay
Hong Kong

CEF Capital Limited

Suite 2001, 20th Floor
Cheung Kong Center
No. 2 Queen's Road Central
Hong Kong

Core Pacific-Yamaichi

International (H.K.) Limited
30th Floor, Two Pacific Place
88 Queensway
Hong Kong

First Shanghai Capital Limited

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Platinum Securities Company Limited

15th Floor, New World Tower II
18 Queen's Road Central
Hong Kong

Tai Fook Securities Company Limited

25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Worldsec Corporate Finance Limited

Rooms 3301-2, 33rd Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

or any one of the following branch or sub-branches of **Bank of China**:

Hong Kong Island:	Hong Kong Branch Central Sub-branch	3rd Floor, 1 Garden Road, Central Li Po Chun Chambers, 189 Des Voeux Road, Central
	Wanchai Sub-branch North Point Sub-branch	395 Hennessy Road, Wanchai Ground Floor, Roca Centre, 464 King's Road, North Point
	United Centre Sub-branch	Shop 1021, 1/F, United Centre, 95 Queensway
	Taikoo Shing Sub-branch	Hoi Sing Mansion, Taikoo Shing
Kowloon:	Tsim Sha Tsui Sub-branch	Ground Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui
	Yaumatei Sub-branch Mongkok Sub-branch	471 Nathan Road, Yaumatei 608 Nathan Road
	Kwun Tong Sub-branch Lai Chi Kok Sub-branch	55 Hoi Yuen Road, Kwun Tong Unit 1, Ground Floor, Kowloon Plaza, 485 Castle Peak Road
	Canton Road Sub-branch	Imperial Building, 60 Canton Road, Tsim Sha Tsui
	Whampoa Garden Sub-branch	G/F, Shop 2, Willow Mansion, Site 3, Whampoa Garden, Hung Hom
New Territories:	Tsuen Wan Sub-branch Shatin Sub-branch	167 Castle Peak Road, Tsuen Wan Ground Floor, Lucky Plaza, Wang Pok Street, Shatin

You can collect a **YELLOW** application form and a prospectus from:

- (1) the service counter of Hongkong Clearing at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) the Investor Service Centre of Hongkong Clearing at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong; or
- (3) your broker may have the application forms available.

HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected. Each **WHITE** or **YELLOW** application form must be accompanied by either one separate cheque drawn on the applicant's Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form, or one separate banker's cashier order on the reverse of which the bank has certified by an authorised signatory the name of the applicant, which

HOW TO APPLY FOR PUBLIC OFFER SHARES

must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form. All such cheques or banker's cashier orders must be made payable as set out in the application form and crossed "Account Payee Only".

If your application is made through a duly authorised attorney, the Joint Sponsors, in consultation with the Company, or its agents may accept your application at its discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

HOW MANY APPLICATIONS YOU MAY MAKE

There is only one situation where you may make more than one application for Public Offer Shares:

- If you are a nominee, you may lodge more than one application in your own name on behalf of different owners. In the box on the application form marked "For nominees" you must include for each beneficial owner:
 - an account number; or
 - some other identification code.

If you do not include this information, the application will be treated as being for your own benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an application form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form;
- (if you are an agent for another person) warrant that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form, and that you are duly authorised to sign this form as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** application form; or
- apply on one **YELLOW** or **WHITE** (whether individually or jointly with others) application form for more than 100% of the Public Offer Shares being offered.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged by 12:00 noon on 26th June, 2000, or, if the application lists are not open on that day, then by 12:00 noon on the day the application lists are open.

Your completed application form, with payment attached, should be deposited in any of the special collection boxes provided at any of the branch and sub-branches of Bank of China listed above at the following times:

21st June, 2000 (Wednesday)	—	9:00 a.m. to 4:00 p.m.
22nd June, 2000 (Thursday)	—	9:00 a.m. to 4:00 p.m.
23rd June, 2000 (Friday)	—	9:00 a.m. to 4:00 p.m.
24th June, 2000 (Saturday)	—	9:00 a.m. to 12:00 noon
26th June, 2000 (Monday)	—	9:00 a.m. to 12:00 noon

The application lists will be open from **11:45 a.m. to 12:00 noon on 26th June, 2000.**

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 26th June, 2000. Instead the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

*For the purposes of this section, **business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.*

HOW TO APPLY FOR PUBLIC OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Details of the circumstances which you will not be allotted Public Offer Shares are set out in the notes contained in the application forms, and you should read them carefully. You should note in particular the following two situations in which Public Offer Shares will not be allotted to you:

- **Your application is revoked**

You cannot revoke your application before the end of the fifth day (excluding Saturdays, Sundays and public holidays) after the time of the opening of the application lists being 2nd July, 2000, except that you may revoke your application earlier than that date if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked.

- **Circumstances in which allotment of Public Offer Shares will be void**

Your allotment of Public Offer Shares, if made, will be void if the GEM Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the GEM Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

PUBLICATION OF RESULTS

The Company expects to release the Offer Price fixed, the level of interest in the Placing, basis of allotment and results of applications of the Public Offer on or before Thursday, 29th June, 2000 on the GEM website, in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and the Hong Kong Economic Journal (in Chinese).

IF YOUR APPLICATION FOR PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary documents of title. No receipt will be issued for application money paid.

WHITE application form:

If you have indicated on your application form that you will collect your share certificates and refund cheques (if any) in person, you may collect them in person from:

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company on the GEM Internet website and in the newspapers as the date of despatch of share certificates. This is expected to be on 29th June, 2000.

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to HKSCC Registrars Limited.

If you have opted for personal collection but do not collect your share certificates and/or refund cheque (if any) at the specified time, they will be sent to the address on your application form in the afternoon on the date of despatch, by ordinary post and at your own risk. The Company intends to use commercially reasonable efforts to avoid delays in refunding money.

If you have not indicated on your application form that you will collect your share certificates and refund cheque (if any) in person, then your share certificates and refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

YELLOW application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on 29th June, 2000, or, under any contingent situation, on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than an investor participant):

- for the Public Offer Shares credited to the stock account of your designated CCASS participant (other than investor participant), you can check the number of the Public Offer Shares allocated to you with that CCASS participant.

If you are applying as an investor participant:

- the Company will publish the results of investor participants' applications together with the results of the Share Offer on the GEM website and in the newspapers on or before 29th June, 2000. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 12:00 noon on 29th June, 2000 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited. On 30th June, 2000 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an Activity Statement showing the number of Public Offer Shares credited to your stock account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

HOW MUCH TO PAY FOR THE PUBLIC OFFER SHARES

The proposed board lot for trading in the Shares is 2,000 Shares. You must pay the Offer Price of HK\$1.29 per Public Offer Share, together with brokerage of 1% and a Stock Exchange transaction levy of 0.01%. This means that for every 2,000 Shares, you will pay HK\$2,606.06. The application forms have tables showing the exact amount payable for multiples of Shares applied for.

If your application is successful, brokerage is paid to members of the Stock Exchange, and the transaction levy is paid to the Stock Exchange.

COMMENCEMENT OF DEALINGS IN THE PUBLIC OFFER SHARES

Dealings in the Shares are expected to commence on 30th June, 2000.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the GEM as well as compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the GEM or on any other date Hongkong Clearing chooses. Investors should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests. Settlement of transactions between members of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the conditions of Share Offer are not fulfilled in accordance with the section headed “Structure of the Share Offer — Conditions of the Share Offer” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage and Stock Exchange transaction levy, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

In due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application form a refund cheque or refund cheques crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price

HOW TO APPLY FOR PUBLIC OFFER SHARES

and the initial price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including brokerage at the rate of 1% and a Stock Exchange transaction levy of 0.01% but without interest.

Subject as mentioned above, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **WHITE** application forms are expected to be posted on or before 29th June, 2000. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you have indicated your intention in your application form to collect refund cheque(s) and share certificate (where applicable) from the Company's Share Registrar, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, and have provided all information required by your application form, you may collect (where applicable) your share certificate and/or refund cheque(s) from HKSCC Registrars Limited from 9:00 a.m. to 1:00 p.m. on 29th June, 2000. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to HKSCC Registrars Limited. If you do not collect your refund cheque(s) and/or Share certificate (where applicable), they will be despatched promptly to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post to the address as specified in your application form at your own risk.



ARTHURANDERSEN

Arthur Andersen & Co
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Tel: 852 2852 0222

Fax: 852 2815 0548

21st June, 2000

The Directors
Phoenix Satellite Television Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for inclusion in the prospectus of the Company dated 21st June, 2000 (the "Prospectus").

The Company was incorporated in Cayman Islands on 2nd February, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company has not carried on any business since its incorporation, except that on 17th April, 2000 it acquired the entire issued share capital of Phoenix Satellite Television (BVI) Holding Limited through a share exchange and became the holding company of the Group.

We have acted as auditors of the Group for the years/period covered in this report. As at the date of this report, no audited financial statements have been prepared by the Company and the following companies as they were not subject to any statutory audit requirements in their jurisdictions of incorporation. We have, however, reviewed all relevant transactions of these companies for the years/period covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report:

- Phoenix Satellite Television (BVI) Holding Limited
- Phoenix Satellite Television (Europe) Limited
- Binji Overseas Limited
- Phoenix Satellite Television Information Limited
- PHOENIXi Investment Limited
- Phoenix Satellite Television (InfoNews) Limited

- Phoenix Weekly Magazine (BVI) Limited
- Hong Kong Phoenix Weekly Magazine Limited
- Phoenix Satellite Television Development (BVI) Limited
- Phoenix Satellite Television Development Limited
- PHOENIXi, Inc.
- PCNE Holdings Limited
- 國鳳在綫(北京)信息技術有限公司 Guofeng On-line (Beijing) Information Technology Company Limited
- 鳳凰影視(深圳)有限公司 Phoenix Film and Television (Shenzhen) Company Limited

For the purpose of this report, we have audited the financial statements or management accounts of the companies now comprising the Group for the financial years ended 30th June, 1998 and 1999 and the six-month period ended 31st December, 1999, or since their respective dates of incorporation where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for each of the financial years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999 (the “Relevant Period”) and of the combined net liabilities of the Group as at 31st December, 1999 (the “Summaries”) set out in this report have been prepared from the financial statements or, where appropriate, management accounts of the companies now comprising the Group after making such adjustments as we consider appropriate and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of the Group for the financial years ended 30th June, 1998 and 1999 and the six-month period ended 31st December, 1999 and of the combined net liabilities of the Group as at 31st December, 1999.

1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries (all of which are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company):

Name	Place of incorporation and operations/date of incorporation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Group	Principal activity
Binji Overseas Limited	British Virgin Islands 8th January, 1996	US\$1	100%	Trademark holding
Hong Kong Phoenix Weekly Magazine Limited*	Hong Kong 29th November, 1999	HK\$100	55%	Publishing and distribution of periodicals
Phoenix Satellite Television (InfoNews) Limited	British Virgin Islands 6th September, 1999	US\$1	100%	Satellite television broadcasting
Phoenix Satellite Television (BVI) Holding Limited	British Virgin Islands 28th April, 1998	US\$1	100%	Investment holding
Phoenix Satellite Television (Chinese Channel) Limited	British Virgin Islands 29th June, 1998	US\$1	100%	Satellite television broadcasting
Phoenix Satellite Television Company Limited	Hong Kong 16th November, 1995	HK\$20	100%	Satellite television broadcasting
Phoenix Satellite Television (Europe) Limited	British Virgin Islands 5th July, 1999	US\$1	100%	Investment holding
Phoenix Satellite Television Information Limited	British Virgin Islands 1st September, 1999	US\$1	100%	Investment holding
Phoenix Satellite Television (Movies) Limited	British Virgin Islands 26th June, 1998	US\$1	100%	Satellite television broadcasting
Phoenix Weekly Magazine (BVI) Limited	British Virgin Islands 24th January, 2000	US\$1	100%	Investment holding

Name	Place of incorporation and operations/date of incorporation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Group	Principal activity
PHOENIXi Investment Limited*	British Virgin Islands 28th October, 1999	US\$ 123,975 (Ordinary Shares) US\$7,500 (Series A Preferred Shares)	94.3%	Investment holding
PHOENIXi, Inc.*	The United States of America 3rd June, 1999	US\$0.1	94.3%	Internet services
Phoenix Satellite Television Development (BVI) Limited	British Virgin Islands 6th January, 2000	US\$1	100%	Investment holding
Phoenix Satellite Television Development Limited	Hong Kong 16th April, 1999	HK\$2	100%	Investment holding
PCNE Holdings Limited	British Virgin Islands 5th January, 2000	US\$2	50%	Investment holding
國鳳在綫(北京)信息技術有限公司 Guofeng On-line (Beijing) Information Technology Company Limited	PRC 18th April, 2000	US\$500,000	94.3%	Internet services
鳳凰影視(深圳)有限公司 Phoenix Film and Television (Shenzhen) Company Limited*	PRC 6th March, 2000	HK\$10,000,000	60%	Programme production ancillary services

Note:

- (a) Phoenix Satellite Television (BVI) Holding Limited is directly held by the Company, while all other subsidiaries are indirectly held by the Company through Phoenix Satellite Television (BVI) Holding Limited.

* These companies were accounted for as wholly-owned subsidiaries as at 31st December, 1999. Subsequent to 31st December, 1999, additional shares were issued to third parties at nominal value, and the equity interest attributable to the Group changed to the current percentages of interest. As at the date of this prospectus, these companies have not yet commenced operation.

The summary of the combined results includes the results of the companies now comprising the Group, for the years/period covered by this report or since their respective dates of incorporation or establishment, where this is a shorter period. The summary of the combined net liabilities of the Group as at 31st December, 1999 has been prepared to present the assets and liabilities of the companies now comprising the Group as at that date.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform to accounting principles generally accepted in Hong Kong, are as follows:

a. Revenue

Revenue comprised primarily advertising and subscription sales revenue.

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

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

b. Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence. Related parties may be individuals or entities.

c. Inventories

Inventories are carried at the lower of cost and net realisable value.

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

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

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

d. Self-produced programmes

Self-produced programmes are stated at cost less provision for obsolescence where considered necessary by the directors. Cost comprises the production cost of the programmes which consists of direct expenditure and an appropriate portion of production overheads. The

production costs of the self-produced programmes are charged to income statement upon the first showing of the programmes. Self-produced programmes include programmes that are showed once. These production costs would be fully amortised upon the first showing.

e. Purchased programme rights

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

f. Deferred taxation

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

g. Fixed assets and depreciation

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

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

Leasehold improvement	15%
Furniture and fixtures	15–20%
Office equipment	20%
Motor vehicles	20%

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

h. Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

i. Foreign currency translation

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

3. RESULTS

The following is a summary of the combined results of the Group for the financial years ended 30th June, 1998 and 1999 and the six-month period ended 31st December, 1999, prepared on the basis set out in Section 1 above.

		Financial year ended		Six months
		30th June,		ended 31st
		1998	1999	December,
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	1999
				<i>HK\$'000</i>
REVENUE	(a)	174,805	314,663	227,917
OPERATING EXPENSES		(190,753)	(270,380)	(159,559)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		<u>(117,415)</u>	<u>(132,264)</u>	<u>(72,016)</u>
LOSS FROM OPERATIONS		(133,363)	(87,981)	(3,658)
OTHER INCOME				
Exchange gain, net		68	549	538
Interest income		1,866	2,325	655
Other income, net		<u>324</u>	<u>6,641</u>	<u>557</u>
LOSS BEFORE TAXATION	(b)	(131,105)	(78,466)	(1,908)
TAXATION	(c)	<u>—</u>	<u>—</u>	<u>—</u>
NET LOSS FOR THE YEAR/PERIOD AND ATTRIBUTABLE TO SHAREHOLDERS		<u>(131,105)</u>	<u>(78,466)</u>	<u>(1,908)</u>
DIVIDENDS	(d)	<u>—</u>	<u>—</u>	<u>—</u>
LOSS PER SHARE (in HK cents)	(e)	<u>(3.18)</u>	<u>(1.90)</u>	<u>(0.05)</u>

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

Notes:

a. Revenue

Analysis of revenue is as follows:

	Year ended 30th June,		Six months ended
	1998	1999	31st December, 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Advertising sales	171,766	300,958	216,238
Subscription sales	3,039	13,705	11,679
Total revenue	174,805	314,663	227,917

b. Loss before taxation

Loss before taxation was determined after crediting and charging the following:

	Year ended 30th June,		Six months ended
	1998	1999	31st December, 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting:			
Exchange gain, net	68	549	538
Interest income on bank deposits	1,866	2,325	655
Charging:			
Programme amortisation costs	31,160	44,583	20,949
Programme production costs	53,967	49,587	28,693
Transponder rental	17,803	21,128	10,593
License fee	—	27,158	22,169
Provision for bad debts	4,478	13,936	4,053
Staffing costs	55,672	66,372	34,757
Operating lease expenses of Director's quarters	645	616	387
Depreciation of fixed assets	750	878	476
Amortisation/write off of pre-operating expenses	401	1,476	5,929
Cost of inventories	—	4,451	—
Auditors' remuneration	130	240	120

c. Taxation

No profits tax has been provided as the Group has no estimated assessable profit during the years/period covered in this report.

The Group had a tax loss of approximately HK\$530,608,000 as at 31st December, 1999 for Hong Kong tax purposes which, subject to the agreement by the Inland Revenue Department, may be carried forward indefinitely and applied against future profits.

As at 31st December, 1999, there was no significant unprovided deferred taxation.

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

d. Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries since their incorporation.

e. Loss per share

The calculation of loss per share for the financial years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999 is based on the net loss during the years/period and on the 4,120,000,000 Shares in issue as at the date of this Prospectus deemed to be in issue throughout the Relevant Period on the assumption that the Reorganisation has been effective on 1st July, 1997.

f. Directors' and senior executives' emoluments

- i. During the years/period covered in this report, the Company did not pay any emoluments to the directors of the Company.
- ii. Details of emoluments paid to the directors of the Company by the companies now comprising Group were as follows:

	Year ended 30th June,		Six months ended
	1998	1999	31st December,
	<i>HK\$'000</i>	<i>HK\$'000</i>	1999
			<i>HK\$'000</i>
Executive director A:			
Fees	3,040	3,561	1,811
Salaries	—	—	—
Discretionary bonus	619	774	—
Housing allowance	645	616	387
Pension fund	—	—	—
	<u>4,304</u>	<u>4,951</u>	<u>2,198</u>
Executive director B:			
Fees	—	—	—
Salaries	1,597	1,688	858
Discretionary bonus	550	664	—
Housing allowance	—	—	—
Pension fund	117	117	59
	<u>2,264</u>	<u>2,469</u>	<u>917</u>
Executive director C:			
Fees	—	—	—
Salaries	1,597	1,688	858
Discretionary bonus	550	664	—
Housing allowance	—	—	—
Pension fund	117	117	59
	<u>2,264</u>	<u>2,469</u>	<u>917</u>

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

During the years/period covered in this report, no emoluments were paid to non-executive directors and independent directors of the Company.

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

	Year ended 30th June,		Six months ended 31st December,
	1998	1999	1999
Nil – HK\$1,000,000	—	—	2
HK\$1,000,001 – HK\$1,500,000	—	—	—
HK\$1,500,001 – HK\$2,000,000	—	—	—
HK\$2,000,001 – HK\$2,500,000	2	2	1
HK\$2,500,001 – HK\$3,000,000	—	—	—
HK\$3,000,001 – HK\$3,500,000	—	—	—
HK\$3,500,001 – HK\$4,000,000	—	—	—
HK\$4,000,001 – HK\$4,500,000	1	—	—
HK\$4,500,001 – HK\$5,000,000	—	1	—
	—	1	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999.

- iii. Details of emoluments paid to the five highest paid individuals (including three directors and two other employees) were as follows:

	Year ended 30th June,		Six months ended 31st December,
	1998	1999	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	3,040	3,561	1,811
Salaries	6,190	6,540	3,326
Discretionary bonus	2,795	3,395	—
Housing allowance	645	616	387
Pension fund	446	446	224
	13,116	14,558	5,748

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

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

	Year ended 30th June,		Six months ended
	1998	1999	31st December, 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Nil – HK\$1,000,000	—	—	4
HK\$1,000,001 – HK\$1,500,000	—	—	—
HK\$1,500,001 – HK\$2,000,000	—	—	—
HK\$2,000,001 – HK\$2,500,000	4	4	1
HK\$2,500,001 – HK\$3,000,000	—	—	—
HK\$3,000,001 – HK\$3,500,000	—	—	—
HK\$3,500,001 – HK\$4,000,000	—	—	—
HK\$4,000,001 – HK\$4,500,000	1	—	—
HK\$4,500,001 – HK\$5,000,000	—	1	—

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director or the other employees amongst the five highest paid individuals for the years ended 30th June, 1998 and 1999 and for the six months ended 31st December, 1999.

g. Pension scheme

The Group provides a defined contribution provident fund scheme for all employees and makes monthly contribution to the scheme based on 10% of the employees' basic salaries. Forfeited contributions made by the Group are used to reduce the employers' contribution. For the financial years ended 30th June, 1998 and 1999 and the six months ended 31st December, 1999, the aggregate amounts of employer's contribution made by the Group were approximately HK\$2,374,000, HK\$3,039,000 and HK\$1,640,000 respectively, after deduction of forfeited contributions of approximately HK\$170,000, HK\$217,000 and HK\$348,000 respectively. As at 31st December, 1999, there was no unutilised amount of forfeited contributions.

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

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

h. Related party transactions

In the normal course of business, the Group had the following significant transactions with related parties during the years/period covered by this report.

	Notes	Year ended 30th June,		Six months
		1998	1999	ended 31st
		HK\$'000	HK\$'000	December,
				1999
				HK\$'000
i. Office premises rental paid to Satellite Television Asian Region Limited	a,b	8,951	8,951	3,712
ii. Service charges paid to Satellite Television Asian Region Limited	a,c	75,871	77,957	38,401
iii. Commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited	a,d	7,711	7,897	4,468
iv. Commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited	a,e	536	565	401
v. Decoders purchased from Satellite Television Asian Region Limited	a,f	—	4,451	—
vi. Film license fees paid to Star TV Filmed Entertainment Limited	a,g	—	25,880	17,945
vii. Film license fees paid to other Star TV group companies	a,h	2,353	7,740	6,968
viii. Film license fees received from other Star TV group companies	a,h	(46)	(1,829)	—
ix. Programmes purchased from ATV Enterprises Limited	h,i	5,531	8,985	6,833
x. Commission paid to Shenzhou Television Limited as advertising agent	j,k	968	6,255	4,704
xi. Service charges paid to Shenzhou Television Limited	j,l	26,697	30,715	15,934
xii. Service charges paid to Sino Television (Hong Kong) Limited	m,n	6,580	10,214	5,169
xiii. By a one-off transaction on 28th August, 1998, the Group purchased from Satellite Television Asian Region Limited and Star TV Filmed Entertainment Limited 1,486 decoders for a consideration of US\$518,000.				
xiv. The Group provided certain film rights and programmes to Phoenix Chinese News and Entertainment Limited ("PCNE") at no charge since 11th July, 1999, the date of the conditional agreement (See Note o and section 6 Note(f) for more details).				

Notes:

The directors of the Company confirmed that all of the above related party transactions are carried in the normal course of business of the Group and will be continued in the future.

- a. Satellite Television Asian Region Limited, Star TV Filmed Entertainment Limited and other Star TV group companies are wholly-owned subsidiaries of the Star TV group.
- b. Office premises rental paid to Satellite Television Asian Region Limited was determined by reference to the area of space occupied by the Group and was proportional to the rental payable by Satellite Television Asian Region Limited in respect of the area occupied by it under its lease with the landlord.
- c. Service charges paid to Satellite Television Asian Region Limited cover the following services provided to the Group which are charged based on the terms as specified under a service agreement. Either a fixed fee or variable fees are charged depending on the type of facilities utilised:
 - Transponder capacity;
 - Network;
 - Broadcast operations and engineering;
 - Uplink and downlink; and
 - General administrative and other support (including access to, and the use of, general office facilities, human resources, management information system, commercial traffic, insurance, publicity and corporate affairs, legal and corporate secretarial).
- d. The commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited is based on 20% of the net advertising income generated and received by it on behalf of the Group after deducting the relevant amount of the third party agency fees incurred by it.
- e. The commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited is based on 15% of the subscription fees received by it on behalf of the Group.
- f. The decoders were purchased at costs from Satellite Television Asian Region Limited.
- g. The film licence fees are charged in accordance with a film rights acquisition agreement with Star TV Filmed Entertainment Limited.
- h. Film licence fees paid to and received from other Star TV group companies and ATV Enterprises Limited are negotiated based on a case-by-case basis.
- i. Mr. LIU, Changle and Mr. CHAN, Wing Kee, two of the Initial Management Shareholders of the Company, own approximately 14% and 3% indirect interest of ATV Enterprises Limited respectively as at 31st December, 1999.
- j. Mr. CHUI, Keung, a director of the Company, owned 16% interest and was one of the directors of Shenzhou Television Limited. Mr. CHUI disposed all of his interest in and resigned as a director of Shenzhou Television Limited on 11th May, 2000. Since then, Shenzhou Television Limited is no longer a related party to the Group.
- k. The commission for collection of advertising sales paid to Shenzhou Television Limited is based on an average of 3% on the sales amount collected.
- l. The service charges paid to Shenzhou Television Limited represent the sales and marketing services provided by it and is charged based on 4% of the advertising sales made by it.

- m. Sino Television (Hong Kong) Limited is a 99.98% owned subsidiary of Shenzhou Television Limited. With the resignation of Mr. CHUI, Keung as a director of Shenzhou Television Limited, Sino Television (Hong Kong) Limited is no longer a related party to the Group.
- n. Service charges paid to Sino Television (Hong Kong) Limited were determined based on the actual cost incurred by Sino Television (Hong Kong) Limited for recruitment services performed.
- o. China Wise International Limited, an existing shareholder of the Company, has a direct and indirect interest in Techvast Limited of approximately 12% which is the parent company of PCNE.

The outstanding balances with related companies and shareholders were unsecured, non-interest bearing and have no fixed repayment terms. See Notes 4d and 4e for details of outstanding balances with related companies and shareholders.

4. NET LIABILITIES

The following is a summary of the combined net liabilities of the Group as at 31st December, 1999, prepared on the basis set out in Section 1 above.

	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FIXED ASSETS	a		3,830
PURCHASED PROGRAMME RIGHTS	b		26,860
CURRENT ASSETS			
Cash and bank deposits		9,238	
Accounts receivable, net		73,258	
Inventories	c	685	
Prepayment, deposits and other receivables		11,054	
Due from related companies	d	60,707	
Self-produced programmes		15,011	
Purchased programme rights	b	<u>5,902</u>	
Total current assets		<u>175,855</u>	
CURRENT LIABILITIES			
Deferred subscription income		(6,750)	
Accounts payable and accruals		(61,114)	
Due to related companies	d	<u>(43,680)</u>	
Total current liabilities		<u>(111,544)</u>	
NET CURRENT ASSETS			64,311
LONG-TERM LIABILITIES			
Amount due to shareholders	e		<u>(502,977)</u>
NET LIABILITIES			<u><u>(407,976)</u></u>

Notes:

a. Fixed assets comprised:

	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold improvement	1,460	(642)	818
Furniture and fixtures	634	(250)	384
Office equipment	2,594	(571)	2,023
Motor vehicles	<u>1,750</u>	<u>(1,145)</u>	<u>605</u>
	<u>6,438</u>	<u>(2,608)</u>	<u>3,830</u>

APPENDIX I	ACCOUNTANTS' REPORT RELATING TO THE GROUP
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b. Purchased programme rights

	<i>HK\$'000</i>
Cost	111,411
Accumulated amortisation	<u>(78,649)</u>
	32,762
Less: Purchased programme rights — current portion	<u>(5,902)</u>
Purchased programme rights — long-term portion	<u><u>26,860</u></u>

c. Inventories

	<i>HK\$'000</i>
Decoding devices, at cost	<u><u>685</u></u>

d. Amount due from (to) related companies

The outstanding balances with related companies were unsecured, non-interest bearing and have no fixed repayment terms. Included in the amount due from related companies of approximately HK\$11.8 million was an unsecured loan receivable from PCNE (see Notes 5c and 6f for more details). By applying the market rate of approximately 8.5% p.a. to the month-end loan balances, the notional amount of interest for the loan receivable from PCNE would be approximately HK\$180,000 for the period ended 31st December, 1999.

e. Amount due to shareholders

The long-term amount due to shareholders were unsecured, non-interest bearing and not repayable within the next year. The entire amount due to shareholders will be capitalised as Share Capital subsequent to 31st December, 1999.

f. Distributable reserves

As at 31st December, 1999, the Company had not been incorporated and hence there was no reserve available for distribution to the shareholders of the Company on that date.

g. Net tangible asset of the Company

The Company became the holding company of the Group pursuant to the Group Reorganisation. Had the Group Reorganisation referred to herein and the capitalization of amount due to shareholders of HK\$503 million as mentioned in Note 4e above been completed on 31st December, 1999, the net tangible assets of the Company at that date would have been HK\$95 million, representing the Company's investment in subsidiaries.

5. COMMITMENTS AND CONTINGENT LIABILITIES

a. Film rights and programme acquisition

As at 31st December, 1999, the Group had aggregate outstanding film rights and programmes related commitments of approximately HK\$399,922,000, of which approximately HK\$396,807,000 was in respect of a film rights acquisition agreement with Star TV Filmed Entertainment Limited extending to 27th August, 2008 and approximately HK\$3,115,000 was in respect of other programmes acquisition agreements with third parties. The amounts of commitments which are payable within the next twelve months, analysed according to the period in which the agreements expire, are as follows:

	<i>HK\$'000</i>
Expiring in the first year	3,115
Expiring in the second to fifth years inclusive	—
Expiring after the fifth year	<u>41,871</u>

b. Service charges

As at 31st December, 1999, the Group had total committed service charges payable to Satellite Television Asian Region Limited of approximately HK\$26,296,000 in respect of a service agreement expiring in June, 2000, the amount are fully payable within the next twelve months.

c. Funding commitment

Pursuant to a conditional agreement signed on 11th July, 1999, the Group has committed to provide funding of not less than US\$8,400,000 (equivalent to approximately HK\$64,932,000) to Phoenix Chinese News and Entertainment Limited ("PCNE") for the next three years with annual funding of not less than US\$2,800,000 (equivalent to approximately HK\$21,644,000) (See Notes 4d and 6f for more details).

d. Capital commitment

As at 31st December, 1999, the Group had total outstanding capital commitment in respect of a studio equipment acquisition agreement of approximately HK\$1,670,000. The agreement will expire within the next twelve months.

e. Operating lease commitment

As at 31st December, 1999, the Group had outstanding operating lease commitment in respect of a director's quarters of approximately HK\$734,000 which are fully repayable within the next twelve months.

f. Contingent liabilities

The Group had no contingent liabilities as at 31st December, 1999.

6. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31st December, 1999 and up to the date of this report:

- a. The Company was incorporated on 2nd February, 2000 in the Cayman Islands with authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which one subscriber share then issued was transferred to and now held by Star TV Holdings Limited, eight, nine and two shares were further allotted and issued at par value to Star TV Holdings Limited, Today's Asia Limited and China Wise International Limited on 2nd February, 2000, respectively;
- b. By shareholders' written resolutions of the Company passed on 7th June, 2000, the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 shares to rank equally with the existing shares in all respects (see Appendix VI "Statutory and General Information — Changes in share capital");
- c. The corporate reorganisation procedures as listed in Appendix VI "Statutory and General Information — Corporate reorganisation" of this prospectus;
- d. A non-interest bearing amount due to shareholders of HK\$502,977,000 was converted into 4,119,998,280 fully paid shares of the Company with a par value of HK\$0.10 each. The excess of the loan amount capitalised over the total par value of the shares issued was HK\$90,977,000 and was credited to the Company's share premium account;
- e. Mr. CHUI, Keung disposed all his interest in and resigned as a director of Shenzhou Television Limited on 11th May, 2000; and
- f. Pursuant to a conditional agreement signed on 11th July, 1999, the Group shall acquire 70% equity interest of Chinese News and Entertainment Limited ("CNE") from Techvast Limited at zero consideration through PCNE Holdings Limited which was incorporated for the purpose of acquiring the Phoenix CNE Channel. PCNE Holdings Limited is at present held as to 50% by Phoenix Satellite Television (Europe) Limited and 50% by Techvast Limited. The acquisition of CNE is yet to be completed. If the acquisition is completed, Phoenix Satellite Television (Europe) Limited will hold 70% interest in PCNE Holdings Limited where the remaining 30% interest will be held by Techvast Limited.

APPENDIX I ACCOUNTANTS' REPORT RELATING TO THE GROUP

The summary of the results of PCNE for the years ended 31st December, 1998 and 1999 are as follows (for details please refer to Appendix IA to this prospectus):

	Financial year ended 31st December,			
	1998		1999	
	<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>
TURNOVER	<u>852,752</u>	<u>10,951,433</u>	<u>522,633</u>	<u>6,590,142</u>
OPERATING LOSS	(1,584,377)	(20,347,299)	(1,734,924)	(21,876,527)
OTHER INCOME (EXPENSES), NET	<u>29,173</u>	<u>374,653</u>	<u>(94,077)</u>	<u>(1,186,264)</u>
LOSS BEFORE TAXATION	(1,555,204)	(19,972,646)	(1,829,001)	(23,062,791)
TAXATION	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET LOSS FOR THE YEAR	<u>(1,555,204)</u>	<u>(19,972,646)</u>	<u>(1,829,001)</u>	<u>(23,062,791)</u>
FIXED ASSETS			179,405	2,250,924
NET CURRENT LIABILITIES			<u>(10,381,304)</u>	<u>(130,850,623)</u>
NET LIABILITIES			<u>(10,201,899)</u>	<u>(128,599,699)</u>

7. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 1999. In addition, no dividend has been declared, made or paid by the Company or any of the companies comprising the Group in respect of any period subsequent to 31st December, 1999.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants
 Hong Kong

**APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX
CHINESE NEWS AND ENTERTAINMENT LIMITED**



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21st June, 2000

The Directors
Phoenix Satellite Television Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Phoenix Chinese News and Entertainment Limited ("PCNE") for inclusion in the prospectus of Phoenix Satellite Television Holdings Limited (the "Company") dated 21st June, 2000 (the "Prospectus").

Pursuant to a conditional agreement signed on 11th July, 1999, the Group shall acquire 70% equity interest of Chinese News and Entertainment Limited ("CNE") from Techvast Limited at zero consideration through PCNE Holdings Limited which was incorporated for the purpose of acquiring the Phoenix CNE Channel and it is at present held as to 50% by Phoenix Satellite Television (Europe) Limited and 50% by Techvast Limited. The acquisition of PCNE is yet to be completed. If the acquisition is completed, Phoenix Satellite Television (Europe) Limited will hold 70% of interest in PCNE Holdings Limited where the remaining 30% interest will be held by Techvast Limited. CNE was subsequently renamed as Phoenix Chinese News and Entertainment Limited on 20th August, 1999. The legal procedures necessary to complete the acquisition have not been completed as of the date of this report.

PCNE was incorporated in the United Kingdom on 12th November, 1990 as a private company with limited liability under the Companies Act 1985 of the United Kingdom. PCNE has been engaged in satellite television broadcasting services in Europe since its incorporation.

The financial statements for the year ended 31st December, 1998 were audited by J. W. Arnold & Co., a firm of chartered accountants in the United Kingdom. As at the date of this report, no audited financial statements of PCNE for the year ended 31st December, 1999 have been prepared and PCNE has changed its financial year end to 30th June. We have, however, reviewed all relevant transactions of PCNE for the years covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to PCNE in this report.

APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED

For the purpose of this report, we have examined the financial statements or management accounts of PCNE for the years ended 31st December, 1998 and 1999. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the results of PCNE for each of the years ended 31st December, 1998 and 1999 and of the net liabilities of PCNE as at 31st December, 1999 (the "PCNE Summaries") set out in this report have been prepared from the financial statements or, where appropriate, management accounts of PCNE on the basis set out in Section 1 below.

In our opinion, the PCNE Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the results of PCNE for the years ended 31st December, 1998 and 1999 and of the net liabilities of PCNE as at 31st December, 1999.

1. BASIS OF PRESENTATION

The PCNE Summaries have been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial statements, or, where appropriate, management accounts of PCNE, were however, prepared in accordance with accounting principles generally accepted in the United Kingdom. There is no material difference between the PCNE summaries and the corresponding financial statements or, where appropriate, the management accounts of PCNE.

Pursuant to the conditional agreement as mentioned above, the Company has committed to provide funding of not less than US\$8,400,000 to PCNE for the next three years with annual funding of an amount not less than US\$2,800,000 in the form of a loan. This loan is unsecured, non-interest bearing and has no fixed repayment term. As a result, the PCNE Summaries were prepared on a going-concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by PCNE in arriving at the financial information set out in this report, which conform to accounting principles generally accepted in Hong Kong, are as follows:

a. Revenue

Revenue comprised primarily advertising revenue and revenue from sale of digital receivers.

Advertising revenue represents the gross value of advertisements broadcast, net of value added tax, and is recognised when the relevant advertisements are broadcast.

Revenue from the sale of digital receivers represents the gross value of sales, net of value added tax, and is recognised when goods are delivered and title has passed to customers.

b. Related parties

Parties are considered to be related to PCNE if PCNE has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where PCNE and the parties are subject to common control or common significant influence. Related parties may be individuals or entities.

c. Self-produced programmes

The production costs of the self-produced programmes are charged to the income statement when incurred.

d. Purchased programme rights

The cost of purchased programmes is charged to the income statement on the first showing of purchased programmes.

e. Deferred taxation

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

f. Fixed assets and depreciation

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

Depreciation is calculated on a reducing balance basis at annual rates of 25% to write off the cost of each asset over its expected useful life.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

g. Finance leases

Leases that transfer to PCNE substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payment at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.

h. Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

i. Foreign currency translation

The books and records of PCNE are maintained in pound sterling. Transactions in other currencies during the years are translated into pound sterling at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into pound sterling at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the income statements of PCNE.

**APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX
CHINESE NEWS AND ENTERTAINMENT LIMITED**

3. RESULTS

The following is a summary of the results of PCNE for the years ended 31st December, 1998 and 1999, prepared on the basis set out in Section 1 above.

	<i>Note</i>	Financial year ended 31st December,			
		1998		1999	
		<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>
REVENUE	a	852,752	10,951,433	522,633	6,590,142
OPERATING EXPENSES		(1,886,398)	(24,225,991)	(1,600,512)	(20,181,659)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		<u>(550,731)</u>	<u>(7,072,741)</u>	<u>(657,045)</u>	<u>(8,285,010)</u>
LOSS FROM OPERATIONS		(1,584,377)	(20,347,299)	(1,734,924)	(21,876,527)
OTHER INCOME (EXPENSE)					
Exchange gain (loss), net		33,598	431,481	(77,479)	(976,972)
Interest income		2,425	31,143	314	3,959
Interest expense		<u>(6,850)</u>	<u>(87,971)</u>	<u>(16,912)</u>	<u>(213,251)</u>
LOSS BEFORE TAXATION	b	(1,555,204)	(19,972,646)	(1,829,001)	(23,062,791)
TAXATION	c	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET LOSS FOR THE YEAR AND ATTRIBUTABLE TO SHAREHOLDER		<u>(1,555,204)</u>	<u>(19,972,646)</u>	<u>(1,829,001)</u>	<u>(23,062,791)</u>
LOSS PER SHARE	d	<u>(777,602)</u>	<u>(9,986,323)</u>	<u>(914,500)</u>	<u>(11,531,395)</u>

The balances of PCNE have been translated from pound sterling into Hong Kong dollars by applying the following rates of exchange:

For financial year ended 31st December, 1998: HK\$12.842 = £1.000

For financial year ended 31st December, 1999: HK\$12.610 = £1.000

APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED

Notes:

a. Revenue

Analysis of revenue was as follows:

	Financial year ended 31st December,			
	1998		1999	
	£	HK\$	£	HK\$
Advertising sales	456,384	5,861,093	382,733	4,826,073
Sales of digital receivers	363,042	4,662,352	84,491	1,065,389
Other	<u>33,326</u>	<u>427,988</u>	<u>55,409</u>	<u>698,680</u>
Total revenue	<u><u>852,752</u></u>	<u><u>10,951,433</u></u>	<u><u>522,633</u></u>	<u><u>6,590,142</u></u>

b. Loss before taxation

Loss before taxation was determined after crediting and charging the following:

	Financial year ended 31st December,			
	1998		1999	
	£	HK\$	£	HK\$
Crediting:				
Exchange gain, net	33,598	431,481	—	—
Interest income on bank deposits	<u>2,425</u>	<u>31,143</u>	<u>314</u>	<u>3,959</u>
Charging:				
Programme production costs	189,526	2,433,980	160,620	2,025,338
Transponder rental	411,520	5,284,929	159,825	2,015,314
Purchased programme costs	261,769	3,361,758	388,588	4,899,901
Cost of digital receivers	457,236	5,872,035	177,523	2,238,477
Premise rental	64,503	828,377	78,121	985,067
Provision for bad debts	10,665	136,965	84,300	1,062,981
Staffing costs	532,912	6,843,901	641,508	8,089,096
Depreciation				
— owned assets	41,714	535,710	35,442	446,906
— leased assets	34,800	446,918	24,360	307,167
Interest expense on				
— bank overdraft	1,307	76,785	3,890	49,050
— a finance lease	5,543	71,186	13,022	164,201
Exchange loss, net	—	—	77,479	976,972
Auditors' remuneration	<u>1,500</u>	<u>19,264</u>	<u>10,000</u>	<u>126,095</u>

c. Taxation

No corporation tax in the United Kingdom has been provided as PCNE has no estimated assessable profit during the years covered in this report.

As at 31st December, 1999, PCNE had a tax loss of approximately £10,484,000 (approximately HK\$132,145,000) for corporation tax purposes in the United Kingdom which, subject to the agreement by the Inland Revenue, may be carried forward indefinitely and applied against future profits.

APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED

As at 31st December, 1999, there was no other significant unprovided deferred taxation.

d. Loss per share

The calculations of loss per share for the years ended 31st December, 1998 and 1999 are based on the net loss during the years and on the 2 shares in issue.

No diluted earnings per share is presented as PCNE does not have any outstanding dilutive potential ordinary shares.

e. Dividend

No dividend was paid or declared by PCNE for the years ended 31st December, 1998 and 1999.

f. Directors' and senior executives' emoluments

i. Details of emoluments paid to the directors of PCNE were as follows:

	Financial year ended 31st December,			
	1998		1999	
	<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>
Executive director A				
Fees	—	—	—	—
Other emoluments				
— Salaries	<u>40,000</u>	<u>513,698</u>	<u>25,000</u>	<u>315,238</u>

The remuneration of the above director fell within the band of nil to £80,000 (approximately HK\$1 million) for the years ended 31st December, 1998 and 1999. No emolument were paid to other directors of PCNE for the years ended 31st December, 1998 and 1999.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31st December, 1998 and 1999.

ii. Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	Financial year ended 31st December,			
	1998		1999	
	<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>
Salaries	<u>151,400</u>	<u>1,944,348</u>	<u>145,600</u>	<u>1,835,943</u>
Number of directors		1		—
Number of employees		<u>4</u>		<u>5*</u>
		<u>5</u>		<u>5</u>

* One of the five highest paid individuals for the year ended 31st December, 1999 was a director of PCNE before 21st August, 1999.

No incentive payment for joining PCNE was paid or payable to any director or the other highest paid individuals for the years ended 31st December, 1998 and 1999. A termination payment of £4,049 (approximately HK\$51,056) (1998: Nil) was paid to one of the highest paid employees during the year ended 31st December, 1999.

APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED

The remuneration of each of the five highest paid individuals fell within the band of nil to £80,000 (approximately HK\$1 million) for the years ended 31st December, 1998 and 1999.

g. Related party transactions

PCNE purchased certain programmes from Techvast Limited of approximately £33,924 (approximately HK\$427,765) (1998: £46,541/approximately HK\$586,859) during the year ended 31st December, 1999.

Pursuant to the conditional agreement signed on 11th July, 1999 as described in the first page of this report, the following are also considered related party transactions:

		Financial year ended 31st December,				
		1998		1999		
<i>Note</i>		<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>	
i.	Programmes purchased from ATV Enterprises Limited	a	138,865	1,783,368	133,881	1,688,173
ii.	Broadcast operations and engineering expenses paid to Satellite Television Asian Region Limited	b	—	—	17,917	225,924
iii.	Transponder rental and uplink costs paid to British Sky Broadcasting Limited	c	<u>81,575</u>	<u>1,047,624</u>	<u>159,825</u>	<u>2,015,313</u>

Notes:

- a. ATV Enterprises Limited is an entity outside the Group but with common shareholding with the Company.
- b. Satellite Television Asian Region Limited is a wholly-owned subsidiary of Star TV group, one of the shareholders of the Company.
- c. British Sky Broadcasting Limited is an associated company of News Corporation. News Corporation is the ultimate beneficial owner of the Star TV Group which is a shareholder of Phoenix.

From 21st August, 1999 onwards, certain film rights and programmes were provided by Phoenix Satellite Television (Chinese Channel) Limited to PCNE at no charge.

The outstanding balances with related party and shareholder were unsecured, non-interest bearing and have no fixed repayment terms (See Note 4b for details).

**APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX
CHINESE NEWS AND ENTERTAINMENT LIMITED**

4. NET LIABILITIES

The following is a summary of the net liabilities of PCNE as at 31st December, 1999, prepared on the basis set out in Section 1 above.

	<i>Note</i>	<i>£</i>	<i>HK\$</i>	<i>£</i>	<i>HK\$</i>
FIXED ASSETS	a			179,405	2,250,924
CURRENT ASSETS					
Cash and bank deposits		194,221	2,436,815		
Accounts receivable, net		64,125	804,551		
Prepayment and other receivables		<u>51,049</u>	<u>640,492</u>		
Total current assets		<u>309,395</u>	<u>3,881,858</u>		
CURRENT LIABILITIES					
Unsecured bank overdrafts		(32,853)	(412,194)		
Accounts payable and accruals		(159,576)	(2,002,138)		
Due to a related party Obligation under a finance lease	b	(938,968)	(11,780,865)		
Advances from a shareholder	c	<u>(9,547,472)</u>	<u>(120,388,858)</u>		
Total current liabilities		<u>(10,690,699)</u>	<u>(134,732,481)</u>		
NET CURRENT LIABILITIES				<u>(10,381,304)</u>	<u>(130,850,623)</u>
NET LIABILITIES				<u>(10,201,899)</u>	<u>(128,599,699)</u>

The balances of PCNE have been translated from pound sterling into Hong Kong dollars by applying the rate of exchange at 31st December, 1999: HK\$12.547 = £1.000.

APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED

Notes:

a. Fixed assets

Fixed assets comprised:

	Cost		Accumulated depreciation		Net book value	
	£	HK\$	£	HK\$	£	HK\$
Leasehold improvement	6,560	82,306	(2,881)	(36,147)	3,679	46,159
Furniture and fixtures	3,351	42,044	(2,397)	(30,074)	954	11,970
Computer and office equipment	38,777	486,520	(22,024)	(276,326)	16,753	210,194
Technical equipment	<u>435,751</u>	<u>5,467,195</u>	<u>(277,732)</u>	<u>(3,484,594)</u>	<u>158,019</u>	<u>1,982,601</u>
	<u>484,439</u>	<u>6,078,065</u>	<u>(305,034)</u>	<u>(3,827,141)</u>	<u>179,405</u>	<u>2,250,924</u>

Included in fixed assets of PCNE is technical equipment with a net book value of approximately £73,000 (approximately HK\$915,902) as at 31st December, 1999, which is the subject of a finance lease arrangement.

b. Amount due to a related party

These outstanding balances are unsecured, non-interest bearing and have no fixed repayment terms.

The balance due to a related party represent a non-interest bearing, unsecured loan payable to the Company (see Note 1 for more details). The notional amount of interest for the loan payable to the Company would be approximately £14,000 (approximately HK\$180,000), by applying the market rate of approximately 8.5% p.a. to the month-end loan balances.

c. Advances from a shareholder

The advances from a shareholder represent fundings provided by a shareholder to support the financial operations of PCNE. There is no agreement signed between the shareholder and PCNE to specify the terms of repayment of these advances. No interest has been charged on these advances by the shareholder.

d. Distributable reserves

As at 31st December, 1999, PCNE was at a net deficit position of approximately £937,000 (approximately HK\$11,759,000) and hence there was no reserve available for distribution to the shareholders of PCNE on that date.

5. COMMITMENTS AND CONTINGENT LIABILITIES

a. Film rights and programme acquisition

As at 31st December, 1999, PCNE had outstanding film rights and programmes related commitments of approximately £12,000 (approximately HK\$151,000) extending to March 2000.

**APPENDIX I.A ACCOUNTANTS' REPORT RELATING TO PHOENIX
CHINESE NEWS AND ENTERTAINMENT LIMITED**

b. Transponder, uplink and associated service charges

As at 31st December, 1999, PCNE had total committed service charges in respect of transponder, uplink and associated services payable to British Sky Broadcasting Limited of approximately £260,000 (approximately HK\$3,263,000) under various contracts extending to various dates, the latest being August 2002. The amount payable within the next twelve months was approximately £155,000 (approximately HK\$1,945,000) as at 31st December, 1999.

c. Operating lease commitment

As at 31st December, 1999, PCNE had aggregate outstanding operating lease commitments for office premises of approximately £83,000 (approximately HK\$1,042,000) expiring in December 2001. The amount of commitments which is payable within the next twelve months was approximately £43,000 (approximately HK\$540,000) as at 31st December, 1999.

d. Contingent liabilities

There were no significant contingent liabilities as at 31st December, 1999.

6. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by PCNE in respect of any period subsequent to 31st December, 1999. In addition, no dividend has been declared, made or paid by PCNE in respect of any period subsequent to 31st December, 1999.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants
Hong Kong

APPENDIX I.B	ADDITIONAL FINANCIAL INFORMATION OF THE GROUP AND PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED
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PRO FORMA AND ADJUSTED PRO FORMA COMBINED NET LIABILITIES OF THE GROUP AND PCNE

The pro forma combined statement of net liabilities of the Group and PCNE has been prepared based on the statements of net liabilities of the Group and PCNE as at 31st December, 1999 as set out in Appendix I and Appendix IA of this Prospectus respectively, assuming, inter alia, that the combination of the Group and PCNE had taken place on 31st December, 1999. The adjusted pro forma combined statement of net liabilities shows the pro forma combined net liabilities of the Group and PCNE as at 31st December, 1999 after taking into account the adjustment as described in Note (a) below. These statements do not form part of the Accountants' Reports as set out in Appendix I and Appendix IA.

	Pro forma Combined Total	Adjustment	Note	Adjusted Pro forma Combined Total
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Fixed Assets	6,081			6,081
Purchased programme rights	26,860			26,860
Total current assets	<u>173,625</u>			<u>173,625</u>
Total assets	206,566			206,566
Total current liabilities	(240,164)	120,389	(a)	(119,775)
Long-term liabilities				
Amount due to shareholders	(502,977)			(502,977)
Minority interests	<u>—</u>			<u>—</u>
Net liabilities	<u>(536,575)</u>		(a)	<u>(416,186)</u>

Note (a):

The Group and the shareholders of PCNE are currently in discussion with respect to the possible capitalisation of the HK\$120 million (£9.5 million) of advances from a shareholder of PCNE as at 31st December, 1999 as reflected in the net liabilities of PCNE in Appendix IA.

The adjustment reflects the capitalisation of the HK\$120 million (£9.5 million) advances from a shareholder of PCNE as part of the shareholders' contribution of PCNE as at 31st December, 1999 as if the capitalisation of the advances from the shareholder had taken place as at 31st December, 1999.

APPENDIX I.B	ADDITIONAL FINANCIAL INFORMATION OF THE GROUP AND PHOENIX CHINESE NEWS AND ENTERTAINMENT LIMITED
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PRO FORMA COMBINED RESULTS OF THE GROUP AND PCNE

The following is a summary of the combined results of the Group and PCNE. The results of the Group for the years ended 30th June, 1998 and 1999 have been combined with the results of PCNE for the years ended 31st December, 1998 and 1999, respectively.

The results of the Group are extracted from the Accountants' Report as set out in Appendix I for the two financial years ended 30th June, 1998 and 1999. The results of PCNE for the two years ended 31st December, 1998 and 1999 are extracted from the Accountants' Report as set out in Appendix IA. For presentation purpose, the audited results of the Group and PCNE prior to the issuance of this prospectus are combined without making any adjustments in relation to the different year end dates of the Group (which has a 30th June financial year end) and PCNE (which has a 31st December financial year end). This summary does not form part of the Accountants' Report as set out in Appendix I and Appendix IA.

	Financial year ended	
	June 1998 of the Group/ December 1998 of PCNE HK\$'000	June 1999 of the Group/ December 1999 of PCNE HK\$'000
Revenue	185,756	321,253
Operating expenses	(214,979)	(290,562)
Selling, general and administrative expenses	(124,488)	(140,549)
Loss from operations	(153,711)	(109,858)
Other income		
Exchange gain (loss), net	499	(428)
Interest income	1,897	2,329
Interest expenses	(88)	(213)
Other income, net	324	6,641
Loss before taxation	(151,079)	(101,529)
Taxation	—	—
Loss before minority interests	(151,079)	(101,529)
Minority interests	—	—
Net loss for the year	(151,079)	(101,529)
Dividend	—	—

The forecast of the combined profit after taxation and minority interest but before the extraordinary items of the Group for the year ending 30th June, 2000 is set out in the paragraph headed “Profit forecast, dividends and working capital” under the section headed “Financial information” of this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the combined profit after taxation and minority interest but before extraordinary items of the Group for the year ending 30th June, 2000 based on the audited results of the Group for the six months ended 31st December, 1999, unaudited management accounts for the four months ended 30th April, 2000 and a forecast of the results for the remaining two months ending 30th June, 2000. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 30th June, 2000. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those normally adopted by the Group as summarised in the accountants’ report, the text of which is set out in Appendix I of this prospectus and on the following general assumptions:

- i. there will be no material changes in the existing government policies or political, legal, fiscal or economic conditions in the PRC, Cayman Islands, Hong Kong, or any of the countries in which the Group carries on business;
- ii. there will be no material changes in the bases or rates of taxation or duties applicable to activities of the Group; and
- iii. there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing.

(B) LETTER FROM THE REPORTING ACCOUNTANTS OF THE GROUP

**ARTHUR ANDERSEN**

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Tel 852 2852 0222

Fax 852 2815 0548

21st June, 2000

BOCI Asia Limited
Merrill Lynch Far East Limited
The Directors
Phoenix Satellite Television Holdings Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in preparing the forecast of the combined profit after taxation and minority interest but before extraordinary items of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 30th June, 2000 (the "Forecast") set out in the prospectus issued by the Company dated 21st June, 2000 (the "Prospectus"). The directors of the Company are solely responsible for the Forecast, and the principal assumptions made by them upon which the Forecast is based are set out on page 188 of this Prospectus.

The Forecast is based on the results shown in the audited financial statements of the Group for the six months ended 31st December, 1999, unaudited management accounts for the four months ended 30th April, 2000 and a forecast for the two months ending 30th June, 2000.

In our opinion which is given for inclusion in the prospectus, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company and referred to above and is presented on a basis consistent with the accounting policies normally adopted by the Group as set out in our accountants' report dated 21st June, 2000, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants
Hong Kong



BOCI ASIA LIMITED

BOCI Asia Limited
35th Floor, Bank of China Tower
One Garden Road, Central
Hong Kong



Merrill Lynch
Merrill Lynch Far East Limited

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
Three Garden Road, Central
Hong Kong

21st June, 2000

The Directors
Phoenix Satellite Television Holdings Limited

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of Phoenix Satellite Television Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 30th June, 2000 (the “Forecast”) as set out in the prospectus of the Company dated 21st June, 2000.

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 21st June, 2000 addressed to yourselves and ourselves from Arthur Andersen & Co regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and on the accounting policies and calculations received by Arthur Andersen & Co., we have formed the opinion, which is given for inclusion in the prospectus, that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BOCI Asia Limited
Wong Wai Ming
Director

Yours faithfully,
For and on behalf of
Merrill Lynch Far East Limited
Charles Li
Managing Director



American Appraisal Hongkong Limited

Suite 2901,
29/F Central Plaza
18 Harbour Road
Wanchai, Hong Kong

21st June, 2000

The Directors
Phoenix Satellite Television Holdings Limited
9/F One Harbourfront
18 Tak Fung Street
Hungghom, Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of Phoenix Satellite Television Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion (which is given for inclusion in the Prospectus) of the values of such property interests as at 30th April, 2000 (the “valuation date”).

Our valuation of such property interests is our opinion of open market value which we would define as intended to mean “the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, levels of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Based on this open market approach, the property interests rented and occupied by the Group are considered to have no commercial value either because of their non-assignability in the open market or there are prohibitions against subletting and/or assignment contained in the respective lease and/or tenancy agreement or the lack of substantial profit rent.

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to increase the value of such property interests. In addition, no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their rental values.

Other special assumptions and qualifications for each property, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

Titleship Investigation

We have not investigated the title of the properties in Hong Kong nor have we scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied on the information provided to us by the Company.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and the valuation certificate.

Limiting Conditions

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupancy, site and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We were also advised that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

No structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

Remarks

Unless otherwise stated, all monetary figures stated in this valuation certificate are in Hong Kong dollars.

We enclose herewith the summary of valuation and the valuation certificate.

Yours faithfully,
For and on behalf of
American Appraisal Hongkong Limited
Leo C. Ho
ARICS, AHKIS, RPS
Vice President

Note: Mr. Leo C. Ho, who is a Chartered Surveyor and a Registered Professional Surveyor, has over 10 years of experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Open market value in
existing state as at
30th April, 2000
(HK\$)

Property

Group I — Properties licensed and occupied by the Group in Hong Kong

1.	9/F., One Harbourfront, 18–22 Tak Fung Street, Hungghom, Kowloon, Hong Kong.	No commercial value
2.	Two Fixed Parking Spaces and Three Floating Parking Spaces located at the Car Park Level of Harbourfront, 18–22 Tak Fung Street, Hungghom, Kowloon, Hong Kong.	No commercial value
3.	Car Parking Space No. 277 on Car Park Floor P2 at Section B Phase 1 Car Parking Spaces of Kornhill, No. 10 Hong Yue Street, Hong Kong.	No commercial value
4.	A carpark space located at Pacific Place, 88 Queensway, Hong Kong.	<u>No commercial value</u>
	Sub-total :	<u>No commercial value</u>

Group II — Property leased and occupied by the Group in Hong Kong

5.	Suite 5006, The Atrium Pacific Place 88 Queensway, Hong Kong.	<u>No commercial value</u>
	Sub-total:	<u><u>No commercial value</u></u>

VALUATION CERTIFICATE

Group I — Properties licensed and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30th April, 2000 (HK\$)
1. 9/F., One Harbourfront, 18–22 Tak Fung Street, Hunghom, Kowloon, Hong Kong	The property comprises an office accommodation on the 9th Floor of a 21-storeys (including basement) commercial building completed in 1995. The property has a gross floor area of approximately 1,828 sq.m. (19,675 sq.ft.) The property is licensed to Phoenix Satellite Television Company Limited for a term of 4 years commencing from 15th July, 1999 at a monthly license fee of HK\$396,057.75 and a monthly service fee of HK\$103,490 exclusive of management fee and rates.	The property is currently occupied by the Group as office.	no commercial value
2. Two Fixed Parking Spaces and Three Floating Parking Spaces located at the Car park Level of Harbourfront, 18–22 Tak Fung Street, Hunghom, Kowloon, Hong Kong	The property comprises five parking spaces of a commercial development completed around 1994. Three floating and a fixed parking spaces are licensed on a monthly basis commencing on 18th March, 1997 and a fixed parking space is licensed on a monthly basis commencing on 5th January, 1999. As at the valuation date, the property is licensed to Phoenix Satellite Television Company Limited at a total monthly licence fee of HK\$21,200.	The property is currently occupied by the Group for car parking purpose.	no commercial value

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30th April, 2000 (HK\$)
3. Car Parking Space No. 277 on Car Park Floor P2 at Section B Phase 1	The property comprises a car parking space completed in about 1986.	The property is currently occupied by the Group for car parking purpose.	no commercial value
Car Parking Spaces of Kornhill No. 10 Hong Yue Street, Hong Kong	The property is licensed to Phoenix Satellite Television Company Limited on a monthly license basic commencing from 1st January, 1999 at a monthly licence fee of HK\$2,200.		
4. A carpark space located at Pacific Place, 88 Queensway, Hong Kong	The property comprise a parking space on the basement of a commercial development completed in about 1988.	The property is currently occupied by the Group for car parking purpose.	no commercial value
	The property is leased to Phoenix Satellite Television Company Limited on a monthly basis commencing from 12th November, 1999 at a monthly licence fee of HK\$4,200.		

Group II — Property leased and occupied by the Group in Hong Kong

5. Suite 5006, The Atrium, Pacific Place, 88 Queensway, Hong Kong	The property comprises a unit on the 50th Floor of a 50-storey composite building completed in about 1989.	The property is currently occupied by the Group as staff quarter.	no commercial value
	The property has a gross floor area of approximately 174 sq.m. (1,869 sq. ft.)		
	The property is leased to Phoenix Satellite Television Company Limited for a term of 12 months less one day commencing from 8th November, 1999 to 6th November, 2000 at a monthly rental of HK\$72,000 inclusive of housekeeping services fee, management fee and rates.		

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2nd February, 2000 under the Companies Law (Revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 7th June, 2000. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefore (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director,

officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested (including, for the avoidance of doubt, contracts, arrangements or proposals relating to remuneration) but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
 - (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
 - (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(vii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(viii) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(ix) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by

proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house is a member of the Company it may authorise such person or persons (or its nominee) as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors; and
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$10.00, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be

distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law (Revised) of the Cayman Islands and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable

qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for

the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 21st March, 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

5. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law (Revised), is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

PRC

General

Television broadcasting in the PRC is strictly regulated. The principal regulation is the Regulation on Administration of Radio and Television promulgated by the PRC State Council, which took effect on 1st September, 1997. Under this regulation, all forms of foreign investment in television broadcasting in the PRC are prohibited. In addition, reception and rebroadcast of foreign television programmes are also tightly regulated.

Installation of Receiving Apparatus. Under the Administrative Regulation on Ground Receiving Apparatus for Satellite Television Broadcasting promulgated by the State Council in October 1993, special licences are required for the production, importation, sale, installation or use of ground receiving apparatus for satellite television broadcasting to receive foreign television programmes. Generally, only entities (as opposed to individuals) may have such apparatus installed. An entity must submit an application, which must be approved by the provincial level government department in charge of radio and television industry. No individual is permitted to own such receiving apparatus unless for a demonstrated need approved by the provincial level government department in charge of radio and television industry.

Reception of Foreign Television. To provide guidance on the implementation of the Administrative Regulation on Ground Receiving Apparatus for Satellite Television Broadcasting, the Ministry of Radio, Film and Television (now the SARFT) issued the Implementing Rules in February 1994 (the “Implementing Rules”). Articles 4 and 5 of the Implementing Rules provide that only the following institutions or premises may apply to install ground receiving apparatus in order to receive foreign television programmes transmitted through satellite:

1. educational, scientific research, news, financial, economic and trade and other institutions which are of relatively higher ranking and larger size and those with the need to receive foreign television programmes for their business;
2. hotels permitted to have foreign guests with a ranking of at least three stars or national grade II; and
3. public residential compounds exclusively for working or living by foreigners and persons from Hong Kong, Macau and Taiwan.

Applications for installing ground receiving apparatus to receive foreign television programmes must first be submitted to the county level government department in charge of radio and television industry and, after being commented upon by the city level government departments in charge of radio and television industry and state security, forwarded to the provincial level government department in charge of radio and television industry for approval. After the application is approved and the apparatus is installed, the provincial level government department in charge of radio and television industry will issue a Reception Licence which also needs to be filed with the SARFT and the Ministry of State Security.

On 23rd November, 1995, the Ministry of Radio, Film and Television (now the SARFT) issued a notice to clarify certain issues relating to the reception of foreign satellite television (“Notice No. 757”). Notice No. 757 reaffirmed the restrictions on the types of institutions that can receive foreign satellite television as stated in the Implementing Rules. In addition, the notice requires all decoders of foreign encrypted television to be imported through CITV and distributed through organisations authorised by provincial government department in charge of radio and television industry. Since that time, SARFT issues to provincial-level government departments in charge of the radio and television industry an annual notice setting forth a list of encrypted foreign satellite channels approved to be received in the PRC through the installation of decoders for the following calendar year. 17 encrypted foreign satellite channels were approved for the year 1999, and 18 were approved for the year 2000. The Phoenix Movies Channel has been on such approval list each year since its establishment in 1998. No such approval list exists for unencrypted foreign satellite channels.

Rebroadcast of Foreign Television Under the Regulations on Administration of Radio and Television, only the State Council department in charge of radio and television industry has the authority to approve a public television station (including terrestrial, satellite and cable television station) to rebroadcast foreign satellite television programmes. At present, SARFT is the State Council department in charge of radio and television industry.

Cable Television Operation of cable television in the PRC is governed by the Administrative Regulations on Cable Television promulgated by the Ministry of Radio, Film and Television (now the SARFT) in February 1994 (the “Cable TV Regulations”). Article 10 of the Cable TV Regulations prohibits (i) any individual from applying to set up a cable television station; (ii) any institution from participating in setting up cable television stations and the construction or operation of any cable television network with any foreign institution or individual; and (iii) any cable television station from leasing channels or broadcasting time to any foreign individual or institution. Cable television stations may charge subscribers cable construction fee and reception maintenance fee.

A cable television station is regarded as a news institution under category 1 as set out above in the sub-section headed “Reception of Foreign Television” under the Implementing Rules. As such, it must apply to the provincial level government department of radio and television industry for a Reception Licence. To rebroadcast the foreign television programmes received within its network pursuant to the Reception Licence, a cable television station, in addition to having obtained the Licence, needs to obtain an approval from SARFT under the Regulation on Administration of Radio and Television.

Regulation of PRC Entities Advertising in Hong Kong

The advertising industry is a regulated industry in the PRC. Under current PRC regulations, companies need to obtain advertising licences to engage in the advertising business. In addition, pursuant to a notice issued by the PRC State Administration of Industry and Commerce in 1995, only a small number of advertising companies in the PRC are authorised to place advertisements in Hong Kong for PRC entities. Because the Phoenix Chinese Channel is based in Hong Kong, PRC companies advertising on this channel are required under this notice to place their advertisements through one of these Designated Advertisement Agencies.

Phoenix's PRC legal counsel, Jingtian Associates, has opined that since Phoenix broadcasts its programmes in Hong Kong and the signals of its programmes, including advertisement, are transmitted into the PRC via satellites, Phoenix is putting up advertisements in Hong Kong, not the PRC. Phoenix is therefore not required to obtain any specific licence or approval from the PRC Government with respect to the advertisements broadcast on its channels.

Internet

The PRC legal framework governing the Internet industry is not well established and is subject to change. Laws and regulations may be introduced in the PRC in the future in respect to various aspects of the Internet industry, including but not limited to, the use of the Internet as a means of media or conducting business.

There are no restrictions or prohibitions stipulated in the PRC laws with respect to PRC citizens accessing to, reading and downloading from foreign websites through Internet.

Pursuant to the Provisions on Administration of Secrecy on Internationally Connected Computer Information Network (計算機信息系統國際聯網保密管理規定) (the "Provisions of State Secrecy") promulgated by the State Bureau of Secrecy and effective on 1st January, 2000, any information related to state secrecy is prohibited from being saved, processed or transmitted via the internationally connected computer information network (the "Computer Network"). Such information should be scrutinised before it is provided or released to any website. Any provider or issuer of information on the Computer Network has the responsibility to establish proper review procedures or mechanisms to ensure that information provided or disclosed does not implicate any state secrecy. Departments in charge of state secrecy above the county level has the right to enforce the Provisions of State Secrecy.

Pursuant to the Administrative Measures on the Protection of Security of Computer Networks with International Connection (計算機信息網絡國際聯網安全保護管理辦法) promulgated by The Ministry of National Security on 16th December, 1997 which became effective on 30th December, 1997, the computer supervision departments of the National Administrations for the Protections of State Secrets is in charge of the security of the internationally connected computer networks in the PRC. Pursuant to it, the distribution of illegal information or information which may endanger the State by any entity or person on the Internet is prohibited.

By virtue of the Notice on Some Problems concerning the Business License System regarding International Connection of Computer Information Network (關於計算機信息網絡國際聯網業務實行經營許可証制度有關問題的通知) promulgated by the Ministry of Information Industry, which came into effect on 18th September, 1998 (the "1998 Notice"), no institution is allowed to provide Internet services as an Internet Service Provider unless an application for a licence to carry out Internet services has been made to and approved by the relevant administrations of information industry.

According to Jingtian Associates, Phoenix is not deemed to be an Internet Service Provider or an ICP in the PRC and it is thus not required to obtain any specific PRC Internet related licence in relation to the operation of Phoenix's website, phoenix.tv.com.

Pursuant to a notice issued by SAIC to the SAIC departments in Shanghai and Guangdong Province in February 2000, a total of 20 entities currently engaging in "network information technology service" will be chosen to participate in a pilot programme. Entities participating in this

pilot programme will be issued an “advertisement operation licence” for one year. The purpose of this pilot programme is to explore the mechanism for regulating advertisement via the Internet. The notice does not specify any specific licensing requirements for entities that are not participated in this pilot programme, but Jingtain Associates, the Company’s PRC legal counsel, has opined that the current advertising laws in the PRC are generally applicable to on-line advertisement via the Internet.

Television Programme Production

Pursuant to the Interim Provisions on Administration of Institutions of Film and Television Programmes Production (影視製作經營機構管理暫行規定) (the “Programme Production Interim Provisions”), promulgated by the SARFT, which became effective on 1st September, 1995, institutions to produce, reproduce or distribute television programmes (including television dramas, general entertainment programmes, programmes with special topics and animation plays) must apply to the provincial administrations of radio, film and television on the SARFT for a licence to produce television programmes in the PRC. The Programme Production Interim Provision also prohibits foreign entities (including legal entities and individuals) from establishing or cooperating with any individual or entity to establish any institution in the PRC to produce, reproduce or distribute television programmes.

According to the Guidelines of Foreign Investment Industry (外商投資產業指導目錄) (“the Industry Guidelines”), approved by the State Council on 29th December, 1997, and promulgated by the State Planning Commission, State Economic and Trade Commission and Ministry of Foreign Trade and Economic Cooperation on 31st December, 1997, foreign investment of any form is prohibited in the production, publication, distribution or broadcast of television programmes in the PRC.

In terms of content censorship by the PRC Government, Jingtain Associates has opined that since the broadcasts of Phoenix’s programmes are conducted in Hong Kong, it is not directly subject to such content censorship.

Distribution of Magazines

The principal PRC regulation governing the publication and distribution of magazines in the PRC is the Regulations of Administration of Publishing (出版管理條例) promulgated by the State Council on 2nd January, 1997, which became effective on 1st February, 1997. The regulations provide that distributors, in order to distribute newspaper, periodicals and books by wholesale must apply to the relevant provincial authority in charge of publication for approval or licence and obtain proper business licence from the relevant administration of industry and commerce. Books and magazines shall be published by publishers approved by the State Press and Publication Administration (the “SPPA”). The publisher shall be responsible for the content of its publications. The contents of publication are subject to applicable laws and regulations in the PRC which prohibit publication of materials which will endanger national security or divulge national secrets, etc.

Pursuant to the Industry Guidelines, foreign investors are prohibited from owning 100% or controlling interest in companies in the PRC which are engaged in the business of publishing or distributing magazines or books.

According to the Notice of Approval Procedures concerning Establishing Press and Publication Companies with Foreign Investment (關於建立新聞出版三資企業審批程序的通知) promulgated by the SPPA which became effective on 21st December 1991 and the Notice on Some Problems concerning Administering Registration of Foreign Investment Companies of Cultural Industry (國家工商行政管理局關於文化行業外商投資企業登記管理有關問題的通知) promulgated by the SAIC, which took effect on 31st January 1994, applications to establish a company engaged in publishing or distributing magazines or books with foreign investment must be approved by the SPPA and the SAIC. To comply with Articles 16 of the Interim Provisions on Administration of the Market of Publications (出版物市場管理暫行規定) (the “Interim Provisions”) promulgated by the SPPA and which became effective on 8th November 1999, foreign equity or cooperative joint ventures are prohibited from being exclusive or wholesale distributors of books, newspapers or magazines.

Pursuant to the Notice Prohibiting Newspaper and Magazines Published Overseas from Directly Soliciting Subscription and Distribution in the Mainland (關於海外報刊不得在內地自行徵訂發行的通知) issued by the Information Office of the State Council and the SPPA on 11th March, 1994, foreign publishers are prohibited from distributing magazines published overseas either by themselves or through their establishments in the PRC.

In addition, under the Interim Provisions, magazines published overseas should be imported into and distributed in the PRC only by institutions, the establishments of which are approved or the importation of which is authorised by the SPPA. Magazines published overseas and printed in the PRC may be distributed in the PRC provided that they are imported and distributed by competent distributors and their importation procedures have been accomplished.

HONG KONG

Overview

In order to operate uplink, downlink and microwave stations for the transmission of television services via the said stations to satellites in Hong Kong, a satellite television uplink and downlink licence has to be obtained under the Telecommunication Ordinance. Star TV’s wholly-owned subsidiary, Hutchvision was granted such a licence.

Conditions of licence

The principal means of regulating satellite television broadcasting resides in the conditions of satellite television uplink and downlink licence granted under the Telecommunication Ordinance to an applicant. These licensing conditions regulate, *inter alia*, the programming (including the specification of programme and advertising standards), provide for the levy of a licence fee and service origination charges, specify the technical characteristics and control the operation of the uplink and downlink stations of the licensee under the licence.

Regulatory body

The Broadcasting Authority administers the conditions of satellite television uplink and downlink licence through the issue of directions and imposition of financial penalties.

Telecommunication Ordinance

The licensing framework for satellite broadcasting is embodied in the Telecommunication Ordinance.

The satellite television uplink and downlink licence is a non-exclusive licence to the licensee to establish and operate:

- (1) a radiocommunication station to transmit television and associated sound and data signals to those satellites as may be lawfully used by the holder for the distribution of services (“the uplink station”);
- (2) a radiocommunication station to receive television and associated sound and data signals containing such programming and other material as the holder of that licence may require for the services (“the downlink station”); and
- (3) such microwave stations as are authorised by the Telecommunications Authority to transmit television and associated sound and data signals between any points in Hong Kong and to the uplink station for the purpose of the services.

The satellite television uplink and downlink licence is valid for a period of 12 years. The general practice in Hong Kong is that the licence will usually be renewed upon expiry.

Qualification of holders

A holder of a satellite television uplink and downlink licence must be a company incorporated in Hong Kong under the Companies Ordinance. The holder and any person exercising control of the licensee must be a fit and proper person.

Not less than one director or principal officer of the satellite broadcasting licensee must be a person who is for the time being ordinarily resident in Hong Kong and who also has been so resident for at least one continuous period of not less than seven years.

The Chief Executive in Council may at any time terminate the satellite television uplink and downlink licence where the holder of that licence goes into liquidation; goes into receivership or makes any assignment to, or composition with, its creditors; ceases to carry on business; repeatedly fails to comply with a term or condition of that licence or any lawful reasonable direction of the Telecommunications Authority or of the Broadcasting Authority.

Further, the Chief Executive in Council may revoke that licence where he is of the view that the public interest so requires.

Nothing granted under the satellite television uplink and downlink licence may be assigned or transferred without the prior written approval of the Chief Executive in Council.

Restrictions set out in the Code of Practice

The holder of the satellite television uplink and downlink licence is required at all times to be responsible for ensuring that the programmes transmitted maintain a high general standard of quality. The programming on the channels must comply with the standards set out in the licence and the Code

of Practice, though channels which have been determined by the Broadcasting Authority as not primarily targeting Hong Kong are subject to fewer of such standards and to a different Code of Practice.

The financing of a holder of a Satellite Television Uplink and Downlink Licence through advertising revenues may not rely principally on the Hong Kong advertising market.

To encourage investment, innovation and technology transfer in the broadcasting industry and to ensure fair and effective competition in the provision of broadcasting services, a bill (the “Broadcasting Bill”) was introduced and gazetted in early 2000 in Hong Kong. The Broadcasting Bill is likely to come into force soon and when it does, it will repeal and replace the Television Ordinance. Under the Broadcasting Bill, broadcasting services are classified into four categories each of which requires a certain type of licence. Since Phoenix’s television broadcasts do not primarily target Hong Kong, the type of licence that is required for Phoenix to conduct its business under the Broadcasting Bill is that of a non-domestic television programme service licence. As a transitional arrangement, the existing satellite television uplink and downlink licence will be deemed to be a non-domestic television programme service licence.

The Company’s Hong Kong legal counsel, Siao Wen and Leung has opined that under Phoenix’s current business operations and based on its existing arrangement with Star TV, there is no need to obtain a separate licence for its broadcasts under the laws of Hong Kong.

FURTHER INFORMATION ABOUT THE COMPANY**Incorporation**

The Company was incorporated on 2nd February, 2000 in the Cayman Islands under the Companies Law as an exempted company. The Company has established a place of business in Hong Kong at 9th Floor, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong and was registered in Hong Kong under Part XI of the Companies Ordinance on 26th May, 2000. In compliance with the requirements of the GEM Listing Rules, Mr. YEUNG, Ka Keung and Mr. CHUI, Keung have been appointed as the agent of the Company for the acceptance of service of process and any notice required to be served on the Company. As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises a memorandum of association and articles of association. A summary of various parts of the constitution and relevant aspects of the Companies Law and the Tax Concessions Law (1995 Revision) of the Cayman Islands are set out in Appendix IV to this prospectus.

Changes in share capital

As at the date of incorporation of the Company, its authorised share capital was US\$50,000 divided into 50,000 Shares of US\$1.00 each, of which one subscriber share then issued was subsequently transferred to and held by Star TV Holdings and 19 shares were further allotted and issued for cash at par, as to 8 shares to Star TV Holdings, as to 9 shares to Today's Asia, and as to two shares to China Wise.

By written resolutions of all the shareholders of the Company passed on 7th June, 2000, inter alia:

- (i) the authorised and issued share capital of the Company was redenominated into Hong Kong dollars at the exchange rate of US\$1.00 – HK\$7.60 such that the authorised share capital of the Company was HK\$380,000, divided into 50,000 shares of HK\$7.60 each and the issued share capital of the Company was HK\$152.00 divided into 20 shares of HK\$7.60;
- (ii) every issued and unissued shares of the Company was subdivided into 76 shares of HK\$0.10 each such that the authorised share capital of the Company was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each and its issued share capital was HK\$152.00 divided into 1,520 shares of HK\$0.10 each;
- (iii) the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of 9,996,200,000 new Shares of HK\$0.10 each.

On 14th June, 2000, Phoenix Satellite TV issued a convertible note to each of Star TV Holdings, Today's Asia and China Wise, pursuant to which each of Star TV Holdings, Today's Asia and China Wise may convert HK\$226,339,601, HK\$226,339,601 and HK\$50,297,689, being the whole of the outstanding loans owed to each of them by Phoenix Satellite TV either into Shares or shares of Phoenix Satellite TV. On 15th June, 2000, each of Star TV Holdings, Today's Asia, China Wise elected to exercise their rights of conversion under such convertible notes and 1,853,999,226, 1,853,999,226 and 411,999,828 new Shares were allotted and issued to Star TV Holdings, Today's Asia and China Wise, respectively.

On 15th June, 2000, the Company entered into an agreement with Star TV Holdings, Today's Asia and China Wise, pursuant to which the Company agreed to issue 200 new Shares (credited as fully paid) in exchange for the 20 shares in Phoenix Satellite TV held by them.

Pursuant to the written resolutions of all the shareholders of the Company passed on 7th June, 2000, inter alia:

- (a) The rules of the Pre-IPO Share Option Plan were approved and adopted and the committee of Directors as referred to therein was authorised to grant options to subscribe for Shares thereunder, to allot and issue and deal with Shares thereunder and to vote on any matter connected therewith in accordance with such rules.
- (b) Subject to the fulfilment of the conditions set out in the sub-section headed "Conditions of the Share Offer" under the section headed "Structure of the Share Offer":
 - (i) the Company adopted the new Articles of Association;
 - (ii) the Public Offer, the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue the new Shares pursuant to the Public Offer and the Placing and all the Shares which may be required to be issued if the Over-allotment Option is exercised;
 - (iii) the rules of the Share Option Scheme were approved and adopted and the committee of Directors as referred to therein was authorised to grant options to subscribe for Shares thereunder, to allot and issue Shares thereunder and to vote on any matter connected therewith in accordance with such rules;
 - (iv) the rules of the PHOENIXi 2000 Stock Incentive Plan were approved and adopted;
 - (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Plan or the Share Option Scheme or any Shares allotted in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company or the Public Offer (including the exercise of the Over-allotment Option), Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein. Such mandate to expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by law or the Company's articles of association to be held or; when revoked or varied by an ordinary resolution of shareholders in general meeting of the Company, whichever occurs first;
 - (vi) a general unconditional mandate was given to the Directors authorising the purchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the GEM Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as

mentioned herein (including the exercise of the Over-allotment Option), such mandate to expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Company's articles of association or any applicable law of Cayman Islands to be held; or when revoked or varied by an ordinary resolution of shareholders in general meeting of the Company, whichever occurs first; and

- (vii) the general unconditional mandate as mentioned in sub-paragraph (v) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (vi) above.

Corporate Reorganisation

Phoenix underwent a reorganisation to rationalise its structure in preparation for the listing of the Shares on GEM pursuant to which the Company became the holding company of Phoenix.

The corporate reorganisation involved the following:

- (i) On 29th April, 1998, one share of US\$1.00 in the capital of Binji, representing 100% of the issued share capital of Binji, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (ii) On 27th June, 1998, one share of US\$1.00 in the capital of Phoenix Satellite Television (Movies) Limited, representing 100% of the issued share capital of Phoenix Satellite Television (Movies) Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (iii) On 30th June, 1998, one share of US\$1.00 in the capital of Phoenix Satellite Television (Chinese Channel) Limited, representing 100% of the issued share capital of Phoenix Satellite Television (Chinese Channel) Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (iv) On 5th November, 1999, one share of US\$1.00 in the capital of Phoenix Satellite Television Information Limited, representing 100% of the issued share capital of Phoenix Satellite Television Information Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (v) On 5th November, 1999, one share of US\$1.00 in the capital of PHOENIXi, representing 100% of the issued share capital of PHOENIXi, was allotted and issued to Phoenix Satellite Television Information Limited for cash at par.
- (vi) On 21st December, 1999, one share of US\$1.00 in the capital of Phoenix Satellite Television (Europe) Limited, representing 100% of the issued share capital of Phoenix Satellite Television (Europe) Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.

- (vii) On 24th January, 2000, one share of US\$1.00 in the capital of Phoenix Weekly Magazine (BVI) Limited, representing 100% of the issued share capital of Phoenix Weekly Magazine (BVI) Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (viii) On 2nd February, 2000, two shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited, representing 100% of the issued share capital of Hong Kong Phoenix Weekly Magazine Limited were transferred to Phoenix Weekly Magazine (BVI) Limited for cash at par.
- (ix) On 14th February, 2000, one share of US\$1.00 in the capital of PCNE Holdings Limited, representing 50% of the issued share capital of PCNE Holdings Limited, was allotted and issued to Phoenix Satellite Television (Europe) Limited for cash at par and one share representing 50% of the issued share capital was allotted and issued to Techvast Limited for cash at par.
- (x) On 28th February, 2000, one share of US\$1.00 in the capital of Phoenix Satellite Television (InfoNews) Limited, representing 100% of the issued share capital of Phoenix Satellite Television (InfoNews) Limited, was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (xi) On 6th March, 2000, Phoenix Satellite TV subscribed to 55% of the equity interest of 鳳凰影視(深圳)有限公司 (Phoenix Film and Television (Shenzhen) Company Limited) (“Phoenix PRC Joint Venture”). The rest of the equity interest was held as to 35% by 深圳市華視天地影視實業有限公司 (Shenzhen Hua Shi Tian Di Video Industrial Limited) (“Shenzhen Hua Shi”) and as to 10% by Hong Kong Hua Shi Tian Di Video Industrial Limited (“Hong Kong Hua Shi”).
- (xii) On 17th March, 2000, 1,000 shares of common stock of US\$0.0001 each in the capital of PHOENIXi, Inc. representing 100% of the issued common stock of PHOENIXi, Inc. were allotted and issued to PHOENIXi at US\$10.00 per share.
- (xiii) On 21st March, 2000, the authorised capital of PHOENIXi was reconstituted as 24,250,000 shares of Common Stock and 750,000 shares of Series A Preferred Stock.
- (xiv) On 21st March, 2000, 12,397,499 shares of common stock representing approximately 100% of the issued common stock of PHOENIXi, which represents approximately 94.3% of the total issued capital of PHOENIXi were allotted and issued to Phoenix Satellite Television Information Limited in consideration of Phoenix Satellite Television (B.V.I.) Holding Limited entering into a licence agreement and an advertising agreement with PHOENIXi.
- (xv) On 21st March, 2000, 750,000 shares of Series A Preferred Stock of US\$0.01 each in the capital of PHOENIXi, representing 100% of the issued Series A Preferred Stock, which is approximately 5.7% of the total issued capital of PHOENIXi were allotted and issued to Mr. Mark Wong Van Haren at a consideration of US\$1.00 each. Mr. Mark Wong Van Haren is not a connected person of Phoenix under the GEM Listing Rules.

- (xvi) On 30th March, 2000, Phoenix Weekly Magazine (BVI) Limited subscribed to 49 shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited (together with the 2 shares transferred as described in paragraph (viii) above, Phoenix Weekly Magazine (BVI) Limited will hold 51% of the issued share capital of Hong Kong Phoenix Weekly Magazine Limited) for a total subscription price of HK\$100,000 and 廣州杰圖文化廣告有限公司 (Guangzhou Jie Tu Cultural Advertising Company Limited) subscribed to 31 shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited (representing 31% of the issued share capital thereof) for a consideration of HK\$200,000 and Mr. YU, Ling Xiao subscribed to 18 shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited (representing 18% of the issued share capital thereof) for a consideration of HK\$100,000. Guangzhou Jie Tu Cultural Advertising Company Limited is incorporated under the laws of the PRC with limited liability. Mr. YU, Ling Xiao is a PRC citizen based in Shanghai. Guangzhou Jie Tu Cultural Advertising Company Limited and Mr. YU, Ling Xiao are not connected persons under the GEM Listing Rules.
- (xvii) On 30th March, 2000, one share of US\$1.00 in the capital of Phoenix Satellite Television Development (BVI) Limited, representing the entire issued share capital thereof was allotted and issued to Phoenix Satellite Television (B.V.I.) Holding Limited for cash at par.
- (xviii) On 17th April, 2000, ten shares of US\$0.10 each in the capital of Phoenix Satellite Television (B.V.I.) Holding Limited, representing 100% of the issued share capital of Phoenix Satellite Television (B.V.I.) Holding Limited, were allotted and issued to the Company for cash at par. On 30th May, 2000, the ten issued shares of US\$0.10 each were consolidated into one share of US\$1.00.
- (xix) On 17th April, 2000, PHOENIXi established a PRC wholly foreign owned enterprise, 國鳳在綫 (北京) 信息技術有限公司 (Guofeng On-line) with a registered capital of US\$500,000.
- (xx) On 27th April, 2000, two shares of HK\$1.00 each in the capital of Phoenix Satellite Television Development Limited, representing 100% of the issued share capital of Phoenix Satellite Television Development Limited, were transferred to Phoenix Satellite Television Development (BVI) Limited for cash at par.
- (xxi) On 3rd May 2000, Phoenix Satellite Television Development Limited acquired 55% of the equity interest of the Phoenix Film from Phoenix Satellite TV and 5% from Hong Kong Hua Shi, thereby holding 60% of the equity interest of the Phoenix Film. Hong Kong Hua Shi and Shenzhen Hua Shi transferred all their equity interest in Phoenix Film to 深圳市藍天空電視廣播有限公司 (Shenzhen Blue Sky Television Broadcast Company Limited), 深圳市龍領實業發展有限公司 (Shenzhen Long Ling Industrial Development Company Limited) and 五洲傳播出版社 (Five Continents Publishing House Limited) which thereafter holds 25%, 10% and 5% of the equity interests of Phoenix Film, respectively.

- (xxii) On 30th May, 2000, Phoenix Weekly Magazine (BVI) Limited acquired four shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited of which 2 shares were transferred from 廣州杰圖文化廣告有限公司 (Guangzhou Jie Tu Cultural Advertising Company Limited), 2 shares were transferred from Mr. YU, Ling Xiao, representing a total of 4% of the issued share capital of Hong Kong Phoenix Weekly Magazine Limited for HK\$4.00.
- (xxiii) On 14th June, 2000, Phoenix Satellite TV issued a convertible note to each of Star TV Holdings, Today's Asia and China Wise whereby each of the holders of the convertible notes would be entitled to convert loans payable to each of them by Phoenix Satellite TV either into Shares or into shares of Phoenix Satellite TV. The amount of the loans payable by Phoenix Satellite TV to Star TV Holdings, Today's Asia and China Wise was HK\$226,339,601.00, HK\$226,339,601.00 and HK\$50,297,689.00 respectively.
- (xxiv) On 15th June, 2000, Star TV Holdings, Today's Asia and China Wise transferred 9 shares, 9 shares and 2 shares respectively of HK\$1.00 each, representing in aggregate the then entire issued share capital of Phoenix Satellite TV, to the Company in consideration of the Company allotting and issuing to Star TV Holdings, Today's Asia and China Wise 90, 90 and 20 shares respectively credited as fully paid up.
- (xxv) On 15th June, 2000, Star TV Holdings, Today's Asia and China Wise elected to exercise their rights of conversion under such convertible notes and 1,853,999,226, 1,853,999,226 and 411,999,828 new Shares were issued and allotted to Star TV Holdings, Today's Asia and China Wise respectively credited as fully paid up.
- (xxvi) On 16th June, 2000, the Company transferred 20 shares of HK\$1.00 each in the capital of Phoenix Satellite TV (representing 100% of the issued share capital of Phoenix Satellite TV) to Phoenix Satellite (B.V.I.) Holding Limited for HK\$20.00.

Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the Accountant's Report set out in Appendix I.

Save as disclosed herein and in the paragraph "Corporate Reorganisation" above, there has been no other alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the issue of this prospectus.

Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase in cash their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholder's approval

All repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders of the company, either by way of general mandate or by specific approval in relation to specific transactions.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the articles of association of the company and the laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchases will be made out of funds of the company legally permitted to be utilised in this connection, including profits available for distribution and sums standing to the credit of the share premium account of the company, the proceeds of a fresh issue of shares made for the purpose of the repurchase or out of capital, if the company is able, immediately following such payment, to pay its debts as they fall due in the ordinary course of business.

(iii) Trading restrictions

The shares proposed to be repurchased by a company must be fully paid up. The total number of shares which a company is authorised to repurchase on GEM or on any other stock exchange recognised for this purpose by the Securities and Futures Commission in Hong Kong and the Stock Exchange under the Code on Share Repurchases is shares representing up to a maximum of 10% of the existing issued share capital of the company as at the date of the resolution approving the repurchase and the company may not issue without the prior approval of the Stock Exchange or announce an issue of new shares for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities, which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of listed securities in public hands would be below the relevant prescribed minimum percentage for that company (as determined by the Stock Exchange at the time of listing under Rule 11.23 of the GEM Listing Rules). A company may only purchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock

Exchange), whichever is higher; and (2) the company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(iv) *Status of repurchased securities*

The listing of all repurchased securities, whether on the Stock Exchange or otherwise, is automatically cancelled and the relative certificates must be destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled on repurchase and the amount of the company's issued share capital shall be diminished by the aggregate nominal value of the repurchased shares accordingly (although the authorised share capital of the company will not be reduced as a result of such repurchase).

(v) *Suspension of repurchases*

Any securities repurchase programme is required to be suspended after a price sensitive development has occurred or has been the subject of a decision of the directors of a company until the price sensitive information has been publicly announced. A company may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's half-year report or a quarterly report. In addition, the Stock Exchange reserves the right to suspend a securities repurchase programme on the Stock Exchange if the company has breached the GEM Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, the company's annual report is required to disclose details regarding securities repurchased each month and certain information regarding the prices paid and the directors' reasons for making such repurchases. The company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to repurchases made on behalf of the company on the Stock Exchange may request.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities of the company on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder or management shareholder of the company or any of its subsidiaries or their associates, as defined in the GEM Listing Rules, and a connected person is prohibited from knowingly selling his shares to the company.

(viii) *Shares that may be repurchased*

The GEM Listing Rules and the Companies Law provide that the shares which are proposed to be repurchased by a company should be fully paid up.

(b) Reasons for repurchases

Repurchases of shares will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purchase in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands and Hong Kong.

(d) Share capital

Exercise in full of the buyback mandate, on the basis of 4,847,060,000 Shares in issue immediately after the listing of the Shares (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option), could accordingly result in up to 484,706,000 Shares being repurchased by the Company during the period prior to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and (iii) the revocation or variation of the buyback mandate by ordinary resolution of shareholders of the Company in general meeting, which ever is the earliest.

(e) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates, has any present intention, if the buyback mandate is exercised, to sell any Shares to the Company or any of its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the buyback mandate in accordance with the articles of association of the Company, the GEM Listing Rules and the applicable laws of Hong Kong and the Cayman Islands. The Company shall not purchase Shares otherwise than by cash or arrange for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. The Company shall procure the broker who effects the purchase to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the buyback mandate is exercised in full. However, the Directors do not propose to exercise the buyback mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

No connected person, as defined in the GEM Listing Rules, has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the buyback mandate is exercised.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Codes on Takeovers and Mergers and Share Repurchase ("Takeover Code"). As a result, a shareholder, or group of shareholders acting in concert, depending on the level of increase of such shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code. A waiver of this provision would not normally be given except in extraordinary circumstances.

Information about principal PRC enterprises

The Company has the following interests in Phoenix Film, being a PRC enterprise:

Nature:	Sino-foreign equity joint venture
Registered capital:	HK\$10 million
Total investment amount:	HK\$10 million
Attributable interest of the Company:	60%
Date of establishment:	6th March, 2000
Term of joint venture:	20 years commencing from 6th March, 2000
Capital contribution:	Phoenix Satellite TV
	— HK\$6 million representing 60% of the registered capital
	深圳市藍天空電視廣播有限公司 (Shenzhen Blue Sky Television Broadcast Company Limited)
	— HK\$2.5 million representing 25% of the registered capital.
	深圳市龍領實業發展有限公司 (Shenzhen Long Ling Industrial Development Company Limited)
	— HK\$1 million representing 10% of the registered capital
	五洲傳播出版社 (Five Continents Publishing House Limited)
	— HK\$500,000 representing 5% of the registered capital
Profit and loss sharing ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest

FURTHER INFORMATION ABOUT THE BUSINESS OF PHOENIX**Summary of Material Contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of Phoenix within the two years preceding the date of this prospectus and are or may be material:

- (a) An agreement dated 27th June, 1998 between (1) CITV and (2) Phoenix Satellite TV pursuant to which Phoenix Satellite TV appointed CITV as its sole agent for a period of three years commencing from 27th June, 1998 to promote the Phoenix Movies Channel and the sale of decoders in the PRC. Pursuant to the agreement, CITV is entitled to retain, as its commission, 25% of the subscription fees in respect of new subscribers and 20% of the subscription fees in respect of recurring subscribers.
- (b) An agreement dated 27th June, 1998 between (1) Hong Kong Hua Shi Tian Di Video Industrial Limited (“Hong Kong Hua Shi”) and (2) Phoenix Satellite TV pursuant to which Phoenix Satellite TV appointed and authorised Hong Kong Hua Shi to be the contact person of Phoenix Satellite TV in respect of the agreement referred to in paragraph (a) above and to accept for, as well as to remit to, Phoenix Satellite TV the balance of the subscription fees, being 75% of the subscription fees from new subscribers and 80% of the subscription fees from recurring subscribers received by CITV, on behalf of Phoenix Satellite TV pursuant to the agreement referred to in paragraph (a) above and Hong Kong Hua Shi is entitled to receive, as its agency fee, an amount equal to the difference between the subscription fee list price less the net subscription fee (being the subscription list price and less CITV’s commission) as its agency fee. The term of the agreement is from 27th June, 1998 to 26th June, 2001.
- (c) A memorandum of understanding dated 28th August, 1998 between (1) Satellite Television, (2) STAR Filmed, (3) Phoenix Satellite TV and (4) Phoenix Movies pursuant to which the parties confirmed the phasing out of the STAR Movies (Northern Beam) Channel in the PRC and the creation of the Phoenix Movies Channel as its replacement. The memorandum sets out the principal mechanism for the above arrangement whereby: (i) Phoenix Satellite TV agreed to purchase from Satellite Television 1,486 digital decoders then currently used by subscribers to the STAR Chinese Movies Channel in the PRC for an aggregate price of US\$518,000; (ii) Satellite Television agreed to transfer the existing subscribers together with the prepaid subscription fees being the sum of US\$518,000 to Phoenix Satellite TV; (iii) the two aforesaid amounts will be set off by mutual agreement; and (iv) Satellite Television will provide technical and administrative support to Phoenix Satellite TV and Phoenix Movies for the operation of the Phoenix Movies Channel at a service fee of US\$1,859,500 plus variable licence and maintenance fees for the period from 28th August, 1998 to 27th August, 1999; and (v) STAR Filmed will license certain motion pictures to Phoenix Movies for the term from 28th August, 1998 to 27th August, 2008 for the operation of the Phoenix Movies Channel⁽¹⁾.

- (d) A term sheet dated 8th January, 1999 between (1) Mr. Mark Wong Van Haren and (2) PHOENIXi (as subsequently amended on 15th November, 1999) pursuant to which Mr. Mark Wong Van Haren has agreed to subscribe for 750,000 series A preferred shares of US\$0.01 each of PHOENIXi at a consideration of US\$1.00 each (“Purchase Price”), with such shares carrying the right, inter alia, to receive non-cumulative dividends in preference to the holders of common shares at an annual rate of 5% of the Purchase Price from legally available funds declared by the board of directors of PHOENIXi⁽²⁾.
- (e) An agreement dated 19th January, 1999 between (1) Shenzhen Hua Shi Tian Di Video Industrial Limited (“Shenzhen Hua Shi”) and (2) Phoenix Satellite TV pursuant to which (i) Phoenix Satellite TV appointed and authorised Shenzhen Hua Shi to act as its contact person and service institution in the PRC for a period of two years from 27th June, 1998 and (ii) Shenzhen Hua Shi agreed to (a) distribute the Phoenix Movies Channel; (b) establish a maintenance and repair centre in Shenzhen, the PRC; and (c) collect on behalf of Phoenix Satellite TV fees payable by the subscribers to Phoenix Satellite TV. Shenzhen Hua Shi is to be paid an amount equal to the difference between the subscription fee list price less the net subscription fee (as referred to in paragraph (b) above) as its agency fee. Shenzhen Hua Shi agreed to pay to Phoenix Satellite TV a sum of US\$310,000 per month as the net subscription fee⁽³⁾.
- (f) An agreement dated 11th February, 1999 between (1) Phoenix Satellite TV and (2) Satellite Television pursuant to which Satellite Television granted to Phoenix Satellite TV a licence to use approximately 14,848 square feet of the office premises situate at 9th Floor, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong and provide to Phoenix Satellite TV technical and administrative services in connection with the production and broadcast of the Phoenix Chinese Channel for a service fee payable by Phoenix Satellite TV to Satellite Television. The term of the agreement commenced from 1st July, 1998 and is to be automatically renewed annually⁽⁴⁾.
- (g) An agreement dated 11th February, 1999 between (1) Phoenix Satellite TV and (2) Satellite Television pursuant to which Satellite Television agreed to provide technical and administrative support services to Phoenix Satellite TV for the production and broadcast of the Phoenix Movies Channel for a term of 12 months from 28th August, 1998 and is automatically renewed annually, and at a service fee the amount of which will be set out in the monthly invoices from Satellite Television to Phoenix Satellite TV⁽⁵⁾.
- (h) An agreement dated 11th July, 1999, between (1) Phoenix Satellite Television (Europe) Limited (“Phoenix Europe”) and (2) the shareholders of Techvast Limited, represented by China Intercontinental Communication Center (“CICC”) pursuant to which all assets, business and properties necessary for the continued operations of the Phoenix CNE Channel will be transferred to a company and thereafter Phoenix Europe and CICC shall, subject to other conditions being fulfilled, subscribe to 70% and 30%, respectively of the issued share capital of the company at par value. This agreement further provides that Phoenix Europe shall provide an annual interest free loan of not less than US\$2.8 million for three years for the operation of the Phoenix CNE Channel and CICC is not required to provide any debt funding during the said period.

- (i) A letter agreement dated 14th July, 1999 between (1) Satellite Television and (2) Phoenix Satellite TV pursuant to which Satellite Television granted to Phoenix Satellite TV a licence to use approximately 19,675 square feet of the office premises situate at 9th Floor, Office Tower One, The Harbourfront, 18–22 Tak Fung Street, Hunghom, Kowloon, Hong Kong for a term of four years from 15th July, 1999 to 14th July, 2003 for (i) a licence fee of HK\$396,057.75 per month; (ii) a service fee of HK\$103,490.50 per month; (iii) a fitting out cost of HK\$101,130 per month (which amount shall cease to be payable on 30th April, 2001) and (iv) with government rates being payable by Phoenix Satellite TV⁽⁶⁾ to the extent of HK\$31,480 per month.
- (j) An agreement dated 26th January, 2000 between (1) Merci Limited (now known as “Hong Kong Phoenix Weekly Magazine Limited”), (2) 廣州杰圖文化廣告有限公司 (Guangzhou Jie Tu Cultural Advertising Company Limited) and (3) Mr. Yu, Ling Xiao pursuant to which the parties agreed to procure and arrange for the legal publication of the Phoenix Weekly Magazine in the PRC in that (i) Merci Limited shall procure Phoenix Weekly Magazine (BVI) Limited, being its holding company, to purchase and thereafter own 51% of the issued share capital of Merci Limited, and (ii) Guangzhou Jie Tu Cultural Advertising Company Limited and Mr. Yu, Ling Xiao shall respectively own 31% and 18% of the issued share capital of Merci Limited respectively. This agreement further provides that Guangzhou Jie Tu Cultural Advertising Company Limited and Mr. Yu, Ling Xiao shall be responsible for the application of all the necessary government approvals and permits in the PRC for the publication and distribution of the Phoenix Weekly Magazine and if such permits are not obtained within six months, this agreement shall terminate unless all the parties agree otherwise⁽⁷⁾.
- (k) An agreement dated 10th February, 2000 between (1) Hong Kong Phoenix Weekly Magazine Limited and (2) 廣州杰圖文化廣告有限公司 (Guangzhou Jie Tu Cultural Advertising Company Limited) pursuant to which 31 shares of HK\$1.00 each of Hong Kong Phoenix Weekly Magazine Limited were issued and allotted to Guangzhou Jie Tu Cultural Advertising Company Limited at a consideration of HK\$200,000.
- (l) An agreement dated 10th February, 2000 between (1) Hong Kong Phoenix Weekly Magazine Limited and (2) Mr. YU, Ling Xiao pursuant to which 18 shares of HK\$1.00 each of Hong Kong Phoenix Weekly Magazine Limited were issued and allotted to Mr. YU, Ling Xiao at a consideration of HK\$100,000.
- (m) An agreement dated 10th February, 2000 between (1) Hong Kong Phoenix Weekly Magazine Limited and (2) Phoenix Weekly Magazine (BVI) Limited pursuant to which 49 shares of HK\$1.00 each of Hong Kong Phoenix Weekly Magazine Limited were issued and allotted to Phoenix Weekly Magazine (BVI) Limited at a consideration of HK\$100,000.
- (n) An agreement dated 21st March, 2000 between (1) PHOENIXi and (2) Mr. Mark Wong Van Haren pursuant to which 750,000 Series A Preferred Stock of PHOENIXi were issued and allotted to Mr. Mark Wong Van Haren at a consideration of US\$750,000.
- (o) An agreement dated 21st March, 2000 between (1) PHOENIXi, (2) Phoenix Satellite Television Information Limited, (3) Phoenix Satellite Television (B.V.I.) Holding Limited and (4) Mr. Mark Wong Van Haren which sets out the rights of Mark Wong Van Haren to

cause PHOENIXi to register under the Securities Act of 1933 of the United States shares of common stock issuable to himself in consideration of Mr. Mark Wong Van Haren investing into PHOENIXi pursuant to the agreement referred to in paragraph (n) above.

- (p) An agreement dated 21st March, 2000 between (1) PHOENIXi, (2) Mark Wong Van Haren, (3) Phoenix Satellite Television Information Limited and (4) Phoenix Satellite Television (B.V.I.) Holding Limited pursuant to which the parties agreed amongst other things, that (i) if Mr. Mark Wong Van Haren proposes to transfer any of the Series A Preferred Shares in PHOENIXi to any person, prior notice shall be given to PHOENIXi and Phoenix Satellite Television Information Limited whereupon Phoenix Satellite Television Information Limited may elect to purchase the Offered Shares; and (ii) if Phoenix Satellite Television Information Limited or Phoenix Satellite Television (BVI) Holding Limited enters into any agreement with another party to transfer such amount of the common stock of PHOENIXi which would result in Phoenix Satellite Television (B.V.I.) Holding Limited holding less than 50% of the outstanding voting power of PHOENIXi, prior notice shall be given to Mr. Mark Wong Van Haren of which he may elect to sell all of his Series A Preferred Shares.
- (q) An agreement dated 21st March, 2000 between (1) PHOENIXi, (2) Phoenix Satellite Television Information Limited and (3) Phoenix Satellite Television (B.V.I.) Holding Limited pursuant to which PHOENIXi agreed to issue to Phoenix Satellite Television Information Limited 12,397,499 shares of the Common Stock of PHOENIXi at US\$0.01 par value per share in consideration of Phoenix Satellite Television (B.V.I.) Holding Limited agreed (i) to grant to PHOENIXi a licence in respect of the Internet, its licensed marks and other rights and (ii) that PHOENIXi may purchase airtime for advertising over the Phoenix Channels at a discounted rate.
- (r) An agreement dated 15th June, 2000 between (1) Star Filmed and (2) Phoenix Movies pursuant to which (i) Star Filmed granted to Phoenix Movies a non-exclusive licence to engage in non-standard television exhibition of a certain selection of movies on the Phoenix Movies Channel in the PRC (excluding Hong Kong and Taiwan, but including Macau) for the period from 28th August, 1998 to 27th August, 2008 at a base fee of US\$237,500 per month. Star Filmed will also be entitled to charge an additional fee equivalent to 12.5% of the amount of the Net Revenues (as defined in the agreement) of Phoenix Movies Channel exceeds US\$18 million provided that the aggregate amount of any additional fee payable by Phoenix Movies for the entire licence period shall not exceed US\$36 million; (ii) Phoenix agreed to permit or procure the permission of, at no charge, the carriage of the Phoenix Chinese Channel and any other free-to-air Chinese language channels operated by the Group and transmitted from the ASIASAT 3S Satellite or any ASIASAT successor satellite within three years from the date of the agreement on any one pay television platform within Hong Kong and Macau in which News Corporation directly or indirectly owns at least a 20% interest.
- (s) An agreement dated 15th June, 2000 between (1) Satellite Television and (2) Phoenix Satellite TV pursuant to which Satellite Television granted to Phoenix Satellite TV a licence to use approximately 19,675 square feet of the office premises situate at 9th Floor, One Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong from 1st July,

2000 to 14th July, 2003 with the right to extend the term for a further term of three years at (i) a licence fee of HK\$396,057.75 per month; and (ii) a service fee of HK\$103,490.50 per month and (iii) with government rates being payable by Phoenix Satellite TV.

- (t) An agreement dated 15th June, 2000 between (1) Satellite Television and (2) Phoenix Satellite TV pursuant to which Satellite Television agreed to (i) provide technical and administrative support to the Group for the production and broadcast of the Phoenix Chinese Channel, the Phoenix Movies Channel and such additional channels by mutual agreement at a service fee payable in arrears on a monthly basis for a term of three years commencing from 1st July, 2000 subject to termination by notice; (ii) act as an exclusive advertising sales agent for all territories outside the PRC (except that Phoenix may promote and sell advertising air time for all its channels in Hong Kong and Macau to clients established in Hong Kong which conduct a significant portion of their business with or for PRC companies and whose management is closely associated with such PRC companies) and collect advertising fees for the Phoenix Chinese Channel and the Phoenix Movies Channel and collect advertising fees for such additional channels by mutual agreement at a commission of 20% of the net advertising income (which means gross advertising revenues less third party agency commissions) generated and received by Satellite Television; (iii) promote subscriptions for the cable network of the Phoenix Chinese Channel and such additional channels by mutual agreement at a commission of 15% of the gross subscription fees received by Phoenix Satellite TV attributable to the subscribers referred to Phoenix Satellite TV by Satellite Television; and (iv) provide decoders to Phoenix Satellite TV for the Phoenix Movies Channel and such additional channels by mutual agreement at a price based on the cost to Satellite Television of such decoders. The term of the agreement is three years commencing from 1st July, 2000.
- (u) An agreement dated 15th June, 2000 between (1) Shenzhou and (2) Phoenix Satellite TV pursuant to which (i) Shenzhou agreed to promote and procure the sale of advertising time slots in the PRC on a non-exclusive basis and to render invoices for, and collect gross advertising fees received from the sale of advertising time slots from the advertisers or their agents. Shenzhou is entitled to a commission of not more than 5% of the net advertising fees received from the sale of such advertising time slots (which means gross advertising revenue less third party agency commission); and (ii) Phoenix Satellite TV may require Shenzhou to provide technical support and production equipment to the Group for the shooting of television clips or programmes and to identify qualified companies to undertake television programmes production for the Group in the PRC. Shenzhou is entitled to a service fee equivalent to the actual direct expenses incurred by it plus a profit margin equal to not more than 5% of such costs and expenses. The initial term of the agreement is five years from the date of the agreement, and is automatically renewed annually for successive periods of one year unless terminated by either party serving on the other not less than 3 months' notice of termination during the successive terms.
- (v) An agreement dated 15th June, 2000 between (1) Sino (H.K.), a 99.98% subsidiary of Shenzhou (with the remaining interests held by Messrs. Pan Hong Xing and Tang Jian which are not connected persons under the GEM Listing Rules) and (2) Phoenix Satellite TV pursuant to which Sino (H.K.) agreed to provide media consultancy services, liaison services, talent search services, general administrative and financial management services

to Phoenix Satellite TV in consideration of a service fee equivalent to the actual direct costs and expenses reasonably incurred by it plus a profit margin of not more than 5% of such costs and expenses. The initial term of the agreement is five years from the date of the agreement and is automatically renewed annually for successive terms of one year unless terminated by either party serving on the other not less than three months notice before the end of any successive term.

- (w) The Public Offer Underwriting Agreement dated 20th June, 2000 among, inter alia, the Company, the executive directors of the Company, Today's Asia, Star TV Holdings, China Wise and the Public Offer Underwriters, being the underwriting agreement relating to the Public Offer, details of which are set out in the section "Underwriting" of the prospectus.
- (x) The Placing Underwriting Agreement dated 20th June, 2000 between, inter alia, the Company, the executive directors of the Company, Today's Asia, Star TV Holdings, China Wise and the Placing Underwriters, being the underwriting agreement relating to the Placing, details of which are set out in the section "Underwriting" of the prospectus.
- (y) A deed of indemnity dated 20th June, 2000 by Star TV Holdings and Today's Asia, in favour of the Company and its subsidiaries containing, inter alia, the indemnities referred to in paragraph headed "Estate duty and tax indemnity" below.
- (z) An agreement dated 15th June, 2000 between (1) Star TV Holdings, (2) Today's Asia, (3) China Wise, (4) the Company and (5) Phoenix Satellite TV pursuant to which the entire issued share capital of Phoenix Satellite TV was transferred by Star TV Holdings, Today's Asia and China Wise to the Company in consideration of the Company allotting and issuing 90, 90 and 20 shares to Star TV Holdings, Today's Asia and China Wise respectively.
- (aa) A convertible note dated 15th June, 2000 issued by Phoenix Satellite TV (and agreed to and accepted by the Company) to Star TV Holdings pursuant to which Star TV Holdings may convert the whole of the outstanding loan owed to it by Phoenix Satellite TV into 1,853,999,226 Shares or shares of Phoenix Satellite TV.
- (bb) A convertible note dated 15th June, 2000 issued by Phoenix Satellite TV (and agreed and accepted by the Company) to Today's Asia pursuant to which Today's Asia may convert the whole of the outstanding loan owed to it by Phoenix Satellite TV into 1,853,999,226 Shares or shares of Phoenix Satellite TV.
- (cc) A convertible note dated 15th June, 2000 issued by Phoenix Satellite TV (and agreed and accepted by the Company) to China Wise pursuant to which China Wise may convert the whole of the outstanding loan owed to it by Phoenix Satellite TV into 411,999,828 Shares or shares of Phoenix Satellite TV.
- (dd) An agreement dated 10th March, 2000 between (1) Phoenix Satellite TV, (2) Hong Kong Hua Shi and (3) 深圳長安源多媒體有限公司 Shenzhen Chang An Yuan Multimedia Co. Ltd. ("Chang An Yuan") pursuant to which (i) Hong Kong Hua Shi agreed to transfer all its rights and obligations set out in agreement referred to in paragraph (b) above (the "said Agreement") to Chang An Yuan (ii) Hong Kong Hua Shi agreed with Phoenix Satellite TV

that in the event Chang An Yuan fails to perform any obligations in the said Agreement, Hong Kong Hua Shi shall continue to perform its obligation stipulated in the said Agreement and (iii) Chang An Yuan unconditionally accepts the transfer referred to in (i) of this paragraph and undertakes with the other parties that it will unconditionally perform all the obligations of Hong Kong Hua Shi stipulated in the said Agreement.

- (ee) An agreement dated 18th January, 2000 between (1) Shenzhen Hua Shi, (2) Hong Kong Hua Shi and (3) Phoenix Satellite TV pursuant to which the parties established a Sino-foreign equity joint venture company, 鳳凰影視(深圳)有限公司 (Phoenix Film and Television (Shenzhen) Company Limited) for the purpose of providing ancillary services for film and television production. The total investment in the equity joint venture company is HK\$10,000,000 and Phoenix Satellite TV would contribute HK\$3,500,000 and acquire a 35% equity interest in the joint venture company⁸.
- (ff) An agreement dated 29th April, 2000 between (1) Phoenix Satellite TV and (2) Tianying Jiuzhou pursuant to which Phoenix Satellite TV agreed to grant to Tianying Jiuzhou the right to use the domain name being www.phoenixtv.com for a period of 4 months from 30th April 2000 at a licence fee of to be decided by the parties from time to time taking into consideration of the number of viewers whereas Tianying Jiuzhou agreed to use the licenced domain name within the PRC and conduct such internet business relating to the licenced domain name. Phoenix Satellite TV may terminate this agreement at any time.
- (gg) An agreement dated 31st May, 2000 between (1) Phoenix Weekly Magazine (BVI) Company Limited (2) 廣州杰圖文化廣告有限公司 (Guangzhou Jie Tu Cultural Advertising Company Limited) (3) Yu Ling Xiao (4) 北京中視天地文化開發有限責任公司 China Television Tian Di Cultural Development Company Limited) (“China Television”) and (5) Hong Kong Phoenix Weekly Magazine Limited pursuant to which China Television agreed to invest in Hong Kong Phoenix Weekly Magazine Limited and certain transfers of shares were to be conducted. As a result thereof, Phoenix Weekly Magazine (BVI) Limited, Guangzhou Jie Tu Cultural Advertising Company Limited, Mr. YU, Ling Xiao and China Television will hold 55 shares, 22 shares, 9 shares and 14 shares of HK\$1.00 each in the capital of Hong Kong Phoenix Weekly Magazine Limited respectively (representing 55%, 22%, 9% and 14% of the issued share capital of Hong Kong Phoenix Weekly Magazine Limited). The agreement further sets out the rights and obligations of the respective shareholders in the management of Hong Kong Phoenix Weekly Magazine Limited.
- (hh) An agreement dated 25th May, 2000 between (i) 五洲傳播出版社 (Five Continents Publishing House Limited), (ii) 深圳市藍天空電視廣播有限公司 (Shenzhen Blue Sky Television Broadcast Company Limited); (iii) 深圳市龍領實業發展有限公司 (Shenzhen Long Ling Industrial Development Company Limited); and (iv) Phoenix Satellite Television Development Limited. Pursuant to which Phoenix Satellite Television Development Limited accepted the assignment by certain parties of the agreement referred in paragraph (v) an aggregate of 60% equity interest in Phoenix Film and Television (Shenzhen) Company Limited.

Notes:

- (1) The arrangement under items (iv) and (v) of this memorandum of understanding have in practice been replaced by the agreements referred to in paragraphs (r) and (t) respectively.

- (2) This term sheet has in practice been replaced by the agreements referred to in paragraphs (n) and (o) respectively.
- (3) The purpose of this agreement was to implement a procedural change relating to the arrangement for the remittance of the subscription fees by CITV to Phoenix Satellite TV in Hong Kong pursuant to the agreements referred to in paragraphs (a) and (b).
- (4) This agreement has in practice been replaced by the agreements referred to in paragraphs (i) and (s).
- (5) This agreement has in practice been replaced by the agreement referred to in paragraph (t).
- (6) This agreement has in practice been replaced by the agreement referred to in paragraph (s).
- (7) This agreement has in practice been replaced by the agreements referred to in paragraphs (k), (l) and (m).
- (8) This agreement has in practice been superseded by the agreement referred to in (hh).

Intellectual Property Rights of Phoenix



A. As at the Latest Practicable Date, Phoenix has applied for the registration of the following trade marks:

Trade Mark	Place of Application	Class	Application Date	Application Number
PHOENIX CHINESE CHANNEL	Australia	38	5th August, 1999	802694
	Australia	38	2nd August, 1999	802346
鳳凰卫视 鳳凰衛視	Australia	38	2nd August, 1999	802347
	Community Trade Mark	38	30th September, 1999	1328376
鳳凰衛視	Community Trade Mark	38	30th September, 1999	1328665
鳳凰卫视 鳳凰衛視	Hong Kong	38	27th May, 1996	6394/96
	Malaysia	16	29th May, 1996	96/05741
鳳凰衛視	Malaysia	16	29th May, 1996	96/05742
PHOENIX CHINESE CHANNEL	New Zealand	38	30th September, 1999	600174
	New Zealand	38	30th September, 1999	600172

Trade Mark	Place of Application	Class	Application Date	Application Number
凤凰卫视 鳳凰衛視	New Zealand	38	30th September, 1999	600173
	Philippines	38	5th July, 1996	109546
鳳凰衛視	Philippines	38	5th July, 1996	109545
	PRC	38	10th April, 2000	2000045606
PHOENIX	Singapore	38	12th June, 1996	5988/96
	Singapore	38	12th June, 1996	5990/96
凤凰卫视 鳳凰衛視	Singapore	38	12th June, 1996	5989/96

B. As at the Latest Practicable Date, Phoenix is the registered owner of the following trade marks:

Trade Mark	Place of Registration	Class	Registration Number	Expiry Date
PHOENIX	Hong Kong	38	B02782/2000	27th May, 2003
	Hong Kong	38	6264/98	27th May, 2003
	Indonesia	38	388555	19th June, 2006
PHOENIX 鳳凰衛視	Indonesia	38	388372	19th June, 2006
	PRC	38	1097572	6th September, 2007
PHOENIX STAR	PRC	38	1079506	13th August, 2007
鳳凰衛視	PRC	38	1085971	20th August, 2007
凤凰卫视	PRC	38	1097565	6th September, 2007
PHOENIX	Taiwan	38	101589	31st July, 2008

Trade Mark	Place of Registration	Class	Registration Number	Expiry Date
	Taiwan	38	99156	15th March, 2008
鳳凰衛視	Taiwan	38	107172	15th February, 2009
	Thailand	38	BOR5608	2nd July, 2006
鳳凰衛視	Thailand	38	BOR6110	2nd July, 2006

FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERT

Disclosure of interests

(a) *Disclosure of interests of Directors and experts*

Mr. LIU, Changle has 93.3% interest in the issued capital of Today's Asia, he is interested in the transactions referenced in items (xxiii), (xxiv) and (xxv) in the Corporate Reorganisation referred to in this Appendix.

(b) *Particulars of service agreements*

Each of Mr. LIU, Changle and Mr. CHUI, Keung has entered into a service agreement with the Company. Each agreement will take effect from the day on which the Shares are first admitted for trading on GEM (the "Effective Date").

Brief particulars of these service agreements are set out below:

- (i) Each service agreement will be for a term of three years commencing on the Effective Date and thereafter may be terminated by either party giving to the other not less than three months' written notice.
- (ii) Each of Mr. LIU, Changle and Mr. CHUI, Keung shall be entitled to a basic monthly salary of HK\$316,980.00 and HK\$97,740.00 respectively, which shall be subject to review by the board of directors from time to time.
- (iii) The Company shall provide to Mr. LIU, Changle for his lodging premises and for his transportation a motor vehicle and a car parking space.
- (iv) Mr. CHUI, Keung shall be entitled to a housing allowance of HK\$52,500 per month and an additional two (2) months' salary and housing allowance for each completed period of service of twelve (12) months.

- (v) Mr. LIU, Changle shall be entitled to a discretionary year-end bonus of not more than 100% of his annual salary.
- (vi) Mr. CHUI, Keung shall be entitled to a discretionary year-end bonus of not more than 100% of his annual salary and housing allowance.
- (vii) Each of the Executive Directors shall be entitled to participate in any bonus scheme that may be introduced by the Company provided that such participation, including the basis for calculating any payments, shall be determined at the sole and absolute discretion of the Board.

Save as disclosed herein, there is no other service contract or management agreement between any of the Directors or any service company controlled by any member of Phoenix, nor is any such contract or agreement proposed (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

The Company's policies concerning the remuneration of the executive Directors are:

- (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility and the time devoted to Phoenix;
- (ii) non-cash benefits are provided to the executive Directors under the remuneration package; and
- (iii) subject to the requirements of the GEM Listing Rules, the executive Directors may be granted, at the discretion of a committee comprising two independent non-executive Directors, one executive Director and one non-executive Director, share options under the Share Option Scheme as part of their remuneration package.

(c) *Directors' remuneration*

- (i) The aggregate of the remuneration paid and benefits in kind granted to the Directors by members of Phoenix in respect of the six months ended 31st December, 1999 was approximately HK\$4.0 million.
- (ii) It is estimated that approximately HK\$5.9 million (excluding discretionary bonus payable to the Directors) in aggregate will be payable to Directors or companies controlled by them as remuneration or in the form of benefits in kind pursuant to the present arrangements for the year ending 30th June, 2000.

(d) *Interest of Directors in the share capital of the Company and its associated corporations*

Immediately following completion of the Public Offer and the Placing and taking no account of the Shares which may be issued pursuant to the Over-allotment Option and the share options granted or to be granted under the Pre-IPO Share Option Plan and the Share Option Scheme, the interest of each of the Directors and chief executive in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) and based on the interest of such Directors and chief executive in such associated corporations as at the Latest Practicable Date) which will have

to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required pursuant to Rules 5.40 and 5.59 of the GEM Listing Rules relating to securities transaction by director to be notified to the Company and the Stock Exchange, once the Shares are listed, will be as follows:

Director	Type of Interest	No. of Shares
LIU, Changle	Corporate (<i>Note</i>)	5,320,000

Note: Mr. LIU, Changle is the beneficial owner of approximately 93.3% of the issued share of Today's Asia, which in turn owns approximately 38.25% of the issued share capital of the Company.

(e) *Substantial shareholder*

So far as is known to any Director or chief executive of the Company and save as otherwise disclosed in this prospectus, there are no companies (other than members of Phoenix) that are directly or indirectly interested in 10% or more of the voting power at general meetings of the subsidiaries of the Company:

Phoenix Weekly Magazine (BVI) Ltd

(1) Guangzhou Jie Tu Cultural Advertising Company Limited Da Sha Tou No. 3 Road Mei Fa Building, Flat 1307 Guangzhou PRC	22%
(2) 中視天地文化開發有限責任公司 北京市東城區崇文門外 西大街9號128室	14%

(f) *Agency fees or commissions received*

Information on the agency fees or commissions received by the Underwriters is set out in the section headed “Underwriting” of this prospectus.

(g) *Related party transactions*

During the two years preceding the date of this prospectus, Phoenix had engaged in related party transactions as described in the Accountants’ Report set out in Appendix I and the section headed “Connected Transactions”.

(h) *Management shareholders*

So far as the Directors are aware but taking no account of Shares which may be taken up in the Public Offer and Placing immediately following completion of the Share Offer and assuming the Over-allotment is not exercised, Today's Asia, Star TV Holdings and China Wise will be the management shareholders of the Company respectively, beneficially owning approximately 38.25%, 38.25% and 8.5% respectively of the Company's issued share capital as enlarged by the Public Offer and Placing.

(i) *Sponsors' interest*

BOCI Asia was incorporated in Hong Kong and its ultimate shareholder is Bank of China with its headquarters in Beijing, PRC. On 31st May, 1999, Bank of China Group Investment Limited, an indirect wholly-owned subsidiary of Bank of China (headquartered in Beijing), acquired one share, being the entire issued share, of Cultural Developments Limited. Cultural Developments Limited owns the entire issued share capital of China Wise. Mr. LUO, Jiansheng has been nominated by China Wise and appointed the director of eleven subsidiaries of Phoenix, namely Phoenix Satellite TV Holdings Limited, Phoenix Satellite Television (Chinese Channel) Limited, Phoenix Satellite Television (Movies) Limited, Phoenix Satellite Television (Europe) Limited, Binji, Phoenix Satellite Television Information Limited, Phoenix Satellite Television (B.V.I.) Holding Limited, Phoenix Satellite Television (InfoNews) Limited, Phoenix Weekly Magazine (BVI) Limited, Phoenix Satellite Television Development (BVI) Limited and Phoenix Satellite Television Development Limited

One of the non-executive directors of the Company, Mr. LIANG, Xiaoting, is a director of BOC International Holdings Limited, the immediate holding company of BOCI Asia.

Each of BOCI Asia and Merrill Lynch Far East has confirmed that save as disclosed in this prospectus:

- (i) neither itself nor its associates has or may, as a result of the listing of the Shares on GEM, have any interest in any class of securities of (including derivatives) the Company, or any other company within the Group (including options or rights to subscribe such securities);
- (ii) no director or employee or their associates of BOCI Asia or Merrill Lynch Far East who are involved in providing advice to the Company has or may, as a result of the listing of the Shares on GEM, have any interest in any class of securities of the Company or any other company within Phoenix (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such directors or employee pursuant to the Public Offer);
- (iii) neither itself nor its associates expect to have accrued any material benefit as a result of the successful outcome of the listing of the Shares on GEM; and
- (iv) no director or employee or their associates of BOCI Asia or Merrill Lynch Far East has a directorship in the Company or any other company within the Group.

(j) *General*

Save as otherwise disclosed in the paragraphs headed “Corporate Reorganisation” and “Summary of Material Contracts” of this Appendix and in the section headed “Connected Transactions” of this prospectus:

- (i) none of the Directors nor any chief executive of the Company has any interest in the Shares in, or securities of, the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be 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, once the Shares are listed;
- (ii) none of the Directors nor any of the experts whose names are referred to in the paragraph headed “Consents” of this Appendix has any direct or indirect interest in the promotion of the Company or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of Phoenix or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) none of the Director nor any of the experts whose names are listed in the paragraph headed “Consents” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of Phoenix taken as a whole;
- (iv) taking no account of any Shares which may be taken up pursuant to the Public Offer and Placing, and the Over-allotment Option and any options granted or to be granted under the Pre-IPO Share Option Plan and the Share Option Scheme, the Directors are not aware of any person who will, immediately following the Public Offer, be interested, directly or indirectly, in 10%, or more of the Shares then in issue or in shares representing 10% or more of the share capital of any subsidiary of the Company then in issue; and
- (v) none of the experts whose names are referred to in the paragraph headed “Consents” in this Appendix has any shareholding in any member of Phoenix or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of Phoenix.

SHARE OPTION SCHEMES**Summary of terms of the Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of the shareholders of Phoenix dated 7th June, 2000 (which is still subject to certain conditions as referred to in paragraph (xv) in this section):

(i) *Who may join*

The Directors may, at their discretion, invite employees of any member of Phoenix, including any executive directors of any member of Phoenix, in the full-time employment of the Company (or its subsidiaries) (“Eligible Persons”), to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (iii) below. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.

(ii) *Grant of options to connected persons or any of their associates*

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

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

(iii) *Price for Shares*

The subscription price for the Shares under the Share Option Scheme shall be determined by the committee established in accordance with sub-paragraph (ix) hereunder and notified to each grantee and will be no less than the highest of (i) the closing price of shares as stated in the Stock Exchange’s daily quotation sheets on the date of the grant of an option which must be a business day, (ii) the average closing price of the Shares stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of a Share.

(iv) *Maximum number of Shares*

- (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% of the issued share capital of the Company as at the Listing Date unless shareholders' approval has been obtained pursuant to paragraphs (b) and (c) below;
- (b) the Company may seek approval by shareholders in general meeting to refresh the 10% limit. However, the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the refreshing of the limit;
- (c) the Company may seek separate shareholders' approval in general meeting to grant options beyond the 10% limit 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 and (ii) the options in excess of the 10% limit are granted only to participants specified by the Company before such approval is sought.

The Company has applied for a waiver from strict compliance with Rule 23.02(2) of the GEM Listing Rules so that the total number of Shares available for issue under the options may increase up to 30% of the issued share capital of the Company from time to time. Please refer to the paragraph "Share Option Scheme" in the section of the prospectus headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance".

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

(v) *Time of exercise of option*

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

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

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

(vi) *Rights are personal to grantee*

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

(vii) *Rights on cessation of employment, death and dismissal*

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

- (i) having been dismissed on grounds including, but not limited to, misconduct, bankruptcy, insolvency, conviction for a criminal offence or has made any arrangements or composition with his creditors generally;
- (ii) death; or
- (iii) resignation, retirement, expiry of employment contract or termination of employment contract on grounds other than those set out in (i) and (ii) above.

Then the employee’s outstanding option shall lapse on or before:

- (A) in the case of (i) above, on the date of the employee’s cessation of employment;

- (B) in the case of (ii) above, on the date which is the earlier of 12 months after the date of the employee's death or the expiration of the Option Period; and
- (C) in the case of (iii) above, on the date which is 3 months from the date of the employee's cessation of employment.

(viii) *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the shareholders of the Company in general meeting, with the grantees and their associates abstaining from voting. The votes at the general meeting will be taken by poll.

(ix) *Administration of Share Option Scheme*

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

(x) *Effect of alterations to capital*

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

(xi) *Rights on agreement offer by way of takeover*

In the event of a general offer by way of takeover is made to all the shareholders of the Company (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option period, the grantee (or his or her legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xii) *Rights on a general offer by way of scheme of arrangement*

In the event of a general offer by way of scheme of arrangement is made to all the shareholders (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer having been approved by the necessary number of shareholders of the Company at the requisite meetings, the grantee (or his or her personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xiii) *Rights on winding-up*

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

(xiv) *Rights on compromise or arrangement*

In the event of compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it despatches the notice which is sent to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee (or where permitted, his or her personal representative(s)) may be notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than the business day prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice provided that the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective and as soon as possible thereafter the Company shall allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder of such Shares. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised as aforesaid. The Company may thereafter require each grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(xv) *Price sensitive developments*

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

(xvi) *Ranking of Shares*

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

(xvii) *Alterations to terms and conditions*

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

(xviii) *Conditionality of Share Option Scheme*

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

(xix) *Period of the Share Option Scheme*

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

(xx) *Termination*

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

(xxi) *General*

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

Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted under the Share Option Scheme. Application has been made to the GEM Listing Committee of the Stock Exchange for approving the Share Option Scheme and the subsequent grant of options pursuant to the Share Option Scheme, and the granting of the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options under the Share Option Scheme.

Application has been made to the GEM Listing Committee of 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 under the Share Option Scheme.

Summary of terms of the Pre-IPO Share Option Plan

The purpose of the Pre-IPO Share Option Plan is to recognise the contribution of certain employees of the Group (who have commenced working for the Group for not less than one month prior to the date of grant of an option and spent not less than 20 hours per week in providing services to the Group) to the growth of the Group and/or to the listing of Shares on GEM. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant. An option may be exercised in accordance with the terms of the Pre-IPO Share Option Plan at any time during the period commencing one year from the date of grant of the option and expiring 10 years after the date of the grant of the option. The principal terms of the Pre-IPO Share Option Plan, conditionally approved by a written resolution of the shareholders of the Company dated 7th June, 2000 (which is still subject to certain conditions as referred to in paragraph (xv) above) are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price for Shares is the Offer Price;
- (b) save for the options which have been granted (see below) no further options will be offered or granted, as the right to do so will end upon the listing of Shares on GEM;
- (c) the committee of directors shall comprise of one executive and one non-executive directors;
- (d) the price sensitive developments provisions do not apply; and
- (e) the offer of the option must be accepted within 3 days from the date of the offer of grant.

Outstanding Options under the Pre-IPO Share Option Plan

As at the date of this prospectus, options to subscribe for an aggregate of 59,742,000 Shares (representing 1.45% of the enlarged issued share capital of the Company, assuming the Over-allotment Option is not exercised) at an exercise price equal to the Offer Price have conditionally been granted to 152 persons (of which two are directors of the Group, four are senior management and 146 are other employees) by the Company under the Pre-IPO Share Option Plan. All of these options have a duration of ten years from 7th June, 2000, but shall lapse where the grantee ceases to be employed by Phoenix.

Below is a list of grantees who have been granted options to acquire 1,000,000 Shares or more under the Pre-IPO Share Option Plan.

Name of Grantee	Options granted	Residential Address	Position Held
LIU, Changle	5,320,000	Suite 5006, The Atrium, Pacific Place, 88 Queensway, Hong Kong.	Director
WANG, Ji Yan	3,990,000	Flat D, 13/F., Block 16, Site 2, Whampoa Garden, Hunghom, Kowloon.	Senior Management
YU, Tung Ho	3,990,000	Flat E, 15/F., Block 8, Oak Mansion, Whampoa Garden, Hunghom, Kowloon.	Senior Management
CHUI, Keung	3,990,000	Flat E, 13/F., Block 2, Site 5, Whampoa Garden, Hunghom, Kowloon.	Director
LEUNG, Noong Kong	3,990,000	Room 1511, Block G, Kornhill, Quarry Bay, Hong Kong.	Senior Management
YEUNG, Ka Keung	3,990,000	Flat A, 1/F., Block 1, Pristine Villa, To Fung Shan, Shatin, N.T.	Senior Management
WU, Hsiao Li (Sally)	1,596,000	Flat A, 2/F., 95 Robinson Road, Mid-Levels, Hong Kong.	Employee
XU, Gehui	1,064,000	16H, Block 1, Site 7, Whampoa Garden, Hunghom, Kowloon.	Employee
CHEN, Luyu	1,064,000	Flat 6B, Block 7, Site 11, Whampoa Garden, Hunghom, Kowloon.	Employee

Name of Grantee	Options granted	Residential Address	Position Held
DOU, Wentao	1,064,000	Flat D, 8/F., Block 3, Site 11, Whampoa Garden, Hunghom, Kowloon.	Employee
HO, Nai Yin Howard	1,064,000	Flat 14/F., Chi Sing Mansion, Taikoo Shing, Hong Kong.	Employee
SHI, Ningning	1,064,000	Flat A, 6/F., Block 7, Site 11, Whampoa Garden, Hunghom, Kowloon.	Employee
WU, Xiaoyong	1,064,000	Flat C, 7/F., Tower 21, South Horizons, Aberdeen, Hong Kong.	Employee
LI, Ji Rui	1,064,000	Flat A, 6/F., Block 7, Site 11, Whampoa Garden, Hunghom, Kowloon.	Employee
138 other employees (holding less than 1,000,000 Shares)	<u>25,428,000</u>		
Total	<u><u>59,742,000</u></u>		

Save as disclosed above, no other options have been granted or agreed to be granted by Phoenix under the Pre-IPO Share Option Plan or the Share Option Scheme.

Under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance, this prospectus is required to include details of the number, description and amount of any Shares in the Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for the Shares subscribed for under it, the consideration (if any) given or to be given for it and the name and address of the person to whom it was given.

The Company has applied for a waiver from the Hong Kong Securities and Futures Commission from full compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance in relation to the grantees who have been granted options in respect of less than 1,000,000 Shares on the grounds that it would be unduly burdensome for the Company to disclose the names and addresses of all the grantees in the prospectus, and the Hong Kong Securities and Futures Commission has granted such a waiver to the Company pursuant to section 342A of the Companies Ordinance on condition that:

1. full details of all such options granted to the Directors and to those persons who have been granted options entitling them to acquire 1,000,000 Shares or more (containing the details in respect of each option required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance) are disclosed in this prospectus; and
2. a list of all persons to whom options have been granted by the Company as at the date of this prospectus, containing all the details in respect of each option required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance, is available for inspection in accordance with the paragraph headed “Documents Available for Inspection” in Appendix VII to this prospectus.

Summary of terms of the PHOENIXi 2000 Stock Incentive Plan (the “PHOENIXi Plan”)

PHOENIXi, a member of the Group, has adopted the PHOENIXi Plan for the purposes of attracting and retaining the best available personnel, providing additional incentive to its employees and executive directors and promoting the success of its business. Save as hereafter disclosed, the terms of the PHOENIXi Plan are substantially the same as the terms of the Share Option Scheme of the Company:

(i) *Who may join*

The employees of PHOENIXi, including any executive directors, in the full-time employment of PHOENIXi or Phoenix (or the subsidiaries of PHOENIXi) are eligible to take up options to subscribe for shares in PHOENIXi (“Eligible Persons”). In addition, to be classified as an Eligible Person, where the employee is employed by a holding company of PHOENIXi or a subsidiary of PHOENIXi the employee must perform an executive role for PHOENIXi.

(ii) *Grant of options to connected persons or any of their associates*

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

Where options are proposed to be granted to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) of Phoenix or PHOENIXi or its Associates and the proposed grant of option, when aggregated with the options already granted to that connected person in the preceding 12-month period, would entitle him to receive more than 0.1% of the total issued Shares of PHOENIXi for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of Shareholders in general

meeting of the Company. Apart from the person involved, all other connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant). A Shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive directors of the Company on whether or not to vote in favour of the proposed grant.

(iii) *Types of Options*

An option can either take the form of an Incentive Stock Option ("ISO") or a Non-Qualified Stock Option ("NQS"). The principal difference between an ISO and a NQS relates to their treatment under the United States Federal taxation laws.

(iv) *Price for Shares*

The price for the shares of PHOENIXi upon the exercise of an option under the PHOENIXi Plan will, in the case of:

- (a) an ISO or NQS, where the grantee owns more than 10% of the shares of Phoenix, PHOENIXi or its subsidiaries (each a "Related Entity"), be equal to not less than 110% of the Fair Market Value (as defined in the PHOENIXi Plan) per share of PHOENIXi on the date of the grant.
- (b) an ISO or NQS, where the grantee does not own more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than the Fair Market Value per share of PHOENIXi on the date of the grant.
- (c) an option which is neither an ISO nor a NQS but where the grantee owns more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than the Fair Market Value per share of PHOENIXi on the date of the grant.
- (d) an option which is neither an ISO nor an NQS but where the grantee does not own more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than 85% of the Fair Market Value per share of PHOENIXi on the date of the grant, but if the shares of PHOENIXi are listed or if a Director of Phoenix or PHOENIXi or their associates participates in the PHOENIXi Plan, the per share price must not be less than the Fair Market Value per share of PHOENIXi on the date of the grant.

For the purpose of the above "Fair Market Value" means as of any date, the value of shares of Phoenix, PHOENIXi or any subsidiary of PHOENIXi (as the case may be) ("shares") determined as follows:

- (i) where the shares of PHOENIXi are listed on any stock exchange, the Fair Market Value shall be (A) no less than the higher of the closing price for a Share on the date of the grant of an option which must be a business day, or the average closing price of the Share for the five (5) business days immediately preceding the date of grant (the closing price shall be the price on the stock exchange on which the shares of PHOENIXi are listed or the nominal value of a Share; or

- (ii) In the absence of an established market for the shares of the type described in (i) above, the Fair Market Value thereof shall be determined by the committee referred to in paragraph (x) below in good faith on a fair and reasonable basis but in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations but in any event must in no circumstances be less than the latest audited net tangible assets per share of PHOENIXi unless none of the Directors or their Associates of PHOENIXi or Phoenix participate in the Plan, in which event, reference does not need to be made to the latest audited net tangible asset per share of PHOENIXi for the purpose of determining the Fair Market Value of the shares.
- (v) *Maximum number of shares*
- (a) The total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi, must not in aggregate, exceed 10% of the issued share capital of PHOENIXi as at the Listing Date unless approvals of the shareholders of Phoenix and PHOENIXi have been obtained pursuant to paragraphs (a) and (b) below;
- (b) PHOENIXi may seek approval by the shareholders of Phoenix and PHOENIXi in general meeting to refresh the 10% limit. However, the total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi in these circumstances must not exceed 10% of the issued share capital of PHOENIXi at the date of approval of the refreshing of the limit;
- (c) PHOENIXi may seek separate approval of the shareholders of Phoenix and PHOENIXi in general meeting to grant options beyond the 10% limit provided that (i) the total number of shares subject to the PHOENIXi Plan and any other schemes of PHOENIXi does not in aggregate exceed 30% of the total issued share capital of PHOENIXi and (ii) the options in excess of the 10% limit are granted only to participants specified by PHOENIXi before such approval is sought.

The Company has applied for a waiver from strict compliance with Rule 23.02(2) of the GEM Listing Rules so that the total number of Shares available for issue under the options may increase up to 30% of the issued share capital of the Company from time to time. Please refer to the paragraph “PHOENIXi Plan” in the section of the prospectus headed “Waivers from compliance with the GEM Listing Rules and Companies Ordinance for details.

No option may be granted to any one Eligible Person which, if at the relevant time exercised in full, would result in the total number of shares of PHOENIXi then subject of such option, when added to the number of shares already issued and/or issuable to him under the PHOENIXi Plan exceeding 25% of the aggregate number of shares of PHOENIXi in respect of which options are issuable under the PHOENIXi Plan.

(vi) *Time of exercise of option*

Generally, an option may be exercised at any time during a period of no more than ten years commencing from the date of grant (“the Option Period”). However, in the case of an ISO granted to a person, who at the time of the grant, owns shares in PHOENIXi representing more than 10% of the voting power of PHOENIXi, Phoenix or any subsidiary of Phoenix, the Option Period will be 5 years from the date of grant thereof.

(vii) *Rights are personal to grantee*

An option may not be transferred or assigned and is personal to the grantee unless the terms on which the option is granted otherwise states.

(viii) *Rights on cessation of employment, death and dismissal*

If the grantee of an option ceases to be an employee of PHOENIXi by reason of:

- (i) having been dismissed on grounds including, but not limited to, misconduct, bankruptcy, insolvency, conviction for a criminal offence or has made any arrangements or composition with his creditors generally;
- (ii) disability;
- (iii) death; or
- (iv) resignation, retirement, expiry of employment contract or termination of employment contract on grounds other than those set out in (i), (ii) and (iii) above.

Then the employee’s outstanding option shall lapse on or before:

- (A) in the case of (i) above, on the date of the employee’s cessation of employment;
- (B) in the case of (ii) and (iii) above, on the date which is the earlier of 12 months after the date of the employee’s cessation of employment or the expiration of the Option Period; and
- (C) in the case of (iv) above, on the date which is 3 months from the date of the employee’s cessation of employment.

(ix) *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the shareholders of PHOENIXi and by shareholders of Phoenix in general meeting, with the grantees and their associates abstaining from voting. The votes at the general meetings must be taken by poll.

(x) *Administration of Plan*

The PHOENIXi Plan will be administered by a committee designated by the board of directors of PHOENIXi, which committee shall include the independent non-executive directors of Phoenix and of any holding company of Phoenix which is also listed on the Main Board or on GEM.

(xi) *Effect of alterations to capital*

In the event of any alteration in the capital structure of PHOENIXi, including by way of a capitalisation issue, rights issue, sub-division or consolidation of shares of PHOENIXi or the reduction of capital while any option remains exercisable, but excluding any alteration in the capital structure of PHOENIXi as a result of an issue of shares as consideration in a transaction to which PHOENIXi is a party, such corresponding adjustments (if any) will be made to the number or nominal amount of shares subject to the option so far as unexercised, and/or the subscription price, and/or the method of exercise of the option, provided that any such adjustments will be made on the basis and be confirmed by an independent financial adviser that the proportion of the issued share capital to which a grantee is entitled after such adjustments will remain the same as that to which he was entitled before such alteration, and that no share of PHOENIXi will be issued at less than its nominal value (if applicable).

(xii) *Price sensitive developments*

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

(xiii) *Ranking of Shares*

The shares of PHOENIXi to be allotted upon the exercise of an option will be subject to all the provisions of the constitution of PHOENIXi for the time being in force and will rank equally with the fully paid shares of PHOENIXi in issue on the date of exercise of the option and accordingly will entitle the grantees to participate in all dividends or other distributions paid or made by reference to a record date on or after the date of exercise of the option.

(xiv) *Alterations to terms and conditions*

The terms and conditions of the PHOENIXi Plan may be altered by the board of directors of PHOENIXi from time to time except that the alteration shall not be made to the PHOENIXi Plan to the advantage of the grantees except with the prior approval of the shareholders of PHOENIXi in general meeting, with the grantees and their associates abstaining from voting.

(xv) *Conditionality of Plan*

The PHOENIXi Plan has been approved and adopted by the shareholders of PHOENIXi and Phoenix in general meeting (with any eligible persons and their associates abstaining from voting) on 7th June, 2000 and is conditional upon (a) the GEM Listing Committee of the Stock Exchange granting approval of it and the granting of any options which may be granted thereunder; (b) the granting of listing of and permission to deal in the shares of Phoenix to be issued pursuant to the Issue; and (c) the obligations of Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of those agreements.

(xvi) *Period of the Share Option Scheme*

The PHOENIXi Plan will remain in force for a period of 10 years upon its becoming effective.

(xvii) *Termination*

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

Present status of the PHOENIXi Plan

As at the date of this prospectus, no option has been granted under the PHOENIXi Plan. Application has been made to the GEM Listing Committee of the Stock Exchange for approving the PHOENIXi Plan and the subsequent grant of options pursuant to the PHOENIXi Plan.

OTHER INFORMATION

Estate duty and tax indemnity

The Company has been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the British Virgin Islands, Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising Phoenix are incorporated. Star TV Holdings and Today's Asia have given several indemnities pursuant to a deed of indemnity (referred to in sub-paragraph (y) of the paragraph "Summary of Material Contracts" of this Appendix) in respect of, amongst other things:

- (a) any liability for Hong Kong estate duty which might be payable by any member of the Group by virtue of Section 35 of the Estate Duty Ordinance (Chapter 111, Laws of Hong Kong) to any member of the Group on or before the date of the Public Offer and Placing becomes unconditional; and (b) any tax which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Public Offer and Placing becomes unconditional other than any taxation chargeable in respect of profits or gains made in the ordinary course of business of members of the Group.

- (b) Star TV Holdings and Today's Asia will, however, not be liable under the deed of indemnity for taxation where (a) provision has been made for such taxation in the audited combined accounts of the Company for the two financial years ended 30th June, 1999 and the six months ended 31st December, 1999 (the "Accounts"); (b) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date of the deed of indemnity; (c) the taxation or liability would not have arisen, but for any act or omission by any member of the Group voluntarily effected without the prior written consent or agreement of Star TV Holdings and Today's Asia, other than in the ordinary course of business after the date of the deed of indemnity; (d) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve; (e) the member of the Group is liable as a result of any income, profit earned, received or accrued or transactions entered into in the ordinary course of business after 31st December, 1999; and (f) such taxation claim or liability is discharged by another person who is not a member of the Group.

Litigation

None of the Company or any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of Phoenix.

Joint Sponsors

BOCI Asia and Merrill Lynch Far East have jointly made an application on behalf of the Company to the GEM Listing Committee for a listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Plan or the Share Option Scheme.

Promoters

The promoters of the Company are Star TV Holdings (a company incorporated in the British Virgin Islands on 5th January, 1993), Today's Asia (a company incorporated in Hong Kong on 22nd November, 1994) and China Wise (a company incorporated in Hong Kong on 23rd February, 1993). Particulars of the promoters are set out below.

Star TV Holdings

As at the Latest Practicable Date, the issued share capital of Star TV Holdings was US\$150,000,000 divided into 150,000,000 shares of US\$1.00 each, all of which are fully paid or credited as fully paid. Star TV Holdings' current directors, principal banker and auditors are as follows:

Directors

CHURCHILL, Bruce Barrett

WALRATH, Gary Alan

LAU, Yu Leung John

Principal banker

The Hongkong and Shanghai Banking Corporation Ltd.
1 Queen's Road Central
Hong Kong

Auditors

Arthur Andersen & Co

Today's Asia

As at the Latest Practicable Date, the issued share capital of Today's Asia was HK\$10,000 divided into 10,000 shares of HK\$1.00 each which are all paid or credited as fully paid. Today's Asia's current directors, principal banker and auditors are as follows:

Directors

LIU, Changle
CHAN, Wing Kee

Principal banker

Bank of China, Hong Kong
No. 1 Garden Road
Hong Kong

Auditors

S.Y. Yang & Co., C.P.A.

China Wise

As at the Latest Practicable Date, the issued share capital of China Wise was HK\$10,000 divided into 10,000 shares of HK\$1.00 each, all of which are fully paid or credited as fully paid.

China Wise's current directors, principal banker and auditors are as follows:

Directors

XU, Gang
WANG, Yi
LUO, Jiansheng

Principal banker

Bank of China, Hong Kong Branch

Auditors

Deloitte Touche Tohmatsu

Save as disclosed in this prospectus, no amount or benefit has been paid or given to or is intended to be paid or given to the promoters in connection with the Public Offer, Placing or the related transaction described in this prospectus within the immediately preceding two years.

Qualification of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in this prospectus:

Expert	Qualification
BOCI Asia	Registered securities dealer and approved sponsor for listing on GEM
Merrill Lynch Far East	Registered investment adviser, securities dealer and approved sponsor for listing on GEM
Arthur Andersen & Co	Certified Public Accountants
American Appraisal Hongkong Limited	Qualified Independent Property Valuer
Conyers Dill & Pearman, Cayman	Cayman Islands Attorneys-at-law
Jingtian Associates	Qualified PRC lawyers
Commerce and Finance Law Offices	Qualified PRC lawyers

Material changes

The Directors believe that there has been no material adverse change in the financial position or prospects of Phoenix taken as a whole since the Latest Practicable Date.

Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued as fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founder shares, management shares or deferred shares of the Company have been issued or agreed to be issued;
 - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
 - (v) there has not been any interruption in the business of Phoenix which may have or have had a significant effect on the financial position of Phoenix in the 24 months preceding the date of this prospectus.
- (b) The preliminary expenses incurred by the Company are estimated to be approximately HK\$20,000 assuming no exercise of the Over-allotment Option and remain payable by the Company.

- (c) The promoters of the Company are Star TV Holdings, Today's Asia and China Wise. No amount or benefit has been paid, granted or given to or is intended to be paid, granted or given to the promoters in connection with the Public Offer, Placing or the related transactions described in this prospectus within the immediately preceding two years.
- (d) All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

CONSENTS

Each of BOCI Asia, Merrill Lynch Far East, Arthur Andersen & Co, American Appraisal Hongkong Limited, Conyers Dill & Pearman, Cayman, Jingtian Associates and Commerce and Finance Law Offices, at the date of this prospectus has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates and/or the references to its name included herein in the form and context in which they are respectively included.

BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE and YELLOW** application forms, the written consents referred to in the paragraph headed “Consents” in Appendix VI to this prospectus, copies of the material contracts referred to in paragraph headed “Summary of Material Contracts” in Appendix VI to this prospectus, the statement of adjustments made by Arthur Andersen & Co in arriving at the figures set out in the Accountants’ Report set out in Appendices I, I.A and I.B to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Siao, Wen and Leung, 15th Floor, Hang Seng Building, 77 Des Voeux Road Central, Hong Kong during normal business hours up to and including 5th July, 2000:

- a. the memorandum and articles of association of the Company;
- b. the Accountants’ Report relating to the Group prepared by Arthur Andersen & Co, the text of which is set out in Appendix I to this prospectus and the statement of adjustments;
- c. the Accountants’ Report relating to Phoenix Chinese News and Entertainment Limited prepared by Arthur Andersen & Co, the text of which is set out in Appendix I.A to this prospectus;
- d. such audited financial statements as have been prepared for the companies comprising Phoenix for each of the two years ended 30th June, 1999;
- e. such audited financial statements as have been prepared for Phoenix Chinese News and Entertainment Limited prepared by J.W. Arnold & Co. for the year ended 31st December, 1998;
- f. the letters relating to the Profit Forecast of Phoenix, the texts of which are set out in Appendix II to this prospectus;
- g. the letter, summary of valuation and valuation certificate relating to the property interests of Phoenix prepared by American Appraisal Hongkong Limited, the texts of which are set out in Appendix III to this prospectus;
- h. the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to in the section headed “General” in Appendix IV to this prospectus summarising certain aspects of the Cayman Islands company law;
- i. the Companies Law;
- j. the material contracts referred to in the paragraph headed “Summary of Material Contracts” in Appendix VI to this prospectus;
- k. the written consents referred to in the paragraph headed “Consents” in Appendix VI to this prospectus;

APPENDIX VII DOCUMENTS DELIVERED AND AVAILABLE FOR INSPECTION

- l. the service contracts referred to in the sub-paragraph headed “Particulars of service agreements” in the paragraph headed “Further Information about the Directors, Management, Staff, Substantial Shareholders and Expert” in Appendix VI to this prospectus;
- m. the rules of the Pre-IPO Share Option Plan and the Share Option Scheme;
- n. the rules of the PHOENIXi Stock Incentive Plan; and
- o. the list of persons who have been granted options to subscribe for Shares under the Pre-IPO Share Option Plan.