15th ANNIVERSARY

Chairman's Statement

The Group's revenue and operating profit for the year ended 31 December 2011 were approximately HK$3,639,445,000 and HK$912,349,000 respectively, which represented an increase of respectively 41.9% and 26.2% over the same period last year.

Chairman's Statement

Financial Summary

- Revenue and operating profit for the year ended 31 December 2011 were approximately HK$3,639,445,000 and HK$912,349,000 respectively, which represented an increase of respectively 41.9% and 26.2% over the same period last year.

- Non-GAAP profit attributable to owners of the Company, which included the gain on deemed disposal of partial interests in the new media and the outdoor media, increased to approximately HK$1,564,386,000 from HK$421,822,000 in last year. Please refer to the chart on page 10 for details.

- Loss attributable to owners of the Company after charging the non-cash fair value loss and interest accretion of PNM's Preferred Shares was improved by approximately HK$473,089,000 in the second half year of 2011 to approximately HK$66,885,000.

- The Board recommended a final dividend of 4.2 Hong Kong cents per share. Together with the special dividend of 3.8 Hong Kong cents per share, there is an aggregate distribution of 8 Hong Kong cents per share for the year of 2011.

Results

The chart below summarises the Group's revenue, operating costs, profit from operations and profit/(loss) attributable to owners of the Company for the six months ended 30 June 2010, 31 December 2010, 30 June 2011 and 31 December 2011 respectively. By presenting the Group's performance in each six-month period over the previous two years, it is clear that there is a healthy and continuous upward trend in the Group's operations.

	Six months ended			
	31 December 2011 HK$'000	30 June 2011 HK$'000	31 December 2010 HK$'000	30 June 2010 HK$'000
Revenue	2,099,298	1,540,147	1,476,260	1,089,130
Operating costs	(1,470,125)	(1,256,971)	(1,018,814)	(823,620)
Profit from operations	629,173	283,176	457,446	265,510
Profit/(loss) attributable to owners of the Company	473,089	(539,974)	231,110	190,712

The Group's revenue for the six months ended 31 December 2011 increased to HK$2,099,298,000 which represented a 42.2% and 36.3% growth over the revenue of the same period last year and first half year of 2011 respectively. The profit from operations reached the record high of HK$629,173,000 for the six months of 31 December 2011, which represented a 37.5% and 122.2% growth over the revenue of the same period last year and first half year of 2011 respectively. As a consequence of characteristic of advertising sales, the performance of the second half of the year surpasses that of the first half of the year. The main drivers behind this result were the growth in revenue from new media, outdoor media and broadcasting advertising. A loss attributable to owners of the Company is recorded for the six months ended 30 June 2011 after charging the non-cash fair value loss and interest accretion of the Preferred Shares issued by Phoenix New Media Limited ("PNM"), an indirect non-wholly owned subsidiary of the Company, in accordance with the Hong Kong Generally Accepted Accounting Principles ("GAAP").

The Group's revenue for the year ended 31 December 2011 was approximately HK$3,639,445,000, which represented a 41.9% increase over the revenue earned in the previous year. Operating costs increased by 48.0% to approximately HK$2,727,096,000. The upward movement in operating costs was mainly due to the expansion of the new media and the outdoor media businesses.

The Group's operating profit for the year ended 31 December 2011 was approximately HK$912,349,000, which represented an increase of 26.2% over the previous year. The Non-GAAP profit attributable to owners of the Company, which included the gain on deemed disposal of partial interests in both the new media and the outdoor media, increased to approximately HK$1,564,386,000 from HK$421,822,000 in the previous year.

The spin-off of PNM through a separate listing on the New York Stock Exchange ("NYSE") in May 2011 has provided the Group a "gain on deemed disposal". However, as PNM remains a non-wholly owned subsidiary of the Company after its spin-off and separate listing, according to the existing GAAP, such "gain on deemed disposal" will only be reflected directly in equity instead of in the consolidated income statement for the year. The Group recognised a gain on deemed disposal of partial interest in PNM of approximately HK$1,563,711,000 in the equity attributable to owners of the Company during the year ended 31 December 2011.

All convertible Series A Preferred Shares ("Preferred Shares") issued in November 2009 by PNM to three independent investors – the US-based Intel Capital Corporation, the Swiss-based Bertelsmann Asia Investments AG, and the Hong Kong-owned company Morningside China TMT Fund I, L.P. – were converted into Class A ordinary shares of PNM on the eve of the listing of PNM in accordance with the terms of the agreements with these three investors. The fair value of the derivative component of the Preferred Shares up to the date of conversion increased by HK$947,100,000 (year ended 31 December 2010: HK$169,087,000), and this non-cash fair value loss was reflected in the consolidated income statement for the year. Interest accretion of the debt component of the Preferred Shares, which was included under finance income/(costs), net for the year ended 31 December 2011, was approximately HK$17,613,000 (for the year ended 31 December 2010: HK$41,577,000). As all Preferred Shares were converted at the time of listing, there will not be any non-cash fair value gain/loss or interest accretion in the future. Please refer to note 37(b) to the consolidated financial statements for details of the preference share liability.

In May 2011, Phoenix Metropolis Media Technology Co., Ltd. ("PMM Beijing"), formerly known as Phoenix Metropolis Media (Beijing) Company Limited, entered into a capital increase agreement with independent investors and other parties and this has also provided the Group a "gain on deemed disposal". In November 2011, PMM Beijing acquired the equity of Phoenix Metropolis Media (Guangzhou) Co., Ltd. ("PMM Guangzhou") and Shenzhen Phoenix Metropolis Media Co., Ltd. ("PMM Shenzhen") from non-controlling interests. As a result, both PMM Guangzhou and PMM Shenzhen have become wholly owned subsidiaries of PMM Beijing. As the Group retains control over PMM Beijing the "net gain on acquisition and deemed disposal" of approximately HK$67,560,000 was reflected directly in equity.

A fair value gain of approximately HK$127,488,000 (year ended 31 December 2010: HK$21,979,000) was recognised for the investment property under construction in Beijing.

The loss attributable to owners of the Company after charging the non-cash fair value loss and interest accretion of the Preferred Shares in accordance with GAAP was approximately HK$66,885,000.

The chart below summarises the Group's performance for the year ended 31 December 2011. For a clear understanding of the Group's performance presented in accordance with the GAAP, a column that presents the Non-GAAP results is also included in this chart and details the actual gain on the deemed disposal of partial interests in the new media and the outdoor media.

	Year ended 31 December		
	2011 Non-GAAP presentation HK$'000	2011 HK$'000	2010 HK$'000
Television broadcasting	2,072,307	2,072,307	1,679,183
New media	1,113,711	1,113,711	560,456
Outdoor media	386,559	386,559	268,210
Other businesses	66,868	66,868	57,541
Group's total revenue	3,639,445	3,639,445	2,565,390
Operating costs	(2,727,096)	(2,727,096)	(1,842,434)
Profit from operations	912,349	912,349	722,956
Non-cash fair value loss and interest accretion of Preferred Shares	(964,713)	(964,713)	(210,664)
Non-GAAP gain on deemed disposal of new media	1,563,711	–	–
Non-GAAP net gain on acquisition and deemed disposal of outdoor media	67,560	–	–
Fair value gain on an investment properties under construction	127,488	127,488	21,979
Other income, net	84,664	84,664	20,439
Profit before share of results of jointly controlled entities and an associate, income tax and non-controlling interests	1,791,059	159,788	554,710
Share of results of jointly controlled entities and an associate	(3,791)	(3,791)	(1,796)
Income tax expense	(229,460)	(229,460)	(108,490)
Profit/(loss) for the year	1,557,808	(73,463)	444,424
Non-controlling interests	6,578	6,578	(22,602)
Profit/(loss) attributable to owners of the Company	1,564,386	(66,885)	421,822
Basic earnings/(losses) per share, Hong Kong cents	31.34	(1.34)	8.46

Business Overview and Prospects

During the 2011 financial year the Phoenix Group has achieved a series of major successes in a wide range of areas. The increases in revenue, operating profit and equity during this period were extremely positive, especially in view of the fact that in the previous year it expanded at an exceptional rate. The Group's capacity to sustain this level of exceptional growth over several successive years underscores that the Group's fundamental business model is both balanced and forward-looking.

The income of the Group's core television business has continued to grow at an impressive rate, but the other areas in which the Group has developed substantial business operations, namely the new media and the outdoor media businesses, have also generated extremely healthy returns. This provides strong evidence that the Group's understanding of the changing economic environment, and the rapid expansion of the internet and the growing importance of public advertising, has enabled it to pursue a strategy that has developed the scope of its business activities in an extremely effective way.

Besides securing financial benefits from entering into the internet and outdoor media businesses, the Group also launched a new television broadcasting venture, Phoenix Hong Kong Channel, which provides television programming in Cantonese to Hong Kong as well as the overseas Cantonese-speaking audiences. This channel began broadcasting on 28 March 2011. During 2011, Phoenix also made the final preparations for launching the Phoenix U Radio, which will expand Phoenix's presence into the world of digital radio broadcasting after it began operating on 18 January 2012. The combined effect of the Hong Kong Channel and Phoenix U Radio will be to reinforce the Phoenix brand name and thus stimulate the further expansion of Phoenix's world-wide audience.

The year 2011 also marked the fifteenth anniversary of the founding of Phoenix Satellite Television, and this event was celebrated on 31 March with a major event in the Great Hall of the People in Beijing. The highlight of this event was an award ceremony that recognised the contribution that a wide range of foreign individuals and agencies made to Phoenix over the previous fifteen years. Among those to receive awards were Dr. John Chipman, the chairman of the International Institute for Strategic Studies, Ms. Julia Morley, the head of the Miss World Organization, Dr. Richard Bush, the head of the Center for North Asian Policy Studies at the Brookings Institution, Mr. Bruce Paisner, the chairman of the International Academy of Television Arts and Sciences and senior media executives from the Russia, Japan, Palestine, Malaysia, and the D.P.R.K. The awards ceremony was followed by a concert that featured a series of famous entertainers and singers, and provided a gala climax to the celebration of Phoenix Satellite Television's development over fifteen years from a one-channel broadcaster into a multi-media organisation with a global outreach based on working relationships with a wide range of international players, from well-known intellectuals through to media organisations.

For the year 2011, Phoenix still accomplished overwhelmingly outstanding performance in news reporting which aroused widespread recognition. For events like the violent political uprisings in Egypt, Tunisia, Libya and Syria. Phoenix reporters have covered these events in great detail, and consequently Phoenix has been able to provide the Chinese-speaking world with first hand reporting on developments across the Middle East. A sizeable group of Phoenix reporters was detained in the Rixos Hotel in Tripoli along with many other international news teams during the last days of the Gaddafi regime, but they were released without coming to any harm.

Phoenix also provided detailed coverage of regional events, including the election campaigning in Taiwan in the lead-up to the Presidential elections in January 2012, and the events in North Korea following the unexpected death of Kim Jong-il, and the appointment of his son, Kim Jong-un, as the new leader of North Korea.

The Group's successes over the last twelve month period, from the successful IPO of the new media business through to the comprehensive coverage of breaking international political and economic developments, confirms that Phoenix is well placed to continue to perform at a very high level.

LIU Changle
Chairman

Hong Kong, 15 March 2012