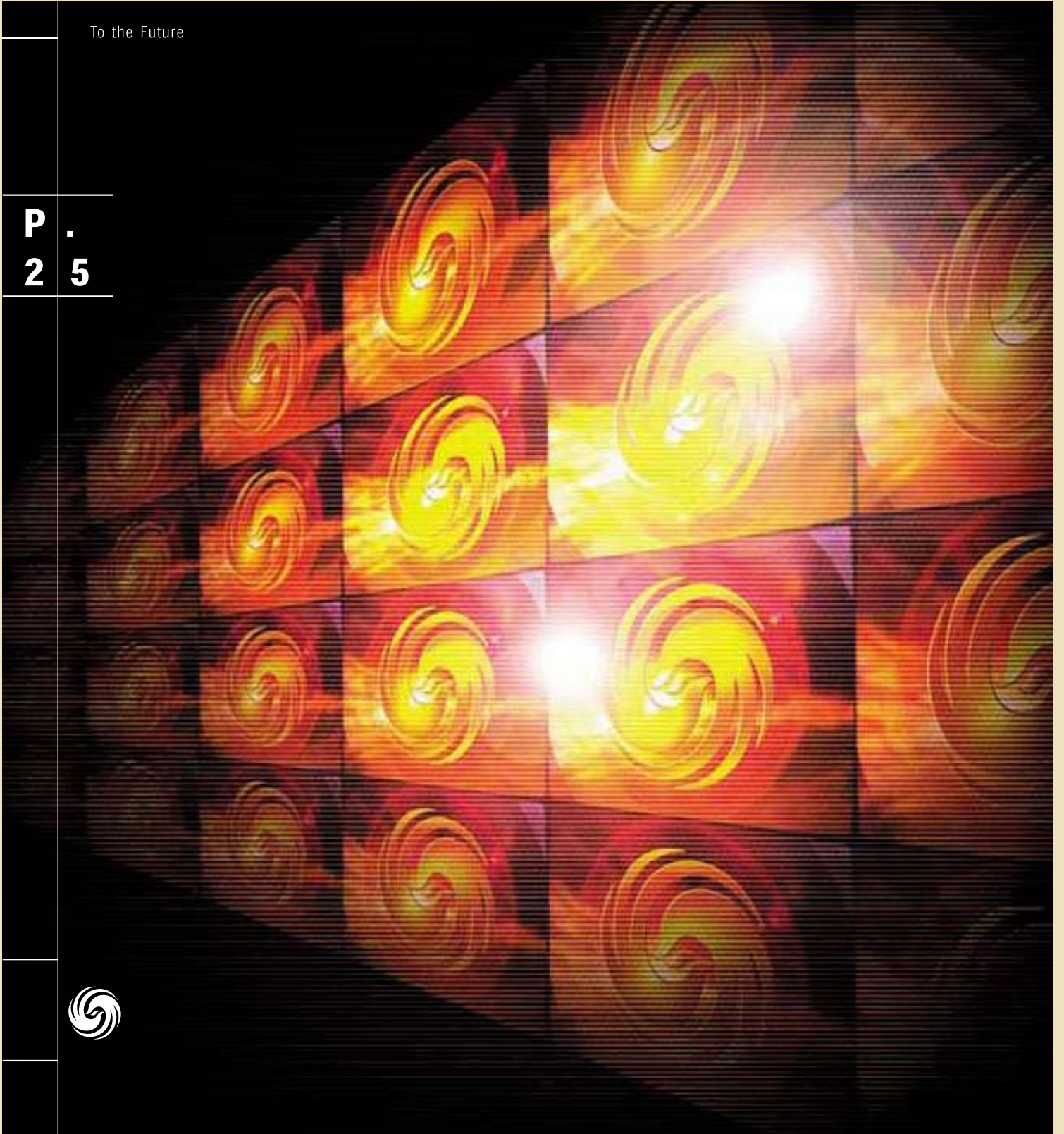


To the Future

P .  
2 5



Phoenix has successfully evolved from a single channel in 1996 to a multi-channel platform. It has become one of the world's largest Chinese satellite television networks. In the future, the Phoenix Group aims to launch more channels, further develop programme production and consolidate an internet strategy.



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## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

LIU, Changle (*Chairman*)  
CHUI, Keung

#### Non-executive Directors

MURDOCH, James Rupert (*Vice Chairman*)  
CHURCHILL, Bruce Barrett  
LAU, Yu Leung John  
CHEUNG, Chun On Daniel  
LIANG, Xiaoting  
CHAN, Fung Kit Ching

#### Independent non-executive Directors

LO, Ka Shui  
KUOK, Khoon Ean

### Compliance Officer

CHUI, Keung

### Company Secretary

YEUNG, Ka Keung, A.C.A.

### Cayman Islands Assistant Secretary

Codan Trust Company (Cayman) Limited

### Qualified Accountant

YEUNG, Ka Keung, A.C.A.

### Audit Committee

KUOK, Khoon Ean  
LO, Ka Shui  
LAU, Yu Leung John

### Joint Sponsors

BOCI Asia Limited  
Merrill Lynch Far East Limited

### Website Address

[www.phoenixtv.com](http://www.phoenixtv.com)

### Auditors

Arthur Andersen & Co

### Head Office and Principal Place of Business

9th Floor, Office Tower One  
The Harbourfront  
18-22 Tak Fung Street  
Hung Hom  
Kowloon  
Hong Kong

### Registered Office

Zephyr House  
Mary Street  
George Town  
Grand Cayman  
Cayman Islands

### Principal Share Registrar

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

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

### Principal Bankers

Hongkong and Shanghai Banking  
Corporation Limited  
Bank of Communications  
Kincheng Banking Corporation  
China Construction Bank

### GEM Stock Code

8002



**DIRECTORS**

**Executive Directors**

**Mr. LIU, Changle**, aged 48, appointed on 2nd February, 2000, is the Chairman and 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 Limited which is 93.3% owned by him, together with Satellite Television Asian Region Limited and China Wise International Limited, jointly founded Phoenix Satellite Television Company Limited ("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".

In August 2000, 新新聞周報 of Taiwan, Ming Pao of Hong Kong and Hong Kong Metro Broadcast Corporation Limited jointly held a survey of "Power 50 Year 2000". Mr. Liu ranked 78 among those 150 nominated candidates from Greater China region.

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

**Mr. CHUI, Keung**, 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 Phoenix 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, is the Chairman and Chief Executive Officer of Star Television Limited ("Star"). Prior to becoming the Chairman and Chief Executive Officer of Star, Mr MURDOCH was the Executive Vice President of The News Corporation Limited ("News Corporation") and responsible for building the digital media assets and strategy for News Corporation on a global basis.

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 the 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.

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

Mr. CHURCHILL joined Star in 1996 from Fox Television ("Fox") in Los Angeles, where he was the 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.

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

Prior to joining Star, 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.

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**, aged 41, appointed on 5th June, 2000, joined Star 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 in Taiwan when he was responsible for advertising sales, subscription television service and television programme production. Under Mr. CHEUNG's leadership, Star'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, he was the technical consultant of Cable and Wireless HKT Limited for the Global Virtual Private Network.

**Mr. LIANG, Xiaoting**, 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.

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, 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**, 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 Charterms Limited. Her husband, Mr. CHAN Wing Kee is a shareholder and Director of both Today's Asia Limited (one of the controlling shareholders of the Company) and ATV.



### **Independent non-executive Directors**

Dr. LO, Ka Shui, aged 53, appointed on 5th June, 2000, is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is the Chairman of Panda-Recruit Limited and a director of City e-Solutions 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 the Chairman of the Listing Committee of the Growth Enterprise Market, a Vice President and an Executive Committee Member 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 is also the Chairman of the Hospital Authority. 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 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, aged 52, currently holds the position of Deputy Chief Executive Officer of the Company. Mr. LEUNG had been instrumental in the setting up of the Phoenix Group 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 the Phoenix Group, the establishing of management structures pertaining to the evolving operations of the Phoenix Group, as well as the mapping out of strategies, in conjunction with the Chief Executive Officer of the Company, for the business development of the Phoenix Group. Mr. LEUNG joined Satellite Television Asian Region Limited in 1991. From 1991 to 1995, he was involved in various tasks relating to the development of Star's business in the Greater China region. He also played a pivotal role in the launching of Star Chinese Channel and Star Movies Channel in 1991 and 1993 respectively. Following the formation of Phoenix Satellite TV, Mr LEUNG was again instrumental in the launching of the Phoenix Chinese Channel and the Phoenix Movies Channel and the taking control in the management of the Phoenix CNE Channel.

Mr. LEUNG is a well-known figure in the Hong Kong media and broadcasting field. He hosted a film magazine programme for the Jade Channel of Television Broadcasting Limited ("TVB") in the late 1960s. From 1969 to 1972, he then worked as a translator and editor for one of Hong Kong's first finance newspapers, Ming Pao Evening News. From 1971 to 1978, he worked respectively for the United States Information Service in Hong Kong and the BBC External Services in London as editor, programme producer and news announcer. Thereafter, he spent 10 years with TVB, programming for its Jade Channel and Pearl Channel at different times. He had also been with ATV for a short period. While at TVB and ATV, and subsequently at Star, 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 in Greater China region.

Apart from being an experienced 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 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, Jiyan**, aged 51, joined Phoenix 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 and enjoys a professor title. 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**, aged 41, is the Vice President and Chief Financial Officer of Phoenix Satellite TV and the Company 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 in the field of finance and business development.

**Mr. YU, Tunggho**, aged 53, joined Phoenix 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

On 30th June, 2000, the Company was successfully listed on GEM and issued 727,060,000 shares of the Company ("New Issues") to raise approximately HK\$732,588,000 in net proceeds. In addition, approximately HK\$83,726,000 in net proceeds were raised by way of exercise of an over-allotment option on 21st July, 2000. The net proceeds from the abovementioned share offers will provide funding for Phoenix's development plans, strategic investments and additional general working capital.

As at 30th June, 2000, the Phoenix Group had not spent any of the proceeds from the New Issues and such proceeds were placed on short-term deposit with banks. In the absence of unforeseen circumstances, the Directors intend to use the net proceeds in the manner as disclosed in the Company's prospectus dated 21st June, 2000 (the "Prospectus").

The Phoenix Group recorded a net profit attributable to shareholders of approximately HK\$50,315,000 for the year ended 30th June, 2000 as compared to a net loss of approximately HK\$78,466,000 for the previous year and a net profit of approximately HK\$27,325,000 in the profit forecast disclosed in the Prospectus. The net profit is mainly contributed by the substantial increase in the revenue to approximately HK\$511,342,000 for the year ended 30th June, 2000, representing an increase of 62.5% over last year.

Revenue of the Phoenix Group consists of advertising and subscription income from the Phoenix Chinese Channel and the Phoenix Movies Channel, and advertising and subscription income from Phoenix Weekly Magazine.



The following table summarises the revenue of the Phoenix Group for the financial years ended 30th June, 1999 and 2000.

	Financial year ended 30th June,	
	1999 HK\$ '000	2000 HK\$ '000
Chinese Channel		
Advertising income	297,865	484,631
Subscription income	3,199	5,806
Total	<u>301,064</u>	<u>490,437</u>
Movies Channel		
Advertising income	2,996	1,023
Subscription income	10,603	19,376
Total	<u>13,599</u>	<u>20,399</u>
Weekly Magazine		
Advertising income	–	79
Subscription income	–	427
Total	<u>–</u>	<u>506</u>
Analysis by Geographical Regions:		
China	264,331	455,559
International	50,332	55,783
Total	<u>314,663</u>	<u>511,342</u>

The substantial increase in the Phoenix Group's revenue was attributed by the increase in advertising income of Phoenix Chinese Channel and subscription income of Phoenix Movies Channel. Higher advertising income was primarily a result of an increase in both the average advertising rate and advertising sales volume from the Phoenix Chinese Channel. Higher subscription income was primarily due to the increase of the number of subscribers of the Phoenix Movies Channel.



*Phoenix Chinese Channel.* For the year ended 30th June, 2000, advertising income increased to approximately HK\$484,631,000, representing 98.8% of the total revenue of the Phoenix Chinese Channel. 89.7% and 10.3% of the advertising income were generated from and outside of China respectively. The increase in advertising income was primarily resulted from the increase in the advertising rates and sales of programme sponsorships, which contributed to a higher utilisation of available advertising time slots, both primetime and non-prime time.

*Phoenix Movies Channel.* Revenue of the Phoenix Movies Channel for the year ended 30th June, 2000 mainly composed of subscription fees. Subscription income increased to approximately HK\$19,376,000, representing 95.0% of the total revenue of the Phoenix Movies Channel. Such increase was due to a significant rise in the number of subscribers in the second financial year of operation of the Phoenix Movies Channel.

*Phoenix Weekly Magazine.* The Phoenix Weekly Magazine commenced publication in June 2000. Approximately 0.1% of the Phoenix Group's revenue was generated from the advertising and subscription income of the Phoenix Weekly Magazine.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

The loans from the shareholders of the Company of approximately HK\$502,977,000 have been capitalised as payment in full for the issuance of new shares to Star Television Holdings Limited, Today's Asia Limited and China Wise International Limited after exercising their rights of conversion under the convertible notes in June 2000. Phoenix Group had negative operating cash flow of approximately HK\$24,916,000 for the financial year ended 30th June, 2000.

As at 30th June, 2000, other than the aggregate outstanding borrowings of approximately HK\$21,979,000 representing current accounts with related companies which were unsecured and non-interest bearing, the Phoenix Group has neither had any outstanding secured borrowings nor created any mortgage or charge. Accordingly, the financial position of the Phoenix Group has been very liquid.

#### **STAFF**

As at 30th June, 2000, Phoenix Group had 164 full-time employees. The Phoenix Group 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 the Phoenix Group's relationship with its employees to be good.



## REPORT OF THE DIRECTORS

The Directors (the "Directors") of Phoenix Satellite Television Holdings Limited (the "Company") have the pleasure of presenting the first annual report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Phoenix Group") for the year ended 30th June, 2000.

### GROUP REORGANISATION

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

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 15 to the financial statements.

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

	<b>Revenue</b> <i>HK\$ '000</i>	<b>Profit from operations</b> <i>HK\$ '000</i>
By nature of revenue:		
Advertising	485,654	485,654
Subscription	25,182	25,182
Magazine advertising and subscription	506	506
	<u>511,342</u>	<u>511,342</u>
Less:		
Operating expenses		(325,279)
Selling, general and administrative expenses		(146,636)
		<u>39,427</u>
By geographical regions:		
China	455,559	
International	55,783	
	<u>511,342</u>	

No analysis of profit attributable to shareholders by geographical regions is presented as operating and other expenses are generally centralised and not separated by geographical regions.



### **MAJOR CUSTOMERS AND PROGRAMMES SUPPLIERS**

The Phoenix Group's top five customers accounted for approximately 14% (1999 – 15%) of the total sales. The top five programme suppliers accounted for approximately 54% (1999 – 31%) of the total programme purchases for the year. In addition, the Phoenix Group's largest customer accounted for approximately 4% (1999 – 4%) of total sales and the Phoenix Group's largest programme supplier accounted for approximately 26% (1999 – 13%) of total programme purchases for the year.

ATV Enterprises Limited and its subsidiaries (collectively "ATV Group") is one of the five largest programme suppliers of the Phoenix Group referred to above. Details of the transactions between the Phoenix Group and ATV Group are set out in Note 4 to the financial statements. Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at 30th June, 2000. In the opinion of the Directors, such transactions were carried out on terms no more favourable than terms available to independent third parties.

Save as aforementioned, at no time during the year, the Directors, their associates, or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's share capital have a beneficial interest in any one of the Phoenix Group's top five customers and/or programme suppliers.

### **RESULTS AND APPROPRIATIONS**

The results of the Phoenix Group for the year are set out on page 52 of the annual report.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of approximately HK\$355,762,000 at 30th June, 2000 be carried forward.

### **SHARE CAPITAL**

Details of the movement in share capital of the Company are set out in Note 16 to the financial statements.

### **RESERVES**

Movements in reserves during the year are set out in Note 17 to the financial statements.

As at 30th June, 2000, the Company's retained profit of approximately HK\$54,000 was available for distribution to its shareholders.

### **DONATIONS**

During the year, charitable and other donations of approximately HK\$112,000 (1999 – Nil) were made.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in Note 15 to the financial statements.



### **FIXED ASSETS**

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

### **DIRECTORS**

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

#### **Executive Directors:**

LIU, Changle	(Appointed on 2nd February, 2000, alternate Director to CHUI, Keung)
CHUI, Keung	(Appointed on 5th June, 2000, alternate Director to LIU, Changle)

#### **Non-executive Directors:**

MURDOCH, James Rupert	(Appointed on 5th June, 2000)
CHURCHILL, Bruce Barrett	(Appointed on 5th June, 2000, alternate Director to LAU, Yu Leung John and CHEUNG, Chun On Daniel)
LAU, Yu Leung John	(Appointed on 5th June, 2000, alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and CHEUNG, Chun On Daniel)
CHEUNG, Chun On Daniel	(Appointed on 5th June, 2000, alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and LAU, Yu Leung John)
LIANG, Xiaoting	(Appointed on 5th June, 2000)
CHAN, Fung Kit Ching	(Appointed on 5th June, 2000, alternate Director to LIU, Changle and CHUI, Keung)

#### **Independent non-executive Directors:**

LO, Ka Shui	(Appointed on 5th June, 2000)
KUOK, Khoon Ean	(Appointed on 5th June, 2000)

Mr. LIU, Changle was appointed as an executive Director and Chairman of the Board on 2nd February, 2000 and 7th June, 2000 respectively.

In accordance with the Articles of Association of the Company, CHAN, Fung Kit Ching, CHEUNG, Chun On, Daniel and LAU, Yu Leung, John will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.



### **DIRECTORS' SERVICE CONTRACTS**

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

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

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

### **DIRECTORS' INTERESTS**

As at 30th June, 2000 (being the date on which the Company's shares were listed on the GEM of the Stock Exchange), the interests of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange were as follows:

<b>Name</b>	<b>Type of interest</b>	<b>Number of ordinary shares</b>
LIU, Changle	Corporate interests ( <i>Note</i> )	1,854,000,000

*Note:* Mr. LIU, Changle is the beneficial owner of approximately 93.3% of the issued share of Today's Asia Limited, which in turn owns approximately 38.25% of the issued share capital of the Company as at 30th June, 2000.

Mr LIU, Changle and Mr CHUI, Keung, being the executive Directors of the Company, have been granted certain share options under the Pre-IPO Share Option Plan. Details of such options are set out in the following paragraph headed "Share Option Schemes".

Save as disclosed herein, as at 30th June, 2000, none of the Directors or chief executive of the Company, had any personal, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.

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





### SHARE OPTION SCHEMES

On 7th June, 2000, two share option schemes of the Company were approved by the shareholders of the Company, namely, Pre-IPO Share Option Plan and Share Option Scheme. The summary of the terms of the two share option schemes has been set out in Appendix VI of the prospectus issued by the Company dated 21st June, 2000 (the "Prospectus") under the section headed "Share Option Schemes".

As at 30th June, 2000, the Company had granted the following share options under the Pre-IPO Share Option Plan to the Directors of the Company and employees of the Phoenix Group to acquire 1,000,000 shares or more:

Name	Number of options	Date of grant	Exercise price per share HK\$
LIU, Changle *	5,320,000	14th June, 2000	1.08
CHUI, Keung *	3,990,000	14th June, 2000	1.08
WANG, Ji Yan #	3,990,000	14th June, 2000	1.08
YU, Tung Ho #	3,990,000	14th June, 2000	1.08
LEUNG, Noong Kong #	3,990,000	14th June, 2000	1.08
YEUNG, Ka Keung #	3,990,000	14th June, 2000	1.08
WU, Hsiao Li (Sally) <sup>Δ</sup>	1,596,000	14th June, 2000	1.08
XU, Gehui <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
CHEN, Luyu <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
DOU, Wentao <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
HO, Nai Yin Howard <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
SHI, Ningning <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
WU, Xiaoyong <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
LI, Ji Rui <sup>Δ</sup>	1,064,000	14th June, 2000	1.08
138 other employees (holding less than 1,000,000 Shares) <sup>Δ</sup>	25,428,000	14th June, 2000	1.08
<b>Total</b>	<b>59,742,000</b>		

Notes:

- \* Being the executive Directors of the Company.
- # Being the senior management of the Phoenix Group.
- Δ Being the employees of the Phoenix Group.



## REPORT OF THE DIRECTORS (continued)

No options have been granted to non-executive Directors and independent non-executive Directors during the year.

The options are exercisable at any time commencing twelve months from the date of grant of the options in accordance with the following schedule and the other terms of the Pre-IPO Share Option Plan:-

- (i) During the period starting from 15th June, 2000 to 14th June, 2001, no option may be exercised.
- (ii) During the period starting from 15th June, 2001 to 14th June, 2002, the option may be exercised up to 25% of such shares.
- (iii) During the period starting from 15th June, 2002 to 14th June, 2003, the option may (to the extent not exercised in accordance with (ii) above) be exercised up to 50% of such shares.
- (iv) During the period starting from 15th June, 2003 to 14th June, 2004, the option may (to the extent not exercised in accordance with (ii) and (iii) above) be exercised up to 75% of such shares.
- (v) Starting from 15th June, 2004, the option may (to the extent not exercised in accordance with (ii), (iii) and (iv) above) be exercised in full.

The expiry dates of the options are ten years after the date of grant of the options.

No options have been exercised, cancelled or lapsed during the period from the date of grant to 30th June, 2000.

As at 30th June, 2000, no options have been granted under the Share Option Scheme.

On 7th June, 2000, PHOENIXi Investment Limited ("PHOENIXi"), a member of the Phoenix Group had adopted the PHOENIXi 2000 Stock Incentive Plan ("the PHOENIXi Plan"). Under the PHOENIXi Plan, the employees of PHOENIXi, including any executive directors, in the full-time employment of PHOENIXi or its subsidiaries or the Company are eligible to take up options to subscribe for shares in PHOENIXi. The summary of the terms of the PHOENIXi Plan has been set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes".

As at 30th June, 2000, no options have been granted under the PHOENIXi Plan.



### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's Share Option Scheme approved by the shareholders on 7th June, 2000, a committee formed by four Directors of the Company may, at their discretion, invite any employee of the Company or any of the Phoenix Group companies, including any executive Directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company as at 30th June, 2000.

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".

Save as disclosed above, and other than those in connection with the Phoenix Group reorganisation scheme prior to the Company's listing of shares, at no time during the year was the Company or any of the companies comprising the Phoenix Group a party to any arrangement to enable the Company's Directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Phoenix Group's business to which the Company or any of the companies comprising the Phoenix Group was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following persons (other than a Director or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the Company's issued share capital were as follows:

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

*Notes:*

1. Star Television Holdings Limited is wholly-owned by Star Television Limited which is an indirect wholly-owned subsidiary of The News Corporation Limited.
2. Today's Asia Limited is beneficially owned by Mr. LIU, Changle and Mr. CHAN, Wing Kee as to 93.3% and 6.7% interests, respectively.



### **PRE-EMPTIVE RIGHTS**

No pre-emptive rights exist under the Company's Articles of Association and the law in the Cayman Islands in relation to the issue of new shares by the Company.

### **PURCHASE, SALE OR REPURCHASE OF SHARES**

Since the shares of the Company only commenced trading on the GEM on 30th June, 2000, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company's shares during the year.

### **SPONSORS' INTERESTS**

Bank of China Group Investment Limited, a fellow subsidiary of BOCI Asia Limited, acquired one share, being the entire issued share, of Cultural Developments Limited. Cultural Developments Limited owns the entire issued share capital of China Wise International Limited which in turn owns 412,000,000 shares of the Company. Mr. LUO, Jiansheng has been nominated by China Wise International Limited and appointed as a Director of eleven subsidiaries of the Phoenix Group, namely:

- Phoenix Satellite Television Company Limited
- Phoenix Satellite Television (Chinese Channel) Limited
- Phoenix Satellite Television (Movies) Limited
- Phoenix Satellite Television (Europe) Limited
- Binji Overseas Limited
- Phoenix Satellite Television Information Limited
- Phoenix Satellite Television (B.V.I.) Holding Limited
- Phoenix Satellite Television (InfoNews) Limited
- Phoenix Weekly Magazine (BVI) Limited
- Phoenix Satellite Television Development (BVI) Limited
- Phoenix Satellite Television 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 Limited.

Save as disclosed above, BOCI Asia Limited and Merrill Lynch Far East Limited have both confirmed:

- (i) neither itself nor its associates has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Phoenix Group (including options or rights to subscribe such securities);



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- (ii) no Director or employee or their associates of BOCI Asia Limited or Merrill Lynch Far East Limited who are involved in providing advice to the Company has or may, have any interest in any class of securities of the Company or any other company within the Phoenix Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such Directors or employee pursuant to the Public Offer);
  - (iii) neither itself nor its associates accrued any material benefit as a result of the successful outcome of the listing of the shares on the GEM; and
  - (iv) no Director or employee or their associates of BOCI Asia Limited or Merrill Lynch Far East Limited has a Directorship in the Company or any other company within the Phoenix Group.

#### **CONNECTED TRANSACTION**

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

- (a) Satellite Television Asian Region Limited ("STARL") is an indirect wholly-owned subsidiary of Star Television Holdings Limited, a major shareholder of the Company. The connected transactions are:
  - (i) provision of technical and administrative services for the operation of the Phoenix Chinese Channel and Phoenix Movies Channel. For the year ended 30th June, 2000, the service charges paid to STARL amounted to approximately HK\$76,393,000, which were calculated under normal commercial terms in accordance with an executed service agreement between the subsidiary of the Company and STARL.
  - (ii) STARL acts as an exclusive advertising agent for the Phoenix Group at all territories outside the People's Republic of China ("PRC"). For the year ended 30th June, 2000, advertising sales commission paid to STARL amounted to approximately HK\$8,504,000, which was calculated based on 20% of the net advertising income generated and received by STARL on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it.
  - (iii) STARL acts as an agent to promote subscription sales for the Phoenix Group. For the year ended 30th June, 2000, subscription sales commission paid to STARL amounted to approximately HK\$1,025,000, which was calculated based on 15% of the subscription fees generated and received by STARL on behalf of the Phoenix Group.
- (b) Star TV Filmed Entertainment Limited ("Star Filmed") is an indirect wholly-owned subsidiary of Star Television Holdings Limited, a major shareholder of the Company. The connected transaction relates to the granting of a non-exclusive licence to exhibit a selection of movies on Phoenix Movies Channel in the PRC for a term of 10 years commencing from 28th August, 1998. For the year ended 30th June, 2000, the film licence fees paid to Star Filmed amounted to approximately HK\$29,402,000, which were charged according to the executed film rights licensing agreement between the subsidiary of the Company and Star Filmed.



- (c) The acquisition of programme licences from certain subsidiaries of Star Television Holdings Limited, a major shareholder of the Company. For the year ended 30th June, 2000, the programme licence fees paid to the subsidiaries of Star Television Holdings Limited amounted to approximately HK\$8,144,000, which were charged under normal commercial terms and were negotiated on a case-by-case basis.
- (d) ATV Enterprises Limited is a connected party by virtue of the fact that Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at 30th June, 2000. The connected transactions relate to:
- (i) the acquisition of certain television programme licences from ATV Enterprises Limited. For the year ended 30th June, 2000, the programmes purchased from ATV Enterprises Limited amounted to approximately HK\$7,236,000, which were charged under normal commercial terms and were negotiated on a case-by-case basis.
  - (ii) selling of certain television programme licences to ATV Enterprises Limited and its associates. For the year ended 30th June, 2000, programme licence fees received from ATV Enterprises Limited amounted to approximately HK\$28,000, which were calculated under normal commercial terms and were negotiated on a case-by-case basis.

In addition, a subsidiary of the Company has leased certain office premises from STARL. For the year ended 30th June, 2000, the office premises rental paid to STARL amounted to approximately HK\$7,692,000, which was calculated by reference to the area of space occupied by the Phoenix Group and was proportionate to the rental payable by STARL in respect of the area occupied by it under its lease with the landlord. This license is a connected transaction but falls within Rule 20.24 of the GEM Listing Rules as the annual total consideration or value of the transaction (when aggregated or treated on an individual basis) is less than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Phoenix Group. Such transaction will be exempted from the reporting, announcement and shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors of the Company have reviewed such transactions and confirmed that at the time of the transactions, they have been carried out under normal commercial terms, in the ordinary course of business of the Phoenix Group and on an arm's length basis, and are fair and reasonable insofar as the shareholders of the Company are concerned.

#### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises one non-executive Director, namely Mr. LAU, Yu Leung John and two independent non-executive Directors, namely Mr. LO, Ka Shui and Mr. KUOK, Khoon Ean.



**YEAR 2000 COMPLIANCE**

The Board of Directors is pleased to announce that all applications of the Phoenix Group were fully Year 2000 compliant and therefore the Year 2000 compliance issue did not create any material adverse impact on the business of all functional areas of the Phoenix Group.

**AUDITORS**

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

On behalf of the Board of Directors

**LIU, Changle**

*Chairman*

Hong Kong,  
14th September, 2000





**ARTHUR ANDERSEN**

安達信公司

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**TO THE SHAREHOLDERS OF PHOENIX SATELLITE TELEVISION HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 50 to 79 of Phoenix Satellite Television Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Phoenix Group") which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of Directors and auditors**

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

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

**Basis of opinion**

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

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





**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Phoenix Group and the Company as at 30th June, 2000 and of the profit and cash flows of the Phoenix Group for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance.

**ARTHUR ANDERSEN & CO.**

*Certified Public Accountants*

Hong Kong,  
14th September, 2000



## CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2000

	<i>Note</i>	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i> <i>(Note 22)</i>
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and bank balances		770,316	56,026
Accounts receivable, net		82,549	43,176
Inventories	<i>10</i>	435	685
Prepayments, deposits and other receivables	<i>11</i>	106,747	15,889
Amounts due from related companies	<i>12</i>	20,360	34,799
Self-produced programmes		12,459	15,545
Purchased programme rights	<i>13</i>	16,670	15,125
Total current assets		<u>1,009,536</u>	<u>181,245</u>
FIXED ASSETS	<i>14</i>	4,558	2,948
PURCHASED PROGRAMME RIGHTS	<i>13</i>	19,841	16,093
Total assets		<u>1,033,935</u>	<u>200,286</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
CURRENT LIABILITIES			
Deferred income		9,163	8,380
Advertising revenue received in advance		43,706	–
Accounts payable and accruals		71,531	59,145
Amounts due to related companies	<i>12</i>	21,979	35,861
Total current liabilities		<u>146,379</u>	<u>103,386</u>
AMOUNT DUE TO SHAREHOLDERS	<i>16c</i>	–	502,977
MINORITY INTERESTS		7,753	–
Total liabilities		<u>154,132</u>	<u>606,363</u>
SHAREHOLDERS' EQUITY (DEFICIT)			
SHARE CAPITAL	<i>16</i>	484,706	–
RESERVES	<i>17</i>	395,097	(406,077)
Total shareholders' equity (deficit)		<u>879,803</u>	<u>(406,077)</u>
Total liabilities and shareholders' equity (deficit)		<u>1,033,935</u>	<u>200,286</u>

Approved by the Board of Directors on 14th September, 2000 and signed on behalf of the Board by

**LIU, Changle**  
*Director*

**MURDOCH, James Rupert**  
*Director*



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**BALANCE SHEET****AS AT 30TH JUNE, 2000**

	<i>Note</i>	<b>2000</b> <i>HK\$'000</i>
<b>ASSETS</b>		
INTERESTS IN SUBSIDIARIES	15	1,235,619
Total assets		<u>1,235,619</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL	16	484,706
RESERVES	17	<u>750,913</u>
Total shareholders' equity		<u>1,235,619</u>

Approved by the Board of Directors on 14th September, 2000 and signed on behalf of the Board by

**LIU, Changle**  
*Director*

**MURDOCH, James Rupert**  
*Director*



## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 30TH JUNE, 2000

	<i>Note</i>	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
REVENUE	3	511,342	314,663
OPERATING EXPENSES	4	(325,279)	(270,380)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4	<u>(146,636)</u>	<u>(132,264)</u>
PROFIT (LOSS) FROM OPERATIONS		39,427	(87,981)
OTHER INCOME			
Exchange gain, net		1,647	549
Interest income		1,205	2,325
Other income, net	4	<u>7,629</u>	<u>6,641</u>
PROFIT (LOSS) BEFORE TAXATION AND MINORITY INTERESTS	5	49,908	(78,466)
TAXATION	7	<u>–</u>	<u>–</u>
PROFIT (LOSS) BEFORE MINORITY INTERESTS		49,908	(78,466)
MINORITY INTERESTS		<u>407</u>	<u>–</u>
PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS		50,315	(78,466)
ACCUMULATED DEFICIT, beginning of year		<u>(406,077)</u>	<u>(327,611)</u>
ACCUMULATED DEFICIT, end of year		<u>(355,762)</u>	<u>(406,077)</u>
EARNINGS (LOSS) PER SHARE	9	<u>1.22 cents</u>	<u>(1.90) cents</u>

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



## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30TH JUNE, 2000

	<i>Note</i>	<b>2000</b> <i>HK\$ '000</i>	<b>1999</b> <i>HK\$ '000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<i>18a</i>	<u>(24,916)</u>	<u>(57,006)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from bank deposits		<u>1,205</u>	<u>2,325</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>1,205</u>	<u>2,325</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		<u>(2,747)</u>	<u>(794)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(2,747)</u>	<u>(794)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(26,458)</u>	<u>(55,475)</u>
FINANCING ACTIVITIES	<i>18b</i>		
Proceeds from placement shares		706,702	–
Proceeds from public offering shares		78,523	–
Placements and public offering expenses paid		(52,637)	–
Capital contributions from minority shareholders		8,160	–
Additional loans from shareholders		<u>–</u>	<u>68,164</u>
NET CASH INFLOW FROM FINANCING		<u>740,748</u>	<u>68,164</u>
INCREASE IN CASH AND BANK BALANCES		714,290	12,689
CASH AND BANK BALANCES, beginning of year		<u>56,026</u>	<u>43,337</u>
CASH AND BANK BALANCES, end of year		<u>770,316</u>	<u>56,026</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 30TH JUNE, 2000

(Amounts expressed in Hong Kong dollars unless otherwise stated)

#### 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 2nd February, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme ("Group Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Phoenix Group on 17th April, 2000. The shares of the Company were listed on the GEM of the Stock Exchange on 30th June, 2000.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 15 to the financial statements.

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

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

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

#### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. Principal accounting policies are summarised below:

##### a. Revenue

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

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



**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)

**a. Revenue** (cont'd)

- (ii) Subscription revenue received or receivable from the cable distributors or agents is amortised on a time proportion basis. Unamortised portion is classified as deferred income.
- (iii) Magazine advertising revenue represents the value of advertisements printed on the magazines and is recognised when the magazine is published.
- (iv) Magazine subscription revenue represents subscription money received or receivable from magazine customers and is recognised when the respective magazine is published.
- (v) Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

**b. Related parties**

Parties are considered to be related to the Phoenix Group if the Phoenix Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Phoenix Group and the parties are subject to common control or common significant influence. Related parties may be individuals or entities.

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



**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)

**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 the income statement upon the first showing of the programmes.

**e. Purchased programme rights**

Purchased programme rights and the related accruals are recorded at cost. The cost of purchased programmes is charged to the income statement either on the first and second showing of such purchased programmes or amortised over the licence 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. Fixed assets and depreciation**

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

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

Leasehold improvements	15%
Furniture and fixtures	15% – 20%
Office equipment	20%
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.

**g. Subsidiaries**

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





**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)

**h. Deferred taxation**

Deferred taxation is provided under the liability method, at the current tax rate, in respect of the timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, 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.

**i. 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.

**j. Foreign currency**

The books and records of the companies within the Phoenix Group are maintained in Hong Kong dollars. Transactions in other currencies during the years 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. REVENUE**

The Phoenix Group's revenue by nature is as follows:

	<b>2000</b>	<b>Group</b>	<b>1999</b>
	<i>HK\$ '000</i>		<i>HK\$ '000</i>
Advertising income	485,654		300,861
Subscription income	25,182		13,802
Magazine advertising and subscription income	506		–
	<hr/>		<hr/>
Total revenue	511,342		314,663
	<hr/>		<hr/>



**4. RELATED PARTY TRANSACTIONS**

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

	<i>Notes</i>	<b>2000</b> <i>HK\$'000</i>	<b>Group</b> <b>1999</b> <i>HK\$'000</i>
Office premises rental paid to Satellite Television Asian Region Limited	a, b	7,692	8,951
Service charges paid to Satellite Television Asian Region Limited	a, c	76,393	77,957
Commission for international advertising sales and marketing services paid to Satellite Television Asian Region Limited	a, d	8,504	7,897
Commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited	a, e	1,025	565
Decoders purchased from Satellite Television Asian Region Limited	a, f	–	4,451
Film licence fees paid to Star TV Filmed Entertainment Limited	a, g	29,402	25,880
Programme licence fees paid to other Star TV group companies	a, h	8,144	7,740
Programme licence fees received from other Star TV group companies	a, h	–	(1,829)
Programme licence fees paid to ATV Enterprises Limited	h, i	7,236	8,985
Programme licence fees received from ATV Enterprises Limited	h, i	(28)	–
Commission paid to Shenzhou Television Limited as advertising agent	j, k	10,804	6,255
Service charges paid to Shenzhou Television Limited	j, l	31,402	30,715
Service charges paid to Sino Television (HK) Limited	m, n	10,054	10,214



**4. RELATED PARTY TRANSACTIONS** (cont'd)

The Phoenix Group provided certain film rights and programmes to Phoenix Chinese News and Entertainment Limited (formerly known as Chinese News and Entertainment Limited) ("PCNE") at no charge since the date of the conditional agreement as disclosed in Note 21a.

*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 Phoenix 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 Phoenix Group and was proportional to the rental payable by Satellite Television Asian Region Limited in respect of the area occupied by it under its lease with the landlord.
- c. Service charges paid to Satellite Television Asian Region Limited cover the following services provided to the Phoenix Group which are charged based on the terms as specified under 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% (1999 – 20%) of the net advertising income generated and received by it on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it.
- e. The commission for international subscription sales and marketing services paid to Satellite Television Asian Region Limited is based on 15% (1999 – 15%) of the subscription fees received by it on behalf of the Phoenix 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. The programme licence fees paid to and received from other Star TV group companies and ATV Enterprises Limited are negotiated on a case-by-case basis.
- i. Mr. LIU, Changle and Mr. CHAN, Wing Kee, own approximately 14% and 18% indirect interest of ATV Enterprises Limited respectively as at 30th June, 2000.
- j. Mr. CHUI, Keung, a Director of the Company, owned 16% interest and was one of the Directors of Shenzhen Television Limited. Mr. CHUI disposed of all of his interest in and resigned as a Director of Shenzhen Television Limited on 11th May, 2000. Since then, Shenzhen Television Limited is no longer a related party to the Phoenix Group.
- k. The commission for collection of advertising sales paid to Shenzhen Television Limited is based on an average of 3% (1999 – 3%) on the sales amount collected.



**4. RELATED PARTY TRANSACTIONS** (cont'd)

Notes: (cont'd)

- l. The service charges paid to Shenzhou Television Limited represent the sales and marketing services provided by it and is charged based on 4% (1999 – 4% to 8%) of the advertising sales made by it.
- m. Sino Television (HK) Limited is a 99.98% owned subsidiary of Shenzhou Television Limited. With the resignation of Mr. CHUI, Keung as a Director of Shenzhou Television Limited on 11th May, 2000, Sino Television (HK) Limited is no longer a related party to the Phoenix Group.
- n. Service charges paid to Sino Television (HK) Limited were determined based on the actual cost incurred by Sino Television (HK) Limited for recruitment services performed.
- o. During the year, the Phoenix Group provided certain programmes free of charge to PCNE for broadcasting, China Wise International Limited, an existing shareholder of the Company, had a direct and indirect interest in Techvast Limited of approximately 12% which is the parent company of PCNE. All such interest was effectively disposed of by Techvast Limited on 16th June, 2000 and thereafter, Techvast Limited is no longer a related party to the Phoenix Group.

**5. PROFIT (LOSS) BEFORE TAXATION AND MINORITY INTERESTS**

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Crediting:		
Exchange gain, net	1,647	549
Interest income on bank deposits	1,205	2,325
	<u>          </u>	<u>          </u>
Charging:		
Programme amortisation costs	32,007	44,583
Programme production costs	60,878	49,587
Transponder rental	21,331	21,128
Licence fees	36,069	27,158
Provision for doubtful debts	15,874	13,936
Staffing costs	73,870	66,372
Operating lease expenses of Directors' quarters	819	616
Depreciation of fixed assets	1,137	878
Cost of inventories	–	4,451
Auditors' remuneration	900	240
	<u>          </u>	<u>          </u>



**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

**a. Directors' emoluments**

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

	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Executive Director A:		
Fees	3,713	3,561
Salaries	–	–
Discretionary bonus	1,165	774
Housing allowance	819	616
Pension fund	–	–
	<u>5,697</u>	<u>4,951</u>
	<b>Group</b>	
	<b>2000</b>	<b>1999</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Executive Director B:		
Fees	–	–
Salaries	2,046	1,688
Discretionary bonus	485	664
Housing allowance	–	–
Pension fund	117	117
	<u>2,648</u>	<u>2,469</u>

During the year, no emoluments were paid to non-executive Directors and independent non-executive Directors of the Company.



**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (cont'd)

**a. Directors' emoluments** (cont'd)

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

	2000	1999
Up to \$1,000,000	–	–
\$1,000,001 – \$1,500,000	–	–
\$1,500,001 – \$2,000,000	–	–
\$2,000,001 – \$2,500,000	–	1
\$2,500,001 – \$3,000,000	1	–
\$3,000,001 – \$3,500,000	–	–
\$3,500,001 – \$4,000,000	–	–
\$4,000,001 – \$4,500,000	–	–
\$4,500,001 – \$5,000,000	–	1
\$5,000,001 – \$5,500,000	–	–
\$5,500,001 – \$6,000,000	1	–
	<u>1</u>	<u>–</u>

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 30th June, 2000.

**b. Five highest paid individuals**

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	3,713	3,561
Salaries	7,928	6,540
Discretionary bonus	3,144	3,395
Housing allowance	819	616
Pension fund	446	446
	<u>16,050</u>	<u>14,558</u>



**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (cont'd)

**b. Five highest paid individuals** (cont'd)

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

	2000	1999
Up to \$1,000,000	–	–
\$1,000,001 – \$1,500,000	–	–
\$1,500,001 – \$2,000,000	–	–
\$2,000,001 – \$2,500,000	1	4
\$2,500,001 – \$3,000,000	3	–
\$3,000,001 – \$3,500,000	–	–
\$3,500,001 – \$4,000,000	–	–
\$4,000,001 – \$4,500,000	–	–
\$4,500,001 – \$5,000,000	–	1
\$5,000,001 – \$5,500,000	–	–
\$5,500,001 – \$6,000,000	1	–

No incentive payment for joining the Phoenix Group or compensation for loss of office was paid or payable to any Director or the other employees amongst the five highest paid individuals for the year ended 30th June, 2000.

**7. TAXATION**

No profits tax has been provided as the Phoenix Group has no estimated assessable profit for the years ended 30th June, 1999 and 2000.

The Phoenix Group had a tax loss of approximately \$348,628,000 as at 30th June, 2000 (1999 – \$399,938,000) for Hong Kong profits tax purposes which, subject to the agreement by the Inland Revenue Department, may be carried forward indefinitely and applied against future profits. Potential deferred tax benefits relating to the tax loss have not been provided for.

There was no other significant unprovided deferred taxation for the year ended 30th June, 2000.



**8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit attributable to shareholders includes a profit of approximately \$54,000 dealt with in the financial statements of the Company.

**9. EARNINGS (LOSS) PER SHARE**

Earnings (loss) per share is calculated based on consolidated profit attributable to shareholders for the year of \$50,314,653 (1999 loss – \$78,465,890) and the 4,121,991,945 (1999 – 4,120,000,000) weighted average number of shares that would have been in issue throughout the year on the assumption that the Phoenix Group Reorganisation was completed as at 1st July, 1998.

No diluted earnings per share has been presented as exercising the Company's outstanding share options would result in the issuance of ordinary shares for more than the fair value as at 30th June, 2000.

**10. INVENTORIES**

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decoder devices, at cost	435	685

**11. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES**

Included in prepayments, deposits and other receivables is an amount of approximately \$97,133,000 (1999 included in the amount due from related companies - \$31,407,000) owing from an advertising agent in the People's Republic of China (the "PRC").

**12. AMOUNTS DUE FROM (TO) RELATED COMPANIES**

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





13. PURCHASED PROGRAMME RIGHTS

	<b>2000</b>	<b>Group</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Cost	130,002	92,702
Accumulated amortisation	(93,491)	(61,484)
	<u>36,511</u>	<u>31,218</u>
Less: Purchased programme rights – current portion	<u>(16,670)</u>	<u>(15,125)</u>
Purchased programme rights – long term portion	<u>19,841</u>	<u>16,093</u>



**14. FIXED ASSETS**  
**Group**

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

	<b>Leasehold improvements</b>	<b>Furniture and fixtures</b>	<b>2000 Office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>	<b>1999 Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>						
Beginning of year	1,389	528	1,413	1,750	5,080	4,286
Additions	103	235	2,409	–	2,747	794
End of year	<u>1,492</u>	<u>763</u>	<u>3,822</u>	<u>1,750</u>	<u>7,827</u>	<u>5,080</u>
<b>Accumulated depreciation</b>						
Beginning of year	536	206	420	970	2,132	1,254
Charge for the year	217	96	474	350	1,137	878
End of year	<u>753</u>	<u>302</u>	<u>894</u>	<u>1,320</u>	<u>3,269</u>	<u>2,132</u>
<b>Net book value</b>						
End of year	<u>739</u>	<u>461</u>	<u>2,928</u>	<u>430</u>	<u>4,558</u>	<u>2,948</u>
Beginning of year	<u>853</u>	<u>322</u>	<u>993</u>	<u>780</u>	<u>2,948</u>	<u>3,032</u>



15. INTERESTS IN SUBSIDIARIES

	<b>Company 2000</b> <i>HK\$'000</i>
Unlisted shares, at cost	–
Amounts due from subsidiaries	1,235,619
	<u>1,235,619</u>

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

The Directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying amount of the subsidiaries as at 30th June, 2000.

Details of subsidiaries as at 30th June, 2000 were as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation and operations/date of incorporation</b>	<b>Issued and fully paid share capital/registered capital</b>	<b>Percentage of equity interest attributable to the Phoenix Group</b>	<b>Principal activity</b>
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	\$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 (B.V.I.) Holding Limited	British Virgin Islands 28th April, 1998	US\$1	100%	Investment holding



15. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation and operations/date of incorporation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Phoenix Group	Principal activity
Phoenix Satellite Television (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	\$20	100%	Provision of management and related services
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
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



15. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation and operations/date of incorporation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Phoenix Group	Principal activity
Phoenix Satellite Television Development Limited	Hong Kong 16th April, 1999	\$2	100%	Investment holding
PCNE Holdings Limited	British Virgin Islands 5th January, 2000	US\$2	50%	Investment holding
鳳凰在線(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	\$10,000,000	60%	Programme production ancillary services

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



16. SHARE CAPITAL

	2000	
	Number of shares	Amount
<b>Authorised:</b>		
Ordinary share of US\$1.0 each (a)	50,000	US\$50,000
		<i>HK\$'000</i>
Redenomination of ordinary share of US\$1.0 each to HK\$0.1 each (b)	3,800,000	380
Increase in ordinary share capital of HK\$0.1 each (b)	9,996,200,000	999,620
As at 30th June, 2000	10,000,000,000	1,000,000
<b>Issued and fully paid:</b>		
Ordinary share of US\$1.0 each (a)	20	US\$20
		<i>HK\$'000</i>
Redenomination of ordinary share of US\$1.0 each to HK\$0.1 each (b)	1,520	–
Capitalisation of amount due to shareholders (c)	4,119,998,280	412,000
Shares exchange with a subsidiary (d)	200	–
Public offering shares	72,706,000	7,271
Placement shares	654,354,000	65,435
As at 30th June, 2000	4,847,060,000	484,706

(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 Television Holdings Limited, eight, nine and two shares were further allotted and issued at par value to Star Television Holdings Limited, Today's Asia Limited and China Wise International Limited on 2nd February, 2000, respectively;

(b) By a members' resolution passed on 7th June, 2000, 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 and the authorised share capital of the Company was increased from \$380,000 to \$1,000,000,000 by the creation of an additional 9,996,200,000 shares to rank pari passu with the existing shares in all respects;



**16. SHARE CAPITAL** (cont'd)

- (c) On 15th June, 2000, a non-interest bearing amount due to shareholders of approximately \$502,977,000 was converted into 4,119,998,280 fully paid shares of the Company with a par value of \$0.10 each. The excess of the loan amount over the total par value of the shares issued was approximately \$90,977,000 and was capitalised and credited to the Company's share premium account (Notes 17 and 18c);
- (d) On 15th June, 2000, the Company entered into an agreement with Star Television Holdings Limited, Today's Asia Limited and China Wise International Limited, pursuant to which the Company agreed to issue 200 new shares in exchange for the 20 shares in Phoenix Satellite Television Company Limited held by them; and
- (e) On 14th June, 2000, share options were granted to all employees, entitling them to subscribe for a total of 59,742,000 shares at \$1.08 per share. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of these options is ten years after the date of grant. No options have been exercised since the date of grant and up to 30th June, 2000.



**17. RESERVES**

**Phoenix Group**

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

	<b>Share premium</b> <i>HK\$'000</i>	<b>2000 Accumulated deficit</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>	<b>1999 Total</b> <i>HK\$'000</i>
Beginning of year	–	(406,077)	(406,077)	(327,611)
Profit (loss) attributable to shareholders	–	50,315	50,315	(78,466)
Proceeds from public offering shares	71,252	–	71,252	–
Proceeds from placement shares	641,267	–	641,267	–
Placements and public offering expenses paid	(52,637)	–	(52,637)	–
Premium on shares issued for shareholders' loan capitalisation (Note 16c)	90,977	–	90,977	–
End of year	<u>750,859</u>	<u>(355,762)</u>	<u>395,097</u>	<u>(406,077)</u>





**17. RESERVES** (cont'd)  
**Company**

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

	<b>Share premium</b> <i>HK\$'000</i>	<b>2000 Retained profit</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Beginning of year	–	–	–
Profit for the year	–	54	54
Proceeds from public offering shares	71,252	–	71,252
Proceeds from placement shares	641,267	–	641,267
Placements and public offering expenses paid	(52,637)	–	(52,637)
Premium on shares issued for shareholders' loan capitalisation (Note 16c)	90,977	–	90,977
End of year	<u>750,859</u>	<u>54</u>	<u>750,913</u>



18. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (Loss) before taxation and minority interests	49,908	(78,466)
Add (Less):		
Interest income on bank deposits	(1,205)	(2,325)
Depreciation of fixed assets	1,137	878
Increase in accounts receivable	(39,373)	(3,563)
Decrease (Increase) in inventories	250	(685)
Increase in prepayments, deposits and other receivables	(90,858)	(8,491)
Decrease (Increase) in due from related companies	14,439	(9,395)
Decrease (Increase) in self-produced programmes	3,086	(264)
(Increase) Decrease in purchased programmes	(5,293)	9,605
Increase in deferred income	783	–
Increase in fees received in advance	43,706	–
Increase in accounts payable and accruals	12,386	24,075
(Decrease) Increase in due to related companies	(13,882)	11,625
	<hr/>	<hr/>
Net cash outflow from operating activities	(24,916)	(57,006)
	<hr/>	<hr/>



18. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

b. Analysis of changes in financing:

	2000				1999	
	Share capital	Share premium	Amounts due to shareholders	Minority interests	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	–	–	502,977	–	502,977	434,813
Capitalisation of amounts due to shareholders	412,000	90,977	(502,977)	–	–	–
Proceeds from placement shares	65,435	641,267	–	–	706,702	–
Proceeds from public offering shares	7,271	71,252	–	–	78,523	–
Placements and public offering expenses paid	–	(52,637)	–	–	(52,637)	–
Capital contributions from minority shareholders	–	–	–	8,160	8,160	–
Minority shareholders' share of results	–	–	–	(407)	(407)	–
Additional loans from shareholders	–	–	–	–	–	68,164
End of year	<u>484,706</u>	<u>750,859</u>	<u>–</u>	<u>7,753</u>	<u>1,243,318</u>	<u>502,977</u>



**18. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS** (cont'd)

**c. Major non-cash transactions**

On 15th June, 2000, the non-interest bearing amount due to shareholders of approximately \$502,977,000 was converted into 4,119,998,280 fully paid ordinary shares of the Company with a par value of \$0.10 each. The excess of the loan amount over the total par value of the ordinary shares issued was approximately \$90,977,000 and was credited to the Company's share premium account (Notes 16c and 17).

**19. COMMITMENTS**

**a. Film rights and programme acquisition**

As at 30th June, 2000, the Phoenix Group had aggregate outstanding film rights and programmes related commitments of approximately \$208,960,000 (1999 – \$421,699,000) of which approximately \$203,129,000 (1999 – \$414,846,000) was in respect of a film rights acquisition agreement with Star TV Filmed Entertainment Limited extending to 27th August, 2008 and approximately \$5,831,000 (1999 – \$6,853,000) was in respect of other programmes acquisition agreements with third parties. The amounts of commitments which are payable within the next twelve months, analyzed according to the period in which the agreements expire, are as follows:

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Expiring in the first year	421	6,853
Expiring in the second to fifth years inclusive	5,410	–
Expiring after the fifth year	<u>22,173</u>	<u>37,362</u>

**b. Service charges**

As at 30th June, 2000, the Phoenix Group had total committed service charges payable to Satellite Television Asian Region Limited of approximately \$167,758,000 (1999 – \$43,642,000) in respect of a service agreement expiring on 30th June, 2003. The amounts of commitments which are payable within the next twelve months amounted to approximately \$55,272,000 (1999 – \$43,642,000).

**c. Office premises rental**

As at 30th June, 2000, the Phoenix Group had total committed office premises rental payable to Satellite Television Asian Region Limited of approximately \$20,394,000 (1999 – \$8,951,000) in respect of an agreement expiring on 14th July, 2003. The amounts of commitments which are payable within the next twelve months amounted to approximately \$7,384,000 (1999 – \$8,951,000).

**d. Funding commitment**

As at 30th June, 2000, the Phoenix Group had a commitment to provide funding of not less than US\$8,400,000 (equivalent to approximately HK\$64,932,000) (1999 – Nil) to PCNE for the next three years with annual funding of not less than US\$2,800,000 (equivalent to approximately HK\$21,644,000) (1999 – Nil) in form of an unsecured, interest-free shareholder loan with no fixed term of repayment.



**19. COMMITMENTS** (cont'd)

**e. Operating lease commitment**

As at 30th June, 2000, the Phoenix Group had rental commitments of approximately \$1,512,000 (1999 – \$208,000) in respect of a Director's quarters and a programme production centre under various operating leases extending to September 2002. The amounts payable in the next twelve months, analysed according to the period in which the leases expire, are as follows:

	<b>2000</b>	<b>1999</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Expiring in the first year	\$302	\$208
Expiring in the second to fifth years inclusive	605	–
	<u>\$907</u>	<u>\$208</u>

**20. PENSION SCHEME ARRANGEMENT**

The Phoenix Group provides a defined contribution provident fund scheme for all employees and makes monthly contribution to the scheme based on 10% of the employees' basic salaries. Forfeited contributions made by the Phoenix Group are used to reduce the employers' contribution. For the financial years ended 30th June, 2000, the aggregate amounts of employers' contribution made by the Phoenix Group was approximately \$3,479,000 (1999 – \$3,039,000), after deduction of forfeited contributions of approximately \$370,000 (1999 – \$217,000). As at 30th June, 2000, there were no unutilised amount of forfeited contributions.

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

**21. SUBSEQUENT EVENTS**

- a. On 11th July, 1999, Phoenix Satellite Television (Europe) Limited and Techvast Limited, a third party, 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 PCNE, a wholly owned subsidiary of Techvast Limited. Pursuant further to such agreement, the Phoenix Group has agreed to provide funding of not less than US\$8,400,000 to PCNE for the next three years for an annual funding of not less than US\$2,800,000 in the form of an unsecured, interest-free shareholder loan with no fixed term of repayment (Note 19d).



**21. SUBSEQUENT EVENTS** (cont'd)

a. (cont'd)

The Phoenix Group and Techvast Limited are currently in the process of finalising the negotiation and settling the relevant legal documentation pertaining to this transaction. Each of the Phoenix Group and Techvast Limited has been issued one share at par of a newly established company, PCNE Holdings Limited. It is proposed that PCNE Holdings Limited shall acquire 100% of the share capital of PCNE from Techvast Limited. Upon the closing of the transaction, PCNE Holdings Limited will issue new shares so that its total issued share will be held as to 70% by the Phoenix Group and as to 30% by Techvast Limited.

The summary of the results of PCNE for the year ended 31st December, 1998 and the eighteen months period ended 30th June, 2000 is as follows:

	For the year ended 31st December, 1998		For the period from 1st January, 1999 to 30th June, 2000	
	£	HK\$'000	£	HK\$'000
TURNOVER	852,752	10,951	777,788	9,776
OPERATING LOSS	(1,584,377)	(20,347)	(2,756,015)	(34,624)
OTHER INCOME (EXPENSES), NET	29,173	375	(154,107)	(1,936)
LOSS BEFORE TAXATION	(1,555,204)	(19,972)	(2,910,122)	(36,560)
TAXATION	-	-	-	-
NET LOSS FOR THE YEAR/PERIOD	(1,555,204)	(19,972)	(2,910,122)	(36,560)



**21. SUBSEQUENT EVENTS** (cont'd)

a. (cont'd)

	<b>As at 30th June, 2000</b>	
	£	HK\$'000
FIXED ASSETS	171,588	1,970
NET CURRENT LIABILITIES	(1,919,466)	(22,039)
LONG-TERM LIABILITIES	<u>(9,817,940)</u>	<u>(112,730)</u>
NET LIABILITIES	<u>(11,565,818)</u>	<u>(132,799)</u>

- b. Subsequent to year end, the underwriters have exercised the over-allotment option on 21st July, 2000 for the issuance of 83,908,000 ordinary shares of \$0.10 each at \$1.08 per share in accordance with the members' resolution passed on 7th June, 2000.
- c. On 28th August, 2000, a subsidiary of the Company entered into an agreement with Cable & Wireless HKT Limited ("CWHKTI") for the supply of satellite digital uplink services by CWHKTI expiring on 31st August, 2001. The total committed security guarantee and uplink services charges payable to CWHKTI were approximately \$407,000 and \$2,440,000 respectively.
- d. On 28th August, 2000, a subsidiary of the Company also entered into another agreement with CWHKTI for the leasing of space capacity from International Telecommunications Satellite Organisation through CWHKTI expiring on 31st August, 2001. The total committed security guarantee and space capacity services charges payable to CWHKTI were approximately \$729,000 and \$4,376,000 respectively.

**22. COMPARATIVE FIGURES**

Certain of the 1999 comparative figures have been reclassified to conform to the current year's presentation as a result of the adoption of the revised Statement of Standard Accounting Practice Number 1 "Presentation of financial statements" issued by the Hong Kong Society of Accountants.









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