Management Discussion and Analysis

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Comments on Segmental Information

	Year ended 31 December			
	2011		2010	
	Revenue HK$'000	Segment result HK$'000	Revenue HK$'000	Segment result HK$'000
Television broadcasting	2,072,307	1,026,351	1,679,183	837,781
New media	1,113,711	(818,111)*	560,456	(125,776)*
Outdoor media	386,559	85,177	268,210	55,585
Real estate	–	118,662	–	14,937
Other businesses	66,868	7,186	57,541	5,599
Group's total revenue and segment results	3,639,445	419,265	2,565,390	788,126
Unallocated income		35,565		12,103
Unallocated expenses		(295,042)		(245,519)
Profit before share of results of jointly controlled entities and an associate, income tax and non-controlling interests		159,788		554,710

* The segmental loss of new media is a consequence of the deduction of interest accretion and changes in fair value of the preference share liability of approximately HK$964,713,000 (year ended 31 December 2010: HK$210,664,000).

Revenue from television broadcasting, comprising advertising, subscription and other revenue sources, which accounted for 56.9% of the Group's total revenue for the year ended 31 December 2011, increased by 23.4% to approximately HK$2,072,307,000 (year ended 31 December 2010: HK$1,679,183,000). The segmental result for television broadcasting recorded a profit of approximately HK$1,026,351,000 for the year ended 31 December 2011 (year ended 31 December 2010: HK$837,781,000).

Phoenix Chinese Channel and Phoenix InfoNews Channel accounted for 52.1% of the Group's total revenue for the year ended 31 December 2011 and showed an increase of 23.2% to approximately HK$1,896,099,000 (year ended 31 December 2010: HK$1,539,246,000).

The total revenue of Phoenix Hong Kong Channel, Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others, increased by 25.9% as compared to the same period last year to approximately HK$176,208,000 (year ended 31 December 2010: HK$139,937,000).

The new media operations, which make Phoenix programming available on the internet and on a number of mobile telecommunications networks, contributed to raising the Group's profile as a television broadcaster. The revenue of the new media business for the year ended 31 December 2011 increased to HK$1,113,711,000 (year ended 31 December 2010: HK$560,456,000). The segmental loss of new media after deduction of interest accretion and changes in fair value of the preference share liability was HK$818,111,000 (year ended 31 December 2010: HK$125,776,000). The profit from operations, which represents profit before tax, interest expense and changes in fair value of preference share liability, of the new media increased to HK$146,602,000 (year ended 31 December 2010: HK$84,888,000).

The revenue of outdoor media business increased to approximately HK$386,559,000 (year ended 31 December 2010: HK$268,210,000). The segmental profit of outdoor media business was approximately HK$85,177,000 (year ended 31 December 2010: HK$55,585,000) after deduction of share based payment of approximately HK$25,714,000 (year ended 31 December 2010: Nil).

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

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

Dividends

Because of the substantial growth in the Company's equity as a result of the listing of PNM and the gain derived from PMM Beijing and the fact that liquidity and financial resources of the Group remains solid, the Board of Directors has distributed a special dividend of 3.8 Hong Kong cents per share.

After considering the sustainable profitability of the Group's core television broadcasting business, the Directors recommend the payment of a final dividend of 4.2 Hong Kong cents per ordinary share, representing an increase of 27.3% as compared to the final dividend for 2010 of 3.3 Hong Kong cents, totaling approximately HK$209,705,000 to be payable to shareholders whose names appear on the register of members of the Company on 15 June 2012. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, the final dividend will be payable on or around 25 June 2012.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held at No. 2–6 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Friday, 8 June 2012 at 3:00 p.m.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 4 June 2012 to Friday, 8 June 2012 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for attending and voting at the AGM, all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 1 June 2012.

The register of members of the Company will be also closed from Thursday, 14 June 2012 to Friday, 15 June 2012 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for the proposed final dividend (subject to shareholders' approval at the AGM), all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 13 June 2012.

Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Deemed Disposal of Outdoor Media

On 29 May 2011, the controlling shareholders of Regal Fame Investments Limited, three People's Republic of China domestic investors, 27 employees of various members of the Phoenix Metropolis Media Holdings Limited and its subsidiaries, as well as Phoenix Metropolis Communication (Beijing) Co., Limited ("PMM Communication") entered into a capital increase agreement (the "Capital Increase Agreement") with Phoenix Metropolis Media Technology Co., Ltd. ("PMM Beijing"), formerly known as Phoenix Metropolis Media (Beijing) Company Limited. Upon completion of the Capital Increase Agreement, the registered capital of PMM Beijing was increased from approximately HK$48,000,000 to RMB140,000,000 and the Company's indirect interest in PMM Beijing (through PMM Communication) was reduced from 75% to approximately 45.54%. Notwithstanding that the Group owns less than half of the equity interest in PMM Beijing subsequent to the capital increase, the Group retains control over PMM Beijing as it has the ability to direct the relevant activities of PMM Beijing i.e. the activities that significantly affect PMM Beijing. The reduction of the Company's indirect interest in PMM Beijing constituted a deemed disposal of its partial interest in PMM Beijing by the Company. Full details and explanations are given in note 40(b) to the consolidated financial statements.

Deemed Disposal of New Media

On 12 May 2011, Phoenix New Media Limited ("PNM") was listed on the New York Stock Exchange ("NYSE") in the US by initial public offering of American depositary shares ("ADS(s)") comprising 11,500,000 ADSs (representing 92,000,000 new Class A Shares) by PNM and 1,267,500 ADSs (representing 10,140,000 existing Class A Shares) by Morningside China TMT Fund I, L.P., Intel Capital Corporation and Bertelsmann Asia Investments AG (the "Selling Shareholders") before the exercise of the over-allotment option and following the exercise of the over-allotment option, an aggregate of 13,415,125 ADSs (representing 107,321,000 new Class A Shares) was issued and sold by PNM, and 1,267,500 ADSs (representing 10,140,000 existing Class A Shares) was sold by the Selling Shareholders. As all convertible Series A Preferred Shares ("Preferred Shares") of PNM were converted at the time of listing, there will not be any non-cash fair value gain/loss and interest accretion in the future. According to the GAAP, these constituted a deemed disposal of interests in subsidiaries (Group's effective interest reduced to 51.2% as a result of the spin-off) and PNM remains a non-wholly owned subsidiary of the Company and the financial results of PNM continue to be consolidated into the financial statements of the Group. Full details and explanations are given in note 40(a) to the consolidated financial statements.

Save as disclosed above, the Group did not have any material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31 December 2011.

Liquidity and Financial Resources

The liquidity and financial resources of the Group as at 31 December 2011 remained solid as recurring cash flows from the Group's businesses continued to remain steady and strong. As at 31 December 2011, the Group had cash and cash deposits totaling about HK$2,624,482,000 (as at 31 December 2010: HK$1,425,782,000), including over HK$1,000,000,000 net proceeds raised from separate listing of PNM, which will be used for capital expenditure and business expansions. The aggregate outstanding borrowings of the Group were approximately HK$480,117,000 (as at 31 December 2010: HK$664,478,000), representing amounts due to related companies which were unsecured and non-interest bearing and secured and interest bearing bank borrowings to fund the construction work on the Phoenix International Media Centre in Beijing. The decrease in the aggregate outstanding borrowings was due to the conversion of Preferred Shares issued by PNM at the time of its separate listing on NYSE.

The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 36.6% as at 31 December 2011 (as at 31 December 2010: 62.0%). As a result of the spin-off of PNM, the net cash and cash equivalents balance after deduction of the total liabilities was HK$239,540,000. The net debt to equity ratio, based on total liabilities less cash and cash equivalents to equity attributable to owners of the Company as at 31 December 2010 was 2.5%.

Save as disclosed above, the financial position of the Group has remained liquid. As most of the Group's monetary assets are denominated in Hong Kong dollars, US dollars and Renminbi, with minimal balances in UK pounds and New Taiwan dollars, the exchange rate risks of the Group are considered to be minimal.

Charge on Assets

As at 31 December 2011, deposits of approximately HK$3,124,000 (as at 31 December 2010: HK$3,146,000) were pledged with banks to secure banking guarantees given to the landlord of a subsidiary. The land in Chaoyang Park together with the development site, with carrying value of approximately HK$117,000,000, HK$203,000,000 and HK$676,000,000 (as at 31 December 2010: HK$115,000,000, HK$92,000,000 and HK$371,000,000) recorded in lease premium for land, construction in progress and investment properties under construction respectively were pledged with a bank to secure a bank borrowing to fund the construction work on the Phoenix International Media Centre in Beijing.

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2011 and 31 December 2010.

Capital Structure

During the year ended 31 December 2011, other than the exercise of share options granted, there was no change in the Company's share capital. As at 31 December 2011, the Group's operations were mainly financed by owners' equity and bank borrowings and banking facilities.

Staff

As at 31 December 2011, the Group employed 2,529 full-time staff (31 December 2010: 1,897) at market remuneration with employee benefits such as comprehensive medical coverage, insurance plan, defined contribution pension schemes and employee share option schemes. Staff costs for the year increased to approximately HK$865,439,000 (year ended 31 December 2010: HK$553,965,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

Significant Investments Held

As at 31 December 2011, the Group invested in listed security investments with an estimated fair market value of approximately HK$18,011,000 (as at 31 December 2010: HK$24,330,000). Save as disclosed above, the Group has not held any other significant investment for the year ended 31 December 2011.

Future Plans for Material Investments and Expected Source of Funding

The Group is currently considering a possible spin-off and separate listing of PMM Beijing, a subsidiary engaged in the outdoor media business in the People's Republic of China. For details, please refer to the announcement published on 1 November 2011.

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

As at 31 December 2011, the Group was considering various investment projects and options but had not made any solid plan for pursuing the same.

Contingent Liabilities

The Group is in negotiation with a music royalties collecting society regarding the payment of certain royalties. The Group believes that the likelihood of a material outflow in settlement of this royalties issue may not be probable.

Save as disclosed above, the Group had no material contingent liabilities as at 31 December 2011 and 31 December 2010.

Purchase, Sale or Redemption of Securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Use of Non-GAAP Financial Measures

To supplement the consolidated financial statements presented in Hong Kong Financial Reporting Standards, the Group uses Non-GAAP profit attributable to owners of the Company by reflecting the gain on deemed disposal of partial interests in the new media and the outdoor media in the consolidated income statement instead of in equity. The Group believes that inclusion of the gain in the consolidated income statement adds clarity and enhances the overall understanding of the Group's financial performance. Non-GAAP financial measures are not expressly permitted under Hong Kong Financial Reporting Standards.