

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

1. General Information

Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (together, the "Group") engage principally in satellite television broadcasting activities.

The Company is a limited liability company incorporated in the Cayman Islands and domiciled in Hong Kong. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since December 2008 prior to which, it was listed on the Growth Enterprise Market of the Stock Exchange.

The financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. These consolidated financial statements of the Group were approved for issue by the Board of Directors on 15 March 2012.

2. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties under construction, financial assets and financial liabilities (including derivative instrument) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(b) Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group but have no significant impact on the Group's financial statements.

(i) Amendments and interpretation to existing standards effective in 2011 but not relevant to the Group

HKAS 24 (Revised), "Related Party Disclosure" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

- (a) The name of the government and the nature of their relationship;
- (b) The nature and amount of any individually significant transactions; and
- (c) The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition for a related party.

Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

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(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies and disclosures (Continued)

- (i) Amendments and interpretation to existing standards effective in 2011 but not relevant to the Group (Continued)

Amendment to HK(IFRIC) – Int-14 ‘Prepayments of a minimum funding requirement’ is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

HK(IFRIC) – Int 19 ‘Extinguishing financial liabilities with equity instruments’ is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it currently has no extinguishment of financial liabilities replaced with equity instruments currently.

Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA, except for amendment to HKAS 34 ‘Interim financial reporting’ and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

- (ii) Standards and amendments which are not yet effective

The HKICPA has issued the following new or revised standards and amendments to the standards which are not yet effective in 2011 but relevant to the Group and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 1 Amendment	Presentation of Financial Statements	1 July 2012
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1 January 2012
HKAS 19 Amendment	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Associates and Joint Ventures	1 January 2013
HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013

The Group has not early adopted any of the above standards, interpretations and amendments to the existing standards. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Group’s results of operations and financial position.

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(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment.

Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(c) Consolidation (Continued)

(ii) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Associate and jointly controlled entities

The Group's investments in an associate and jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in an associate and jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2(k) for the impairment of non-financial assets including goodwill.

The Group's share of its associates and jointly controlled entities' post-acquisition profits or losses are recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or jointly controlled entities equals or exceeds its interest in the associate or jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly controlled entities.

Unrealised gains on transactions between the Group and its associate or jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate and jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in an associate and jointly controlled entities are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK\$, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other assets and liabilities are presented in the consolidated income statement within "other gains, net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the consolidated income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(e) Foreign currency translation (Continued)

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

The functional currency of the jointly controlled entities in which the Group has invested is Renminbi. The Group's investment in the net assets of the jointly controlled entities are translated at the closing rate at the date of the balance sheet. The Group's share of losses of the jointly controlled entities are translated at the average exchange rates for equity accounting purposes. All resulting exchange differences are recognised in other comprehensive income.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

No depreciation is provided on assets under construction until they are completed and are available for use. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2.22 – 3.33%
Leasehold improvements	shorter of 6.67% – 33.3% or over the terms of the leases
Furniture and fixtures	15% – 20%
Broadcast operations and other equipment	10% – 20%
Motor vehicles	20% – 25%
LED monitors	10% – 11.1%
Aircraft	7.1%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(k)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net", in the consolidated income statement.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(g) Investment properties under construction

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment properties under construction, principally comprising lease premium for land and office buildings under construction, is held for long-term rental yields and will not be occupied by the Group. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties under construction are initially measured at cost, including related transaction costs. After initial recognition at cost investment properties under construction are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed by an independent valuer. Changes in fair values are recorded in the consolidated income statement.

(h) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Licenses

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are recognised at fair value at the acquisition date. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of two to four years.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to four years.

(iii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of three years.

(iv) Club debentures

Acquired club debentures are intangible assets with an indefinite useful life. They are therefore shown at historical cost and are not amortised. Impairment assessments on club debentures are carried out by comparing their recoverable amounts with their carrying amounts annually and whenever there is an indication that the intangible assets maybe impaired.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(h) Intangible assets (Continued)

(v) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

(i) Purchased programme and film rights

Purchased programme and film rights are recorded at cost less accumulated amortisation and any impairment losses. The cost of purchased programme and film rights is expensed in the consolidated income statement on the first and second showing of such purchased programme and film rights or amortised over the license period if the license allows multiple showings within the license period.

Purchased programme and film rights with a remaining license period of 12 months or less are classified as current assets.

(j) Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct production expenditures and an appropriate portion of production overheads. Programmes in production that are abandoned are written off in the consolidated income statement immediately, or when the revenue to be generated by these programmes is determined to be lower than cost, the cost is written down to recoverable amount. Completed programmes will be broadcast over a short period of time and their costs are expensed in the consolidated income statement in accordance with a formula computed to write off the cost over the broadcast period.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(k) Impairment of investments in subsidiaries, an associate, jointly controlled entities and non – financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associate or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entities in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(l) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of reporting period. These are classified as non-current assets. The Group's loans and receivables comprise bank deposits, accounts receivable, deposits and other receivables amounts due from related parties, restriction cash and cash and cash equivalents in the balance sheet (Notes 2(n) and 2(p)).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of reporting period. Available-for-sale financial assets represented unlisted securities of private issuers outside Hong Kong.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(l) Financial assets (Continued)

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at cost as these securities have no quoted market price in an active market and their fair values cannot be reliably measured. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statement within “other gains, net”, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

(m) Inventories

Inventories, comprising decoder devices and satellite receivers, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories 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 applicable variable selling expenses.

(n) Accounts and other receivables

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. If reduction of accounts and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(o) Impairment of financial assets

(i) Assets carried at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held – to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(o) Impairment of financial assets (Continued)

(ii) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(q) Deferred income

Deferred income represents advertising revenue, subscription revenue and promotion service revenue received in advance from third party customers.

(r) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (Note 2(u)).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Accounts payable, other payables and accruals

Accounts payable, other payables and accruals are recognised initially at fair value and subsequently measured of amortised cost using effective interest method.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Preference shares, which are redeemable at the option of the holder on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the consolidated income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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2. Summary of Significant Accounting Policies (Continued)

(u) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible preference shares that can be converted to ordinary shares of a subsidiary at the options of the holders, and the number of ordinary shares of the subsidiary to be issued varies with changes in their conversion price made in accordance with the relevant provisions of the preference share purchase agreement.

The liability component of the convertible preference shares, which represents the host liability and compound embedded derivatives, is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts (Note 37(b)).

Subsequent to initial recognition, the host liability is measured at amortised cost using the effective interest method. The compound derivatives are measured at fair value. The equity component is not re-measured subsequent to initial recognition except on conversion or expiry.

The dividends on these preference shares are recognised in the consolidated income statement as interest expense.

(v) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, an associate and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2. Summary of Significant Accounting Policies (Continued)

(w) Employee benefits

(i) Pension obligations

The Group operates defined contribution retirement schemes for the Hong Kong employees based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes' costs expensed in the consolidated income statement represent contributions paid or payable by the Group to the funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant local regulations of the countries where the overseas subsidiaries of the Group are located, these subsidiaries participate in respective government retirement benefit schemes and/or set up their own retirement benefit schemes (the "Schemes") whereby they are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the respective countries. The Group has no further obligation beyond the required contributions. The contributions under the Schemes are expensed in the consolidated income statement as incurred.

(ii) Bonus plans

The expected bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding credit to the employee share-based payment reserve. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions.

Non-market conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(w) Employee benefits (Continued)

(iii) Share-based compensation (Continued)

The cash paid to subscribe for the shares issued when the Company's options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs. Cash paid to subscribe for the shares of subsidiaries of the Company, net of any directly attributable transaction costs, are reflected as increases to non-controlling interests in the consolidated balance sheet. On exercise of share options granted after 7 November 2002 and not vested as of 1 January 2005, the portion of the employee share-based payment reserve attributable to such options is transferred to share premium for the Company's share options or non-controlling interests for share options of the Company's subsidiaries.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(x) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense in the consolidated income statement.

(y) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount received for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, related agency commission expenses and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Advertising revenue

Advertising revenue, net of agency commission expenses, is recognised upon the broadcast of advertisements.

(ii) Mobile, video and wireless value added services income

Mobile, video and wireless value added services income are recognized in the period in which the services is performed.

(iii) Subscription revenue

Subscription revenue received or receivable from the cable distributors or agents is amortised on a time proportion basis to the consolidated income statement. The unamortised portion is classified as deferred income.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

2. Summary of Significant Accounting Policies (Continued)

(y) Revenue recognition (Continued)

(iv) Magazine advertising revenue

Magazine advertising revenue net of commission expense is recognised when the magazine is published.

(v) Magazine subscription/circulation revenue

Magazine subscription or circulation revenue represents subscription or circulation money received or receivable from customers and is recognised when the respective magazine is dispatched or sold.

(vi) Technical services income

Revenue from the provision of technical services is recognised when the value-added telecommunication services are provided/delivered to customers.

(vii) Sales of decoder devices and satellite receivers

Revenue from sales of decoder devices and satellite receivers is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(viii) Interest income

Interest income from bank deposits is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(ix) Barter revenue

Barter revenue is recognised at the fair value of goods or services received or receivable in the transaction upon the broadcast of advertisements, the publishing of the magazine or the provision of promotion services to be provided by the Group in the barter transaction.

(z) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) including upfront payment made for lease premium for land, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(aa) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is mainly carried out by the finance department (the "Finance Department") headed by the Chief Financial Officer of the Group. The Finance Department identifies and evaluates financial risks in close co-operation with the Group's operating units to cope with overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(i) Market risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi ("RMB") and US dollar ("US\$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group engage in transactions mainly in HK\$, RMB and US\$ to the extent possible. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Finance Department is responsible for monitoring and managing the net position in each foreign currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's operations, such as those in the People's Republic of China (the "PRC"), the United Kingdom and the United States is managed primarily through operating liabilities denominated in the relevant foreign currencies.

At 31 December 2011, if HK\$ had weakened/strengthened by 5% (2010: 3%) against the RMB, with all other variables held constant, after-tax loss (2010: profit) for the year would have been HK\$27,568,000 (2010: HK\$11,787,000) higher or lower (2010: lower or higher), mainly as a result of foreign exchange losses/gains on translation of RMB-denominated accounts receivable and receivables from an advertising agent, Shenzhou Television Company Ltd. ("Shenzhou").

At 31 December 2011, certain of the assets of the Group are denominated in US\$. The Group also had operations in the United States. Since HK\$ is pegged to US\$, foreign exchange exposure with respect to the US\$ denominated assets or its operations in the United States is considered as minimal.

(b) Price risk

The Group is exposed to unlisted and listed securities price risk because certain investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. For unlisted securities, management adopts the indicative market value provided by the issuers as their best estimate of the fair values of such securities. The Group also has investment in the equity of a publicly traded entity. For the further details of price risk exposed by the Group, please refer to Note 27.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

3. Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(c) PRC regulations

The Chinese market in which the Group operates exposes the Group to certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Group to provide online advertising, mobile and Internet related services through contractual arrangements in the PRC since these industries remain highly regulated. The Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate this industry. Regulatory risk also encompasses the interpretation by the tax authorities of current tax law, the status of properties leased for our operations and the Group's legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Group's ability to conduct business in the PRC. The PRC government may also require the Group to restructure its operation entirely if it finds that the Group's contractual arrangements do not comply with applicable laws and regulation. It is unclear how a restructuring could impact the Group's business and operating results, as the PRC government has not yet found any such contractual arrangements to be in noncompliance. However, any such restructuring may cause significant disruption to the Group's business operations.

(ii) Credit risk

The Group's credit risk arises from cash and cash equivalents, loans and receivables, deposits with banks and financial institutions, as well as credit exposures to advertising agents and customers, including outstanding receivables and committed transactions. The Group has a receivable from an advertising agent, Shenzhou, in the PRC amounting to HK\$490,805,000 (2010: HK\$313,626,000) representing approximately 8% (2010: 8%) of the total assets of the Group as of 31 December 2011. The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers and advertising agents, taking into account their financial position, collection history, past experience and other factors. For banks, financial institutions and issuers of derivative financial instruments, only reputable well established banks and financial institutions are accepted.

The Group has put in place policies to ensure that the sales are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

Most of the payment terms for advertising revenue will be agreed between the Group and the customers at the beginning of year. Customers will make payments in accordance with the contract terms. The Group generally requires its advertising customers in the television broadcasting segment to pay in advance. Customers of other business segments are given credit terms of 30 to 90 days.

See Note 22 for further disclosure on credit risk.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

3. Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed banking facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Finance Department aims to maintain flexibility in funding by keeping committed banking facilities available. Details of cash and cash equivalents and banking facilities are set out in Notes 30 and 31 respectively.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000
Group			
At 31 December 2011			
Accounts payable and other payables	500,234	–	–
Amounts due to related companies	1,637	–	–
Secured bank borrowings	500,562	–	–
At 31 December 2010			
Accounts payable and other payables	401,393	–	–
Amounts due to related companies	11,372	–	–
Secured bank borrowings	–	245,091	–
Preferred shares liability – host debt	–	–	409,243
Preferred shares liability – derivative component	–	–	192,974

(iv) Cash flow and fair value interest rate risks

As the Group has interest-bearing assets comprising cash and cash equivalents bank deposits, restricted cash and amount due from Shenzhou (see Note 24) the Group's income and operating cash flows can be affected by changes in market interest rates.

The Group's cash flow and fair value interest-rate risks primarily arise from bank deposits and bank borrowings. Bank deposits placed and bank borrowings issued at variable rates expose the Group to cash flow interest-rate risk whereas bank deposits placed at fixed rates expose the Group to fair value interest-rate risk. The Finance Department's policy is to maintain an appropriate level between fixed-rate and floating-rate deposits. At 31 December 2011, 14% of bank deposits, restricted cash and cash and cash equivalents were at fixed rates and all the bank borrowings were at floating rates.

At 31 December 2011, with all other variables held constant, if the interest rate had increased/decreased by 1%, after-tax loss (2010: profit) for the year would have been HK\$19,371,000 (2010: HK\$9,788,000) higher or lower (2010: lower or higher). Borrowing costs on bank borrowings are capitalised under investment properties under construction and construction in progress and thus has no impact on after-tax loss (2010: profit).

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

3. Financial Risk Management (Continued)

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(c) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, bank deposits, accounts receivable, deposits and other receivables, available-for-sale financial assets, amounts due from/to related companies, accounts payable, other payables and accruals, approximate their fair value due to their short maturities.

The fair value of financial assets at fair value through profit or loss that is not openly traded is determined with reference to indicative market values provided by issuers (Note 27). Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

The following table presents the Group's financial assets that are measured at fair value at 31 December 2011.

	Level 1	Level 2	Total
Assets			
Financial assets at fair value through profit or loss			
– trading equity securities	18,011	–	18,011

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2010.

	Level 1	Level 2	Total
Assets			
Financial assets at fair value through profit or loss			
– trading equity securities	24,330	–	24,330
Liabilities			
Financial liabilities at fair value through profit or loss			
– derivative component of preferred share liability	–	192,974	192,974

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

3. Financial Risk Management (Continued)

(c) Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. As at 31 December 2011, instruments included in level 1 comprise shares of HSBC Holdings PLC ("HSBC") of approximately HK\$18,011,000 (2010: HK\$24,330,000) (Note 27).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 31 December 2011, there was no instrument included in level 2. As at 31 December 2010, instrument included in level 2 comprised financial liability at fair value through profit and loss of HK\$192,974,000 (Note 37(b)).

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classification.

4. Critical Accounting Estimates and Judgments

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Provision for impairment of receivables

Significant judgment is exercised in the assessment of the collectibility of accounts receivable from each customer and the receivable from an advertising agent, Shenzhou. In making such judgment, management considers a wide range of factors, including customers' and Shenzhou's payment trends, subsequent payments and customers' and Shenzhou's financial positions.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions, including Hong Kong and the PRC. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. For the Group's tax exposure in the PRC, please refer to Note 9.

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and function. It could change significantly as a result of changes in the Group's operations including any future relocation or renovation of the Group's facilities. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down non-strategic assets that have been abandoned or sold.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

4. Critical Accounting Estimates and Judgments (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(iv) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for derivative instrument that are not traded in active markets.

(v) Fair value of investment properties under construction

The fair value of investment properties under construction is determined using the information from the valuations performed by external professional valuers using the residual method of valuation. The residual method of valuation essentially involves the gross development value assessment of the hypothetical development to be erected on the investment properties based on the latest development scheme. The estimated development costs for the hypothetical development including construction costs and professional fees together with allowances on interest payments and developer's profits are deducted from the established gross development value thereof. The resultant figure is then adjusted back to present value as at the valuation date to reflect the existing state of the investment properties. The residual site value is then cross-checked with the actual sales or offerings of comparable properties by direct comparison method of valuation whereby comparable properties with similar character, location, sizes and so on are analysed and weighted against all respective advantages and disadvantages of the investment property in order to arrive at a fair comparison of value. Had the Group used different development costs and other assumptions, the fair value of the investment property would be different and thus, would impact the consolidated income statement.

(vi) Revenue recognition

Revenue is recognised when persuasive evidence of an arrangement exists, the price is fixed or determinable, service is performed and collectability of the related fee is reasonably assured.

Part of the Group's advertising revenue arrangements involve multiple element deliverables, including placements of different advertisement formats on the Group's website over different periods of time. The Group breaks down the multiple element arrangements into single units of accounting when possible, and allocates total consideration to each single unit of accounting using the relative selling price method.

The Group recognises revenue on the elements delivered and defers the recognition of revenue for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the agreement period, the revenues are recognised on a straight line basis over the contract period.

(vii) Recognition of share-based compensation expense

The Group's employees have participated in various share-based incentive schemes of the Company and its subsidiaries. Management of the Group have used the Black-Scholes model to determine the total fair value of the options granted. Significant estimates and assumptions are required to be made in determining the parameters for applying the Black-Scholes model, including estimates and assumptions regarding the risk-free interest rate, expected dividend yield and volatility of the underlying shares and the expected life of the share options. The fair values of restricted share units and restricted shares granted are measured on the grant date based on the fair value of the underlying shares of the subsidiaries. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognises an expense for those options, restricted share units and restricted shares expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the options, restricted share units and restricted shares and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expense.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

4. Critical Accounting Estimates and Judgments (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(vii) Recognition of share-based compensation expense (Continued)

The fair value of options, restricted share units and restricted shares at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

Based on the fair value of the share-based awards granted by the Company and its subsidiaries to the Group's employees, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expense recognised by the Group in respect of their services rendered for the year ended 31 December 2011 was HK\$151,626,000 (2010: HK\$15,437,000) (Note 8).

(b) Critical judgments in applying the Group's accounting policies

(i) Control over Phoenix Metropolis Media Technology Co., Ltd ("PMM Beijing")

Upon completion of the Capital Increase Agreement (see Note 40(b)), the Group's equity interest in PMM Beijing was reduced from 75% to 45.54%. Management has exercised its critical judgment when determining whether the Group has de facto control over PMM Beijing by considering the following, amongst others: (i) the Group has obtained effective control over majority of the board of PMM Beijing; (ii) the Group has the ability to direct the relevant activities of PMM Beijing, i.e. the activities that significantly affect PMM Beijing; and (iii) PMM Beijing and other shareholders highly rely on the Group's industry expertise, brand, network and reputation.

5. Revenue and Segment Information

The Group is principally engaged in satellite television broadcasting activities. An analysis of the Group's revenue and other income by nature is as follows:

	2011 \$'000	2010 \$'000
(Note 45)		
Revenue		
Advertising sales		
Television broadcasting	1,983,009	1,602,191
Internet	559,148	235,803
Outdoor media	386,559	268,210
Mobile, video and wireless value added services income	554,563	324,653
Subscription sales	85,273	76,234
Magazine advertising and subscription or circulation	57,717	47,043
Others	13,176	11,256
	3,639,445	2,565,390

Management has determined the operating segments based on the reports reviewed by executive directors that are used to make strategic decisions. The executive directors consider the business from a product perspective.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

5. Revenue and Segment Information (Continued)

The Group has five main operating segments including:

- (i) Television broadcasting – broadcasting of television programmes and commercials and provision of promotion activities;
 - (a) Primary channels, including Phoenix Chinese Channel and Phoenix Infonews Channel
 - (b) Others, including Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others
- (ii) New media – provision of website portal and value-added telecommunication services;
- (iii) Outdoor media – provision of outdoor advertising services;
- (iv) Real estate – property development and investment (mainly Phoenix International Media Centre in Beijing); and
- (v) Other activities – programme production and ancillary services, merchandising services, magazine publication and distribution, and other related services.

	Year ended 31 December 2011								
	Television broadcasting			New media	Outdoor media	Real estate	Other activities	Inter-segment elimination	Group
	Primary channels	Others	Sub-total						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue									
External sales	1,896,099	176,208	2,072,307	1,113,711	386,559	-	66,868	-	3,639,445
Inter-segment sales (Note d)	-	6,948	6,948	5,901	-	-	41,442	(54,291)	-
Total revenue	1,896,099	183,156	2,079,255	1,119,612	386,559	-	108,310	(54,291)	3,639,445
Segment results	1,016,393	9,958	1,026,351	(818,111)	85,177	118,662	7,186	-	419,265
Unallocated income (Note a)									35,565
Unallocated expenses (Note b)									(295,042)
Profit before share of results of jointly controlled entities/an associate, income tax and non-controlling interests									159,788
Share of loss of jointly controlled entities									(4,819)
Share of profit of an associate									1,028
Income tax expense									(229,460)
Loss for the year									(73,463)
Non-controlling interests									6,578
Loss attributable to owners of the Company									(66,885)
Depreciation	(63,848)	(6,605)	(70,453)	(17,892)	(21,622)	(290)	(2,823)	-	(113,080)
Unallocated depreciation									(27,940)
									(141,020)

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

5. Revenue and Segment Information (Continued)

	Year ended 31 December 2010								
	Television broadcasting			New media \$'000	Outdoor media \$'000	Real estate \$'000 (Note c)	Other activities \$'000	Inter-segment elimination \$'000	Group \$'000 (Note 45)
	Primary channels \$'000	Others \$'000	Sub-total \$'000						
Revenue									
External sales	1,539,246	139,937	1,679,183	560,456	268,210	–	57,541	–	2,565,390
Inter-segment sales (Note d)	209	4,805	5,014	14,366	210	–	37,054	(56,644)	–
Total revenue	1,539,455	144,742	1,684,197	574,822	268,420	–	94,595	(56,644)	2,565,390
Segment results	808,026	29,755	837,781	(125,776)	55,585	14,937	5,599	–	788,126
Unallocated income (Note a)									12,103
Unallocated expenses (Note b)									(245,519)
Profit before share of results of jointly controlled entities/an associate, income tax and non-controlling interests									554,710
Share of loss of jointly controlled entities									(1,794)
Share of loss of an associate									(2)
Income tax expense									(108,490)
Profit for the year									444,424
Non-controlling interests									(22,602)
Profit attributable to owners of the Company									421,822
Depreciation	(58,500)	(1,165)	(59,665)	(8,800)	(17,634)	(356)	(960)	–	(87,415)
Unallocated depreciation									(22,029)
									(109,444)

Notes:

(a) Unallocated income represents exchange gain, interest income, fair value gain/loss on financial assets and liabilities (realised and unrealised) and investment income.

(b) Unallocated expenses represent primarily:

- corporate staff costs;
- office rental;
- general administrative expenses; and
- marketing and advertising expenses that relate to the Group as a whole.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

5. Revenue and Segment Information (Continued)

(c) During the year ended 31 December 2010, real estate did not qualify as a reportable operating segment. However, with the continuous development and expansion of this segment, it qualifies as a reportable operating segment for the year ended 31 December 2011. The comparatives have been restated.

(d) Sales between segments are carried out based on terms determined by management with reference to market prices.

The Company is domiciled in Hong Kong. The geographical distribution of its revenue from external customers and total assets by geographical location are as follows:

	Year ended 31 December 2011	
	Revenue \$'000	Total assets \$'000
The People's Republic of China	3,455,684	2,790,901
Hong Kong	65,529	3,300,513
Others	118,232	97,515
	3,639,445	6,188,929
	Year ended 31 December 2010	
	Revenue \$'000 (Note 45)	Total assets \$'000
The People's Republic of China	2,433,141	1,776,809
Hong Kong	37,106	1,997,343
Others	95,143	51,731
	2,565,390	3,825,883

6. Other Gains, Net

	2011 \$'000	2010 \$'000
Exchange gain, net	55,961	7,753
Investment income	902	3,355
Fair value loss on financial assets at fair value through profit or loss (realised and unrealised)	(6,319)	(6,187)
Service charges received from a related party	–	978
Others, net	12,224	7,133
	62,768	13,032

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

7. (Loss)/Profit Before Income Tax

The following items have been credited/charged to the (loss)/profit before income tax during the year:

	2011 \$'000	2010 \$'000
Crediting		
Reversal of provision for impairment of accounts receivable	–	1,155
Charging		
Production costs of self-produced programmes	190,841	134,531
Commission expenses	321,472	296,229
Transponder rental	29,549	25,405
Provision for impairment of accounts receivable	16,740	686
Employee benefit expenses (including Directors' emoluments)	865,439	553,965
Operating lease rental in respect of		
– Directors' quarters	2,048	1,445
– Land and buildings of third parties	38,471	27,000
Loss on disposal of property, plant and equipment	355	658
Depreciation	141,020	109,444
Amortisation of purchased programme and film rights	25,421	23,150
Amortisation of lease premium for land	2,744	2,744
Amortisation of intangible assets	1,734	1,912
Auditor's remuneration	9,152	3,382
Services charges paid to related parties	19,495	20,404

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

8. Employee Benefit Expenses (Including Directors' Emoluments)

	2011 \$'000	2010 \$'000
Wages, salaries and other allowances	694,221	521,743
Unutilised annual leave	1,205	833
Pension costs – defined contribution plan, net of forfeited contributions (Note a)	18,387	15,952
Share-based compensation expense (Note 33)	151,626	15,437
	865,439	553,965

(a) Pensions – defined contribution plans

The Group operates a number of defined contribution pension schemes in accordance with the respective subsidiaries' local practices and regulations. The Group is obligated to contribute funding to these plans based on various percentages of the employees' salaries or a fixed sum per employee with reference to their salary level. The assets of these schemes are generally held in separate trustee administered funds.

- (i) Employees in Hong Kong are provided with a defined contribution provident fund scheme and the Group is required to make monthly contribution to the scheme based on 10% of the employees' basic salaries. Forfeited contributions are used to offset the employer's future contributions. For the year ended 31 December 2011, the aggregate amount of the employer's contributions was approximately HK\$15,818,000 (2010: HK\$13,981,000) and the total amount of forfeited contributions was approximately HK\$990,000 (2010: HK\$980,000).

Since 1 December 2000, the employees in Hong Kong can elect to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced in 2000. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund legislation.

Both the employer's and the employees' contributions are subject to a cap of monthly relevant income of HK\$20,000 for each employee. For those employees with monthly relevant income less than HK\$6,500, since 1 November 2011, the employees' contributions are voluntary.

For the year ended 31 December 2011, the aggregate amount of employer's contributions made by the Group to the MPF Scheme was approximately HK\$1,925,000 (2010: HK\$1,738,000) and there was no forfeited contributions (2010: HK\$31,000).

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

8. Employee Benefit Expenses (Including Directors' Emoluments) (Continued) (b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2011 is set out below:

Name of Director	Fees \$'000	Salaries \$'000	Discretionary bonus \$'000	Housing allowance \$'000	Pension costs \$'000	Total \$'000
1. LIU Changle	-	5,806	3,200	1,699	535	11,240
2. CHUI Keung	-	2,376	1,846	1,171	219	5,612
3. WANG Ji Yan	-	2,073	1,477	1,022	191	4,763
4. SHA Yuejia	-	-	-	-	-	-
5. Ella Betsy WONG	-	-	-	-	-	-
6. LO Ka Shui	250	-	-	-	-	250
7. GAO Nianshu	-	-	-	-	-	-
8. GONG Jianzhong	-	-	-	-	-	-
9. Jan KOEPPEN	-	-	-	-	-	-
10. LEUNG Hok Lim	250	-	-	-	-	250
11. Thaddeus Thomas BECZAK	250	-	-	-	-	250
12. CHEUNG Chun On, Daniel	-	-	-	-	-	-
13. GAO Jack Qunyao	-	-	-	-	-	-

The remuneration of every Director for the year ended 31 December 2010 is set out below:

Name of Director	Fees \$'000	Salaries \$'000	Discretionary bonus \$'000	Housing allowance \$'000	Pension costs \$'000	Total \$'000
1. LIU Changle	-	5,528	2,600	1,117	510	9,755
2. CHUI Keung	-	2,261	1,500	1,117	208	5,086
3. WANG Ji Yan	-	1,972	1,200	976	182	4,330
4. LU Xiangdong (resigned on 23 March 2010)	-	-	-	-	-	-
5. LI Yue (appointed on 23 March 2010, resigned on 19 August 2010)	-	-	-	-	-	-
6. SHA Yuejia (appointed on 19 August 2010)	-	-	-	-	-	-
7. Ella Betsy WONG	-	-	-	-	-	-
8. LO Ka Shui	250	-	-	-	-	250
9. GAO Nianshu	-	-	-	-	-	-
10. GONG Jianzhong	-	-	-	-	-	-
11. Jan KOEPPEN	-	-	-	-	-	-
12. LEUNG Hok Lim	250	-	-	-	-	250
13. Thaddeus Thomas BECZAK	250	-	-	-	-	250
14. CHEUNG Chun On, Daniel	-	-	-	-	-	-
15. GAO Jack Qunyao	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

8. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 include three (2010: three) executive Directors whose emoluments are reflected in the analysis presented in (b) above. The emoluments paid/payable to the remaining two (2010: two) individuals during the year are as follows:

	2011 \$'000	2010 \$'000
Salaries	3,784	3,518
Discretionary bonus	3,876	3,150
Housing allowance	1,868	1,740
Pension costs	349	325
	9,877	8,733

As of 31 December 2011, Mr. LIU Changle had outstanding share options to purchase 4,900,000 (2010: Nil) shares at HK\$2.92 per share, Mr. CHUI Keung had outstanding share options to purchase 3,900,000 (2010: Nil) shares at HK\$2.92 per share and Mr. Wang Ji Yan had outstanding share options to purchase 3,900,000 (2010: Nil) shares at HK\$2.92 per share. No options were exercised by these Directors during 2011. The fair values of these options have not been included in the directors' emoluments disclosed above.

The emoluments of the remaining two (2010: two) individuals fell within the following bands:

Emolument band	Number of individuals	
	2011	2010
HK\$3,000,001–HK\$3,500,000	–	–
HK\$3,500,001–HK\$4,000,000	–	–
HK\$4,000,001–HK\$4,500,000	1	1
HK\$4,500,001–HK\$5,000,000	–	1
HK\$5,000,001–HK\$5,500,000	1	–

During the year, no emoluments or incentive payments were paid or payable to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office except as disclosed above (2010: Nil).

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

9. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011 \$'000	2010 \$'000
Current income tax		
– Hong Kong profits tax	143,229	104,853
– Overseas taxation	66,198	7,782
– Under/(over) provision of tax in the prior year	13,321	(4,673)
Deferred income tax (Note 38)	6,712	528
	229,460	108,490

On 20 January 1998, the PRC State Administration of Taxation granted a Tax Ruling of Business Tax and Foreign Enterprise Income Tax on certain of the Group's advertising fees collected from Shenzhen in the PRC (Note 24) (the "Ruling"). The Group has dealt with the aforementioned taxes according to the Ruling in the consolidated financial statements. However, PRC tax laws and regulations and the interpretations thereof may change in the future such that the Group would be subject to PRC taxation on certain income deemed to be sourced in the PRC on certain income deemed to be sourced in PRC other than Hong Kong. The Group will continue to monitor developments in the PRC tax regime in order to assess the ongoing applicability and validity of the Ruling.

In the PRC, subsidiaries of Fenghuang On-line and Tianying enjoy preferential tax rate of 7.5% and 15% respectively for being new and high technology enterprise.

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the tax rate of the location in which the Company operates as follows:

	2011 \$'000	2010 \$'000
Profit before income tax	155,997	552,914
Calculated at a taxation rate of 16.5% (2010: 16.5%)	25,740	91,231
Income not subject to taxation	(14,269)	(19,441)
Expenses not deductible for taxation purposes	181,763	43,617
Tax losses not recognised	11,478	4,775
Effect of tax holiday granted to PRC subsidiaries	(5,391)	(4,850)
Recognition of previously unrecognised deferred income tax assets	(73)	(887)
Utilisation of previously unrecognised tax losses	(4,943)	(1,836)
Effect of different tax rate in other countries	21,834	554
Under/(over) provision of tax in the prior year	13,321	(4,673)
Income tax expense	229,460	108,490

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

10. (Losses)/Earnings per Share

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
(Loss)/profit attributable to owners of the Company (\$'000)	(66,885)	421,822
Weighted average number of ordinary shares in issue ('000)	4,991,068	4,985,237
Basic (losses)/earnings per share (Hong Kong cents)	(1.34)	8.46

(b) Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares which comprise share options of the Company and a subsidiary, restricted shares and restricted share units of subsidiaries and the conversion option of the preference shares issued by a subsidiary. A calculation is done to determine the number of the Company's shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options of the Company. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the conversion of the preference shares. Where the number of shares so calculated is smaller than the number of shares that would have been issued assuming the exercise of all the outstanding share options, the difference represents potential dilutive shares and is added to the weighted average number of ordinary shares in issue to arrive at the weighted average number of ordinary shares for diluted (losses)/earnings per share.

	2011	2010
(Loss)/profit attributable to owners of the Company (\$'000)	(66,885)	421,822
Adjustment for share options of the Company and a subsidiary and preference shares issued by a subsidiary (\$'000)	–	(31,186)
(Loss)/profit attributable to owners of the Company used to determine diluted (losses)/earnings per share (\$'000)	(66,885)	390,636
Weighted average number of ordinary shares in issue ('000)	4,991,068	4,985,237
Adjustment for share options of the Company ('000)	–	6,580
Weighted average number of ordinary shares for diluted (losses)/earnings per share ('000)	4,991,068	4,991,817
Diluted (losses)/earnings per share (Hong Kong cents)	(1.34)	7.83

For the year ended 31 December 2011, the share options issued by the Company and a subsidiary, restricted shares and restricted share units of subsidiaries and the conversion option of the preference shares issued by a subsidiary did not have a dilutive effect on the losses per share. The basic and the diluted losses per share are the same.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

11. Dividends and Distributions

	2011 \$'000	2010 \$'000
Proposed final dividend of 4.2 Hong Kong cents (2010: 3.3 Hong Kong cents) per share (Note a)	209,705	164,572
Special dividend, paid, of 3.8 Hong Kong cents (2010: Nil) per share	189,732	–
Assured entitlement, paid (Note b)	44,127	–
	443,564	164,572

(a) The 2010 final dividend paid during the year ended 31 December 2011 were approximately HK\$164,717,000 (3.3 Hong Kong cents per share). The directors recommend the payment of a final dividend of 4.2 Hong Kong cents per share, totalling approximately HK\$209,705,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 8 June 2012. These consolidated financial statements do not reflect this dividend payable.

(b) In giving due regard to the interests of the shareholders of the Company as required under Practice Note 15 of the Rules Governing the Listing of Securities on the Stock Exchange, the Company had to make available to the qualifying shareholders an assured entitlement to the American depository shares ("Distribution ADS") in connection with the initial public offering (the "Offering") of Phoenix New Media Limited ("PNM") on the New York Stock Exchange ("NYSE") (Note 40(a)) by means of a distribution-in-specie. On 31 May 2011, the Group distributed 334,330 Distribution ADS amounting to HK\$29,989,000 and paid cash in lieu of Distribution ADS of US\$11 (approximately HK\$85.8) per Distribution ADS totalling HK\$14,138,000.

12. (Loss)/profit Attributable To Owners of the Company

The (loss)/profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a profit approximately HK\$996,680,000 (2010: loss HK\$2,632,000).

13. Purchased Programme and Film Rights, Net

	2011 \$'000	2010 \$'000
Balance, beginning of year	30,700	27,233
Additions	30,012	29,187
Amortisation	(25,421)	(23,150)
Others	(2,468)	(2,570)
Balance, end of year	32,823	30,700
Less: Purchased programme and film rights – current portion	(9,092)	(4,069)
	23,731	26,631

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

14. Lease Premium for Land

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2011 \$'000	2010 \$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	35,555	36,557
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	203,768	202,743
	239,323	239,300
	2011 \$'000	2010 \$'000
Balance, beginning of year	239,300	220,236
Currency translation difference	5,661	3,010
Additions (Note a)	–	53,584
Transferred to investment properties under construction (Note a and Note 16)	–	(32,238)
Amortisation (Note b)	(5,638)	(5,292)
Balance, end of year (Note c)	239,323	239,300

- (a) On 9 April 2008, Phoenix Pictures Limited ("Phoenix Pictures"), an indirectly wholly owned subsidiary of the Company, acquired Phoenix Oriental (Beijing) Properties Company Limited 鳳凰東方(北京)置業有限公司 ("Phoenix Oriental"), which holds the land use rights for a piece of land in Chaoyang Park. The land use rights held by Phoenix Oriental has been consolidated into the financial statements of the Group since then. The land use term of the land is 50 years from 10 October 2001.

The land at the south western corner of Chaoyang Park in Beijing was valued by Vigers Appraisal and Consulting Limited, which is an independent appraiser, as at 8 April 2008, the acquisition date of Phoenix Oriental. The fair value of the land as at acquisition date was RMB209,273,000 (equivalent to approximately HK\$237,625,000). Subsequent to the acquisition of Phoenix Oriental, an amount of RMB3,398,100 (equivalent to approximately HK\$3,885,000) was paid for the title registration for the land use right which has been capitalised as part of the cost of the land use right.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

14. Lease Premium for Land (Continued)

(a) (Continued)

The land and project transfer contract for the land was entered into by Phoenix Oriental in or around May 2006, before it became an indirectly owned subsidiary of the Company. So far as the Directors are aware, the terms of the land and project transfer contract were agreed at after arm's length negotiations between Phoenix Oriental and 北京朝陽公園開發經營公司 (Beijing Chaoyang Park Development and Management Co.) based on applicable rates promulgated by the PRC government. All land premium and taxes in relation to the land payable up to 31 March 2010 in the aggregate amount of RMB179,500,000 (HK\$204,630,000) have been fully paid. In April 2010, Phoenix Oriental and 北京市國土資源局 (State-owned Assets Beijing Bureau) entered into a supplemental agreement to the land and project transfer contract to increase the total gross floor area to approximately 65,000 square metres and change the land use to mixed use and underground parking, for additional land premium in the amount of approximately RMB45,660,000 (HK\$52,052,400). The additional land premium together with deed tax in the aggregate total amount of approximately RMB47,000,000 (HK\$53,580,000) have been fully paid in May 2010. The additional land premium has been reflected in the lease premium for land and investment properties under construction in accordance with the expected usage areas for the Group's operations and for rental income and capital appreciation.

The land, comprised of approximately 18,822 square metres and a permitted total gross floor area of approximately 65,000 square metres, in which the above ground of approximately 35,000 square metres, is for cultural, entertainment and office uses. Management intends the land to be used for the development of the Phoenix International Media Centre which will contain theatres and television programme studios to be used by the Group.

Upon completion of the construction, approximately 25,400 square metres will be occupied by the Group for its operations in Beijing, with the rest being held for rental income or capital appreciation.

- (b) For the year ended 31 December 2011, amortisation of lease premium for land capitalised in construction in progress under property, plant and equipment amounted to HK\$2,894,000 (2010: HK\$2,548,000).
- (c) Included in the net book value as of 31 December 2011 is an amount of HK\$15,960,000 (2010: HK\$16,365,000) which was paid by the Group to the Shenzhen Municipal Bureau of Land Resources and Housing Management ("Land Bureau") pursuant to notification from the Land Bureau to obtain a title certificate in the name of Phoenix Satellite Television Company Limited (the "Phoenix Subsidiary"), a wholly-owned subsidiary of the Group, for the Group's upper ground space entitlement of approximately 8,500 square meters in the China Phoenix Building in Shenzhen ("Shenzhen Building"). As of 31 December 2011, the Group was still awaiting the issuance of the title certificate to the Phoenix Subsidiary by the Shenzhen Municipal Government. The Directors are of the opinion that the title certificate to its entitlement in the Shenzhen Building will be issued in the near future. As at 31 December 2011, the Group's entitlement to use of its entitled areas in the building continues to be accounted for as a finance lease as the Group had not yet obtained title to these entitled areas (Note 15(a)).

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

15. Property, Plant and Equipment, Net

	Freehold land and building \$'000	Leasehold improvements \$'000	Furniture and fixtures \$'000	Broadcast operations and other equipment \$'000	Motor vehicles \$'000	LED monitors \$'000	Aircraft \$'000	Construction in progress \$'000	Total \$'000
Year ended 31 December 2010									
Opening net book amount	148,106	216,143	10,332	215,346	8,157	125,114	-	37,045	760,243
Currency translation differences	(26)	260	(1)	824	45	4,255	-	2,262	7,619
Additions	6,844	29,222	558	43,852	2,108	15,819	-	148,208	246,611
Disposals	-	(99)	(26)	(400)	(162)	-	-	-	(687)
Depreciation	(4,073)	(32,989)	(2,714)	(49,267)	(3,428)	(16,973)	-	-	(109,444)
Transfers	-	-	-	-	-	42,685	-	(42,685)	-
Closing net book amount (Note a)	150,851	212,537	8,149	210,355	6,720	170,900	-	144,830	904,342
At 31 December 2010									
Cost	161,093	283,028	15,299	407,728	24,805	196,778	-	144,830	1,233,561
Accumulated depreciation and impairment	(10,242)	(70,491)	(7,150)	(197,373)	(18,085)	(25,878)	-	-	(329,219)
Net book amount	150,851	212,537	8,149	210,355	6,720	170,900	-	144,830	904,342
Year ended 31 December 2011									
Opening net book amount	150,851	212,537	8,149	210,355	6,720	170,900	-	144,830	904,342
Currency translation differences	(121)	642	19	2,510	95	8,358	-	7,411	18,914
Additions	4,656	24,863	449	89,088	6,962	6,474	100,971	135,096	368,559
Disposals	-	-	(31)	(324)	-	-	-	-	(355)
Depreciation	(4,074)	(38,565)	(2,822)	(66,557)	(3,982)	(20,762)	(4,258)	-	(141,020)
Transfers	-	-	-	20,538	-	9,274	-	(29,812)	-
Closing net book amount (Note a)	151,312	199,477	5,764	255,610	9,795	174,244	96,713	257,525	1,150,440
At 31 December 2011									
Cost	165,627	308,608	15,742	517,478	31,370	222,587	100,971	257,525	1,619,908
Accumulated depreciation and impairment	(14,315)	(109,131)	(9,978)	(261,868)	(21,575)	(48,343)	(4,258)	-	(469,468)
Net book amount	151,312	199,477	5,764	255,610	9,795	174,244	96,713	257,525	1,150,440

Depreciation expense of approximately HK\$91,577,000 (2010: HK\$66,240,000) has been charged in operating expenses, and approximately HK\$49,443,000 (2010: HK\$43,204,000) in selling, general and administrative expenses.

- (a) Included in the net book value as of 31 December 2011 is an amount of HK\$27,583,000 (2010: HK\$28,283,000) which relates to the Group's entitlement to use 10,000 square meters in the Shenzhen Building. The Group's entitlement to use was accounted for as a finance lease as at 31 December 2011. As at 31 December 2011, the cost of this capitalised finance lease was HK\$30,848,000 (2010: HK\$30,848,000) with a net book value of HK\$27,583,000 (2010: HK\$28,283,000). As at 31 December 2011, the Group was still in the process of obtaining the title certificate to the 8,500 square meters of the entitled areas through the payment of land premium and taxes (See Note 14(c)).
- (b) Included in the net book value as of 31 December 2011 is an amount of HK\$96,713,000 (2010: Nil) which relates to the aircraft newly acquired for operation use, through acquisition of a company during the year.

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(Amounts expressed in Hong Kong dollars)

16. Investment Properties under Construction

	2011 \$'000	2010 \$'000
Balance, beginning of year	371,138	217,657
Transferred from lease premium for land (Note 14)	–	32,238
Additions	164,486	92,100
Fair value gain	127,488	21,979
Currency translation differences	22,279	7,164
Balance, end of year	685,391	371,138

The Group participated in the development of the Phoenix International Media Centre on a piece of land situated at the south-western corner of Chaoyang Park, Chaoyang District, Beijing (Note 14(a)).

The land, comprised of approximately 18,822 square metres and a permitted total gross floor area of approximately 65,000 square metres in which above ground of approximately 35,000 square metres, is for cultural, entertainment and office uses. Upon completion of the construction, approximately 25,400 square metres will be occupied by the Group for its operations in Beijing, with the rest being held for rental income or capital appreciation.

The Group applied the fair value model, for the accounting of investment properties under construction and has fair valued the portion of the construction in progress of the Phoenix International Media Centre which is accounted for as investment properties under construction. The fair value of the investment properties under construction as at 31 December 2011 as valued by Vigers Appraisal and Consulting Limited, which is an independent appraiser, was approximately RMB551,400,000 (equivalent to approximately HK\$675,630,000) (2010: RMB318,000,000 (equivalent to approximately HK\$371,138,000)). A fair value gain of approximately HK\$127,488,000 (2010: HK\$21,979,000) was recognised in the consolidated income statement for the year ended 31 December 2011.

Interest capitalised under investment properties under construction amounted to HK\$21,011,000 (2010: HK\$7,762,000).

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(Amounts expressed in Hong Kong dollars)

17. Intangible assets

	Goodwill \$'000	Licenses \$'000	Contractual customer relationship \$'000	Club debentures \$'000	Software \$'000	Total \$'000
Year ended 31 December 2010						
Opening net book amount	8,733	2,401	1,923	2,705	5,407	21,169
Additions	-	-	-	-	150	150
Disposal	-	-	-	-	(934)	(934)
Amortisation	-	(705)	(648)	-	(559)	(1,912)
Closing net book amount	8,733	1,696	1,275	2,705	4,064	18,473
At 31 December 2010						
Cost	8,733	2,401	1,923	2,705	4,623	20,385
Accumulated amortisation	-	(705)	(648)	-	(559)	(1,912)
Net book amount	8,733	1,696	1,275	2,705	4,064	18,473
Year ended 31 December 2011						
Opening net book amount	8,733	1,696	1,275	2,705	4,064	18,473
Amortisation	-	(738)	(676)	-	(320)	(1,734)
Closing net book amount	8,733	958	599	2,705	3,744	16,739
At 31 December 2011						
Cost	8,733	2,401	1,923	2,705	4,623	20,385
Accumulated amortisation and impairment	-	(1,443)	(1,324)	-	(879)	(3,646)
Net book amount	8,733	958	599	2,705	3,744	16,739

Amortisation of approximately HK\$1,414,000 (2010: HK\$1,353,000) is included in operating expenses, and approximately HK\$320,000 (2010: HK\$559,000) in selling, general and administrative expenses.

An impairment review of the carrying amount of goodwill at 31 December 2011 and have concluded that no impairment is required. For the purpose of impairment testing, goodwill acquired has been allocated to individual cash-generating units (CGU's) identified according to operating segment. The recoverable amount is based on a value in use calculation. There was no impairment charge recognised during the year (2010: Nil).

Certain of the Group's new media subsidiaries are in the process of applying for certain licenses for the operation of their businesses, including internet audio-visual program transmission license and internet news license.

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(Amounts expressed in Hong Kong dollars)

18. Interests in Jointly Controlled Entities

	2011 \$'000	2010 \$'000
Unlisted investments, net	6,854	10,846
Amount due from a jointly controlled entity (Note d)	20,000	–
	26,854	10,846

The Group's investments in jointly controlled entities are analysed as follows:

	2011 \$'000	2010 \$'000
Unlisted investments, at cost	18,964	13,246
Capital injection into jointly controlled entities (Note b)	827	5,718
Less: provision for impairment	(472)	(472)
Less: share of losses of jointly controlled entities	(12,465)	(7,646)
Unlisted investments, net	6,854	10,846

Details of the jointly controlled entities as at 31 December 2011 were as follows:

Name	Place and date of incorporation	Place of Operation	Principal activity	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
China Global Television Limited	British Virgin Islands, 18 October 2001	British Virgin Islands	Dormant	50%	US\$2
北京翡翠鳳凰文化投資諮詢有限公司	The PRC, 27 June 2003	The PRC	Dormant	40%	RMB1,250,000
北京同步廣告傳播有限公司 (Note a)	The PRC, 7 January 2005	The PRC	Advertising business in radio broadcasting industry in the PRC	45%	RMB30,000,000
深圳市優悅文化傳播有限公司	The PRC, 15 December 2010	The PRC	Radio broadcasting in PRC	50%	RMB10,000,000
Phoenix U Radio Limited (Note c)	Hong Kong, 24 September 2010	Hong Kong	Radio broadcasting	22.73%	HK\$1,000 (A share) HK\$100 (B share)
深圳鳳凰城市論壇有限公司	The PRC, 15 August 2011	The PRC	Organising events and conferences	50%	RMB1,000,000

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

18. Interests in Jointly Controlled Entities (Continued)

- (a) On 8 June 2007, Hong Kong Phoenix Satellite Television Limited (“Hong Kong Phoenix”), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the “Agreement”) with 北京廣播公司 and CBC Advertising Limited pursuant to which the registered capital of 北京同步廣告傳播有限公司 will be increased from RMB30,000,000 to RMB44,600,000. According to the Agreement, the increase in capital is to be contributed by Hong Kong Phoenix and CBC Advertising Limited as to RMB2,110,000 and RMB12,488,000, respectively. Subject to certain conditions, Hong Kong Phoenix and CBC Advertising Limited will have to inject no less than RMB422,000 and RMB2,497,600, respectively, five days prior to the application for the capital increment with the relevant authorities in Mainland China and must inject the remaining funds within one month after the issuance of the business license reflecting the capital increment. Immediately after the capital increment, the registered capital of 北京同步廣告傳播有限公司 owned by the Group, 北京廣播公司 and CBC Advertising Limited will change from 45%, 55% and 0% to 35%, 37% and 28% respectively.

On 27 May 2008, Hong Kong Phoenix entered into a new agreement with 北京廣播公司, 北京同步廣告傳播有限公司 and UPB International Media Limited which superseded the agreement dated 8 June 2007. Pursuant to the new agreement, the registered capital of 北京同步廣告傳播有限公司 will be increased from RMB30,000,000 to RMB61,348,000. Hong Kong Phoenix shall additionally inject RMB12,000,000 and become owner of 41.57% of the registered capital of the joint venture. As of 31 December 2011, the additional capital contribution had not been made by the Group.

- (b) In December 2010, the Group set up 深圳市優悅文化傳播有限公司, a jointly-controlled entity with 廣東電台. The registered capital of 深圳市優悅文化傳播有限公司 is RMB10,000,000, of which 50% was contributed by the Group.
- (c) On 24 September 2010, the Group set up Phoenix U Radio Limited, a jointly-controlled entity with certain individuals. The registered capital of Phoenix U Radio Limited is HK\$1,000 for Type A shares and HK\$100 for Type B shares. In a contractual arrangement between the Group and the venturers, joint control over the economic activity of the entity is established.
- (d) As at 31 December 2011, the amount due from the jointly controlled entity under non-current asset of HK\$20,000,000 bears interest at 2% plus the best lending rate per annum on HK\$ quoted by The Hong Kong and Shanghai Banking Corporation Limited. The average effective interest rate was 7%. The amount due from the jointly controlled entity is secured by certain assets of the jointly controlled entity, not repayable within one year after the balance sheet date and denominated in HK\$.
- (e) The results of these jointly controlled entities, all of which are unlisted, and their aggregate assets and liabilities are as follows:

	2011 \$'000	2010 \$'000
Assets:		
Non-current assets	360	184
Current assets	45,359	32,415
	45,719	32,599
Liabilities:		
Current liabilities	(27,148)	(4,008)
	18,571	28,591
Income	44,854	22,777
Expenses	(56,162)	(26,653)
Loss after income tax	(11,308)	(3,876)

There are no contingent liabilities relating to the Group's interests in the jointly controlled entities.

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(Amounts expressed in Hong Kong dollars)

19. Investment in an Associate

	2011 \$'000	2010 \$'000
Unlisted investment, at cost	5,564	5,564
Less: Share of profit/(loss) on an associate	200	(828)
Unlisted investment, net	5,764	4,736

Details of the associate as at 31 December 2011 was as follows:

Name	Place and date of incorporation	Place of operation	Principal activity	Percentage of equity interest held by the Group	Registered capital
深圳市合眾傳媒有限公司	The PRC, 28 October 2008	The PRC	Advertising business	26.46%	RMB10,000,000

20. Interests in and Amounts due from Subsidiaries

	Company 2011 \$'000	2010 \$'000
Non-current:		
Unlisted shares, at cost (Note a)	–	–
Amounts due from subsidiaries, net (Note c)	–	865,451
Deemed capital contributions arising from share-based compensation	52,254	–
	52,254	865,451
Current:		
Amounts due from subsidiaries, net (Note b)	1,470,174	–

(a) The following is a list of the subsidiaries at 31 December 2011:

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Phoenix Satellite Television Company Limited	Hong Kong, limited liability company	Hong Kong	Provision of management and related services	100%	HK\$20
Phoenix Satellite Television (Chinese Channel) Limited	British Virgin Islands, limited liability company	Hong Kong	Satellite television broadcasting	100%	US\$1
Phoenix Satellite Television (Movies) Limited	British Virgin Islands, limited liability company	Hong Kong	Satellite television broadcasting	100%	US\$1

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20. Interests in Subsidiaries (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Phoenix Satellite Television Trademark Limited	British Virgin Islands, limited liability company	British Virgin Islands	Trademark holding	100%	US\$1
Phoenix Satellite Television (Europe) Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
PCNE Holdings Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	70%	US\$1,000
Phoenix Chinese News & Entertainment Limited	The United Kingdom, limited liability company	The United Kingdom	Satellite television broadcasting	70%	£9,831,424
Phoenix Satellite Television Information Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	51.71%	US\$1
PHOENIXi Investment Limited (completed its liquidation process on 21 December 2011) (Note a (i))	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	48.76%	US\$123,976 (Ordinary shares) US\$7,500 (Series A preferred shares)
PHOENIXi, Inc. (completed its liquidation process on 15 July 2011) (Note a (ii))	The United States of America, limited liability company	The United States of America	Dormant	48.76%	US\$0.1
Phoenix Satellite Television (B.V.I.) Holding Limited (Note a (ii))	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
Phoenix Weekly Magazine (BVI) Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
Hong Kong Phoenix Weekly Magazine Limited	Hong Kong, limited liability company	Hong Kong	Publishing and distribution of periodicals	77%	HK\$100
Phoenix Satellite Television (InfoNews) Limited	British Virgin Islands, limited liability company	Hong Kong	Satellite television broadcasting	100%	US\$1
Phoenix Satellite Television Development (BVI) Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
Phoenix Satellite Television Development Limited	Hong Kong, limited liability company	Hong Kong	Investment holding	100%	HK\$2

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(Amounts expressed in Hong Kong dollars)

20. Interests in Subsidiaries (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
國鳳在線(北京)信息技術有限公司 Guofeng On-line (Beijing) Information Technology Company Limited (deregistered on 10 May 2011) (Note a (i))	The PRC, limited liability company	The PRC	Dormant	48.76%	US\$500,000
鳳凰影視(深圳)有限公司 Phoenix Film and Television (Shenzhen) Company Limited	The PRC, limited liability company	The PRC	Ancillary services for programme production	60%	HK\$10,000,000
Phoenix Satellite Television (Universal) Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
Phoenix Satellite Television (U.S.) Inc.	The United States of America, limited liability company	The United States of America	Provision of management and promotional related services	100%	US\$1
Phoenix Satellite Television (Taiwan) Limited	British Virgin Islands, limited liability company	Taiwan	Programme production	100%	US\$1
Phoenix Satellite Television Investments (BVI) Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
Hong Kong Phoenix Satellite Television Limited	Hong Kong, limited liability company	Hong Kong	Investment holding	100%	HK\$2
Phoenix Glow Limited	British Virgin Islands, limited liability company	British Virgin Islands	Provision of agency services	100%	US\$1
深圳市梧桐山電視廣播有限公司 Shenzhen Wutong Shan Television Broadcasting Limited	The PRC, limited liability company	The PRC	Programme production	54%	RMB5,000,000
Phoenix Global Television Limited	British Virgin Islands, limited liability company	British Virgin Islands	Investment holding	100%	US\$1
鳳凰在線(北京)信息技術有限公司 Fenghuang On-line (Beijing) Information Technology Company Limited	The PRC, limited liability company	The PRC	Internet services	51.71%	US\$1,850,000
Phoenix Pictures Limited	Hong Kong, limited liability company	Hong Kong	Investment holding	100%	HK\$1

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20. Interests in Subsidiaries (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Phoenix Media and Broadcast Sdn Bhd	Malaysia, limited liability company	Malaysia	Dormant	70%	RM1,000,000
Phoenix Centre (Hong Kong) Limited	Hong Kong, limited liability company	Hong Kong	Property holding	100%	HK\$1
Green Lagoon Investments Limited	British Virgin Islands, limited liability company	The PRC	Property holding	100%	US\$1
Hong Kong Phoenix Books Culture Publishing Company Limited (formerly known as Phoenix Publications (Hong Kong) Limited)	Hong Kong, limited liability company	The PRC	Dormant	100%	HK\$1
Phoenix Metropolis Media Holdings Limited (formerly known as Phoenix Metropolis Media Company Limited)	Hong Kong, limited liability company	The PRC	Outdoor media business	100%	HK\$400
Phoenix Satellite Television Company Limited	British Virgin Islands, limited liability company	The PRC	Property holding	100%	US\$1
Phoenix New Media Limited	Cayman Islands, limited liability company	The PRC	Investment holding	51.71%	US\$3,061,011 (Class A Ordinary shares) US\$3,173,254 (Class B Ordinary shares)
鳳凰都市傳媒科技股份有限公司 (前稱鳳凰都市(北京)廣告傳播有限公司) Phoenix Metropolis Media Technology Co. Ltd. (formerly known as Phoenix Metropolis Media (Beijing) Company Limited) (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB140,000,000
鳳凰衛視都市傳媒(上海)有限公司 Phoenix Metropolis Media (Shanghai) Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB22,072,992
鳳凰衛視都市傳媒(杭州)有限公司 Phoenix Metropolis Media (Hangzhou) Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB8,857,320

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20. Interests in Subsidiaries (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
深圳鳳凰都市廣告傳播有限公司 Shenzhen Phoenix Metropolis Media Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB35,000,000
鳳凰都市傳媒(廣州)有限公司 Phoenix Metropolis Media (Guangzhou) Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB3,000,000
江蘇鳳凰都市傳媒有限公司 Jiangsu Phoenix Metropolis Media Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB15,000,000
鳳凰都市傳媒(四川)有限公司 Phoenix Metropolis Media (Sichuan) Company Limited (Note e)	The PRC, limited liability company	The PRC	Outdoor media business	45.54%	RMB8,795,328
鳳凰東方(北京)置業有限公司 Phoenix Oriental (Beijing) Properties Company Limited	The PRC, limited liability company	The PRC	Property holding	50%	RMB300,000,000
PNACC Television (Canada) Inc.	Canada, limited liability company	Vancouver, British Columbia, Canada	Dormant	100%	CAD100
Phoenix Metropolis Media Company Limited	Hong Kong, limited liability company	The PRC	Outdoor media business	100%	HK\$10,000
Phoenix Radio Limited	Hong Kong, limited liability company	Hong Kong	Investment holding	100%	HK\$1
Phoenix Satellite Télévision (France) SAS	France, limited liability company	France	Satellite television broadcasting	100%	EUR250,000
北京天盈九州網絡技術有限公司 Beijing Tianying Jiuzhou Network Technology Co. Ltd. (Note a(iii))	The PRC, limited liability company	The PRC	Internet contents provision	51.71%	RMB10,000,000
怡豐聯合(北京)科技有限責任公司 Yifeng Lianhe (Beijing) Information Technology Co. Ltd. (Note a(iii))	The PRC, limited liability company	The PRC	Tele-communications business contents provision	51.71%	RMB10,000,000
北京天盈創智廣告有限公司 Beijing Tianying Chuangzhi Adv. Co., Ltd.	The PRC, limited liability company	PRC	Internet contents provision	51.71%	RMB5,000,000

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20. Interests in Subsidiaries (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
PSTV, LLC	The United States of America, limited liability company	The United States of America	Property holding	100%	US\$5,000,000
鳳凰都市文化傳播(北京)有限公司 Phoenix Metropolis Communication (Beijing) Co., Ltd	The PRC, limited liability company	The PRC	Outdoor media business	100%	HK\$10,000,000
鳳凰和信文化諮詢(北京)有限公司 Phoenix Cultural Consult (Beijing) Co., Ltd	The PRC, limited liability company	The PRC	Radio boardcasting	100%	RMB1,000,000
北京滙播廣告傳媒有限公司	The PRC, limited liability company	The PRC	Radio boardcasting	100%	RMB19,000,000
Feng Huang Air, LLC	The United States of America, limited liability company	The United States of America	Dormant	100%	–
Feng Huang Air Company Limited	Hong Kong, limited liability company	Hong Kong	Investment holding	100%	HK\$1
Phoenix (UK) Properties Company Limited	Hong Kong, limited liability company	Hong Kong	Properties holding	100%	HK\$1
Phoenix Satellite Television (Hong Kong Channel) Limited	Hong Kong, limited liability company	Hong Kong	Television broadcasting	100%	HK\$1
Phoenix New Media (Hong Kong) Company Limited	Hong Kong, limited liability company	Hong Kong	New media	51.71%	HK\$1
Peak Apex Limited	British Virgin Islands, limited liability company	Hong Kong	Aircraft chartering services	100%	US\$1
Wei Fu Investments Limited	British Virgin Islands, limited liability company	Hong Kong	Investment holding	100%	US\$1
Phoenix Research & Development Limited	British Virgin Islands, limited liability company	Hong Kong	Research and development	100%	US\$1
Phoenix Industrial Development Centre Limited	Hong Kong, limited liability company	Hong Kong	Research and development	100%	HK\$1
Phoenix Research Institute Limited	Hong Kong, company limited by guarantee	Hong Kong	Research and development	100%	–

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(Amounts expressed in Hong Kong dollars)

20. Interests in Subsidiaries (Continued)

(a) (Continued)

Notes:

- i. PHOENIXi Investment Limited and PHOENIXi, Inc completed its liquidation process on 21 December 2011 and 15 July 2011 respectively. Guofeng On-line (Beijing) Information Technology Company Limited deregistered on 10 May 2011.
 - ii. 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.
 - iii. Through entering various contractual arrangements with the registered equity holders of Beijing Tianying Jiuzhou Network Technology Co. Ltd ("Tianying") and Yifeng Lianhe (Beijing) Technology Co. Ltd. ("Yifeng"), the Group has acquired control over Tianying and Yifeng effective 31 December 2009. Accordingly, Tianying and Yifeng are accounted for as subsidiaries of the Group and are consolidated from 31 December 2009, date of acquisition of control.
- (b) Amounts due from subsidiaries included under current assets are unsecured, non-interest bearing and repayable on demand.
- (c) Amounts due from subsidiaries included under non-current assets were unsecured, non-interest bearing and not repayable within one year after the balance sheet date.
- (d) The Company has undertaken to provide the necessary financial resources to support the future operations of the subsidiaries within the Group. 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 31 December 2011.
- (e) The Group has assessed the existence of control over these subsidiaries where it does not have more than 50% of the voting power but is able to govern the financial and operating policies of these subsidiaries by virtue of de-facto control.

21. Financial Instruments by Category

The accounting policies for financial instruments have been applied to the line items below:

Group

	Loans and receivables \$'000	Financial assets at fair value through profit and loss \$'000	Available- for-sale \$'000	Total \$'000
Assets as per consolidated balance sheet				
<i>31 December 2011</i>				
Available-for-sale financial assets	–	–	962	962
Financial assets at fair value through profit or loss (Note 27)	–	18,011	–	18,011
Bank deposits (Note 28)	1,078,996	–	–	1,078,996
Accounts receivable (Note 23)	447,111	–	–	447,111
Other receivables (Note 24)	662,143	–	–	662,143
Amounts due from related companies (Note 26)	93,466	–	–	93,466
Amount due from a jointly controlled entity (Note 18)	20,000	–	–	20,000
Restricted cash (Note 29)	3,124	–	–	3,124
Cash and cash equivalents (Note 30)	1,545,486	–	–	1,545,486
Total	3,850,326	18,011	962	3,869,299

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(Amounts expressed in Hong Kong dollars)

21. Financial Instruments by Category (Continued)

	Loans and receivables \$'000	Financial assets at fair value through profit and loss \$'000	Available- for-sale \$'000	Total \$'000
<i>31 December 2010</i>				
Available-for-sale financial assets	–	–	962	962
Financial assets at fair value through profit or loss (Note 27)	–	24,330	–	24,330
Bank deposits (Note 28)	113,280	–	–	113,280
Accounts receivable (Note 23)	211,416	–	–	211,416
Other receivables (Note 24)	410,596	–	–	410,596
Amounts due from related companies (Note 26)	29,705	–	–	29,705
Restricted cash (Note 29)	23,790	–	–	23,790
Cash and cash equivalents (Note 30)	1,312,502	–	–	1,312,502
Total	2,101,289	24,330	962	2,126,581

	Financial liability at fair value through profit or loss \$'000	Financial liabilities at amortised cost \$'000	Total \$'000
<i>Liabilities per consolidated balance sheet</i>			
<i>31 December 2011</i>			
Accounts payable and other payables (Note 35)	–	500,234	500,234
Amounts due to related companies (Note 26)	–	1,637	1,637
Borrowings			
– Secured bank borrowings (Note 37(a))	–	478,480	478,480
Total	–	980,351	980,351
<i>31 December 2010</i>			
Accounts payable and other payables (Note 35)	–	401,393	401,393
Investment deposits (Note 36)	–	52,520	52,520
Amounts due to related companies (Note 26)	–	11,372	11,372
Borrowings			
– Secured bank borrowings (Note 37(a))	–	245,091	245,091
– Preference share liability (Note 37(b))			
– host debt liability	–	215,041	215,041
– compound embedded derivative component	192,974	–	192,974
Total	192,974	925,417	1,118,391

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

21. Financial Instruments by Category (Continued) Company

	Loans and Receivables \$'000
Assets as per balance sheet	
<i>31 December 2011</i>	
Cash and cash equivalents (Note 30)	1,956
Amounts due from subsidiaries, net (Note 20)	1,470,174
	1,472,130
<i>31 December 2010</i>	
Cash and cash equivalents (Note 30)	4,883
Amounts due from subsidiaries, net (Note 20)	865,451
	870,334
	Financial liabilities at amortised cost \$'000
Liabilities as per balance sheet	
<i>31 December 2011</i>	
Other payables and accruals	1,044
<i>31 December 2010</i>	
Other payables and accruals	285

22. Credit Quality of Financial Assets Group

The credit quality of financial assets can be assessed by reference to external credit ratings or historical information about counterparty default rates.

Accounts receivable

	2011 \$'000	2010 \$'000
Counterparties without external credit rating		
Group 1	58,521	13,225
Group 2	399,978	199,868
	458,499	213,093

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

22. Credit Quality of Financial Assets (Continued) Group (Continued)

Other receivables

	2011 \$'000	2010 \$'000
Counterparties without external credit rating		
Group 1	44,482	4,507
Group 2	617,661	406,089
	662,143	410,596

Amounts due from related companies

	2011 \$'000	2010 \$'000
Counterparties without external credit rating		
Group 2	93,466	29,705

Group 1 – new customers (less than 6 months) with no business relationships in the past.

Group 2 – existing customers with no defaults in the past.

Cash and cash equivalents

Ratings by rating agencies of banks at which cash and deposits are held.

	Group		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
AA	–	215,481	–	4,828
AA–	246,626	6,347	1,901	–
A+	29	–	–	–
A	352,216	2,959	55	–
A–	483,179	160,389	–	55
BBB+	313,065	619,949	–	–
BBB	1,831	128,647	–	–
Others (Note a)	146,224	177,167	–	–
	1,543,170	1,310,939	1,956	4,883

Note a: Others represented cash held at banks without credit rating. These banks are reputable banks with no defaults in the past.

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(Amounts expressed in Hong Kong dollars)

22. Credit Quality of Financial Assets (Continued) Group (Continued)

Restricted cash

	2011 \$'000	2010 \$'000
AA	–	21,213
AA–	3,124	–
BBB+	–	2,355
Others	–	222
	3,124	23,790

Available-for-sale financial assets

	2011 \$'000	2010 \$'000
Others	962	962

Bank deposits

	2011 \$'000	2010 \$'000
A	245	–
A–	–	233
BBB	–	–
BBB+	1,078,751	113,047
	1,078,996	113,280

Financial assets at fair value through profit or loss

	2011 \$'000	2010 \$'000
AA	–	24,330
AA–	18,011	–
	18,011	24,330

None of the financial assets that are fully performing has been renegotiated during the year.

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(Amounts expressed in Hong Kong dollars)

23. Accounts Receivable, Net

	2011 \$'000	2010 \$'000
Accounts receivable	458,499	213,093
Less: Provision for impairment of receivables	(11,388)	(1,677)
	447,111	211,416

The carrying amounts of accounts receivable, net, approximate their fair values.

The Group has appointed an advertising agent in the PRC to promote the sales of the Group's advertising airtime and programme sponsorship and collect advertising revenues within the PRC on behalf of the Group (Note 24). The Group generally requires its advertising customers to pay in advance. Customers of other business segments are given credit terms of 30 to 90 days.

At 31 December 2011, the aging analysis of the accounts receivable from customers was as follows:

	2011 \$'000	2010 \$'000
0-30 days	144,204	100,055
31-60 days	84,116	48,719
61-90 days	62,237	24,618
91-120 days	70,463	16,825
Over 120 days	97,479	22,876
	458,499	213,093
Less: Provision for impairment of receivables	(11,388)	(1,677)
	447,111	211,416

The carrying amounts of the Group's accounts receivable are denominated in the following currencies:

	2011 \$'000	2010 \$'000
RMB	443,098	197,387
US\$	10,180	9,657
UK pound	5,221	6,049
	458,499	213,093

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

23. Accounts Receivable, Net (Continued)

Movements on the Group's provision for impairment of accounts receivable are as follows:

	2011 \$'000	2010 \$'000
At 1 January	1,677	3,159
Provision for impairment of accounts receivable	16,740	686
Receivables written off during the year as uncollectible	(7,041)	(1,003)
Reversal of provision for impairment of accounts receivable	–	(1,155)
Currency translation differences	12	(10)
At 31 December	11,388	1,677

The creation and release of provision for impaired accounts receivables have been included in "selling, general and administrative expenses" in the consolidated income statement (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There is no concentration of credit risk with respect to accounts receivable because the Group has a large number of customers.

The Group has recognised a loss of approximately HK\$16,740,000 (2010: net reversal of provision of HK\$469,000) for the impairment of its accounts receivable for the year ended 31 December 2011. The loss has been included in "selling, general and administrative expenses" in the consolidated income statement. The Group has written off approximately HK\$7,041,000 (2010: HK\$1,003,000) of accounts receivable against the provision for impairment of accounts receivable made in prior years during the year.

As at 31 December 2011, accounts receivable of approximately HK\$123,940,000 (2010: HK\$58,098,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivable is as follows:

	2011 \$'000	2010 \$'000
0 to 30 days	55,620	30,642
31–60 days	15,228	9,352
61–90 days	12,508	4,149
91–120 days	14,554	8,019
Over 120 days	26,030	5,936
	123,940	58,098

The maximum exposure to credit risk at the reporting date is the carrying value mentioned above. The Group does not hold any collateral.

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(Amounts expressed in Hong Kong dollars)

24. Prepayments, Deposits and Other Receivables

	2011 \$'000	2010 \$'000
Prepayment and deposits	132,547	91,631
Other receivables	662,143	410,596
	794,690	502,227
Less non-current portion	(40,489)	(30,672)
Current portion	754,201	471,555

Included in other receivables is an amount of approximately RMB400,559,000 (HK\$490,805,000) (2010: RMB269,482,000 (HK\$313,626,000)) owing from an advertising agent, Shenzhou, in the PRC. The amount represents advertising revenue collected, net of expenses incurred by Shenzhou on behalf of the Group. The balance is unsecured and bears interest at prevailing bank interest rates.

Pursuant to a service agreement signed between Shenzhou and the Group dated 12 March 2002, Shenzhou agreed to deposit the advertising revenue it had collected prior to the execution of that agreement and to be collected in the future in one or more than one specific trust bank accounts in the PRC, which together with any interest generated from such bank account(s) (based on prevailing commercial interest rates) would be held in trust on behalf of the Group and handled according to the Group's instructions. No additional interest will be charged by the Group on the balance.

The Trust Law in the PRC enacted in recent years has not laid out specific detailed implementation rules applicable to trust arrangements such as that of the Group with Shenzhou. Therefore the extent of the enforceability of the arrangement is still unclear. Although the management recognises that the present arrangement is the only legally viable arrangement, the management will continue to monitor and explore alternatives to improve the situation.

The management of the Group is of the opinion that the amount owing from Shenzhou of approximately RMB400,559,000 (HK\$490,805,000) as at 31 December 2011 (2010: RMB269,482,000 (equivalent to approximately HK\$313,626,000)) is fully recoverable and no provision is required. The balance is repayable on demand and is not pledged.

The carrying amounts of prepayments and other receivables approximate their fair values.

Prepayment for long term assets represents deposits and prepayment paid for the acquisition of property, plant and equipment.

As at 31 December 2011, other receivables of HK\$662,143,000 (2010: HK\$410,596,000) were past due but not impaired. These relate to Shenzhou and a number of independent debtors for whom there is no recent history of default. The ageing analysis of these other receivables is as follows:

	2011 \$'000	2010 \$'000
Up to 90 days	567,137	349,353
91 to 180 days	38,569	14,748
Over 180 days	56,437	46,495
	662,143	410,596

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

24. Prepayments, Deposits and Other Receivables (Continued)

The carrying amounts of the Group's other receivables are denominated in the following currencies:

	2011 \$'000	2010 \$'000
RMB	598,790	371,469
US\$	12,728	550
HK\$	42,254	37,607
UK pound	7,659	727
Other currencies	712	243
	662,143	410,596

The other classes within prepayment, deposits and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of the prepayment, deposits and other receivables mentioned above. The Group does not hold any collateral as security.

25. Inventories

	2011 \$'000	2010 \$'000
Decoder devices and satellite receivers	3,908	3,560
Premium	3,895	3,098
	7,803	6,658

The cost of inventories sold is recognised as expense and included in other gains, net, amounted to approximately HK\$1,406,000 for the year ended 31 December 2011 (2010: HK\$660,000).

26. Amounts due from/to Related Companies

	2011 \$'000	2010 \$'000
Amounts due from related companies		
– CMCC (Note a)	77,895	18,236
– STARL (Note b)	13,621	10,321
– Other related companies	1,950	1,148
	93,466	29,705
Amounts due to related companies	(1,637)	(11,372)

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

26. Amounts due from/to Related Companies (Continued)

At 31 December 2011, the ageing analysis of the amounts due from/to related companies, were as follows:

	2011 \$'000	2010 \$'000
Amounts due from related companies		
0–90 days	63,240	18,634
91–120 days	8,010	1,813
over 120 days	22,216	9,258
	93,466	29,705
Amounts due to related companies		
Over 120 days	1,637	11,372
	1,637	11,372

The carrying amounts of the Group's amounts due from/to related companies are denominated in the following currencies:

	2011 \$'000	2010 \$'000
Amounts due from related companies		
RMB	79,066	19,369
HK\$	779	15
USD	13,621	10,321
	93,466	29,705
Amounts due to related companies		
RMB	–	11,372
USD	1,637	–
	1,637	11,372

- (a) As at 31 December 2011, amount due from China Mobile Communications Corporation ("CMCC"), a substantial shareholder of the Company, is approximately HK\$77,895,000 (2010: HK\$18,236,000) (Note 42 (i)(j)).
- (b) As at 31 December 2011, amount due from Satellite Television Asian Region Limited ("STARL") is HK\$13,621,000 (2010: HK\$10,321,000). STARL is a subsidiary of Star Entertainment Holdings Limited (formally known as Xing Kong Chuan Mei Group Co Ltd), a substantial shareholder of the Company (Note 42 (i)(a)).
- (c) The outstanding balances with related companies are aged less than one year and are unsecured, non-interest bearing and repayable on demand (2010: same).
- (d) The carrying amounts of amounts due from/to related companies approximate their fair values.
- (e) The maximum exposure of amounts due from related companies to credit risk at the reporting date is the carrying value mentioned above.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

27. Financial Assets at Fair Value Through Profit or Loss

	2011 \$'000	2010 \$'000
Investments at fair value	18,011	24,330

The above investments were classified as fair value through profit or loss on initial recognition and current with a maturity less than one year of the inception date. Changes in fair values (realised and unrealised) of financial assets at fair value through profit or loss are recognised in other gains, net in the consolidated income statement (Note 6).

As at 31 December 2011, the financial assets at fair value through profit and loss represent the shares of HSBC of HK\$18,011,000 (2010: HK\$24,330,000).

The shares of HSBC were acquired through the maturity of an equity-linked note on 5 December 2008. On the settlement date of the equity-linked note, the Group received 305,271 shares of HSBC instead of the principal of the investment from the issuer and any gain or loss on the fair value of the shares of HSBC recognised in the consolidated income statement since then. These shares are held for trading. As at 31 December 2011, the closing price of the shares of HSBC was HK\$59 (2010: HK\$79.7). If the price of the shares of HSBC increased/decreased by 50% (2010: 50%) with all other variables held constant, after-tax loss (2010: profit) for the year would have been HK\$9,005,000 (2010: HK\$12,165,000) lower/higher (2010: higher/lower). The investment is managed and its performance evaluated on a fair value basis and information about the Company's investment in the shares is reported to management on that basis.

At 31 December 2010, the financial assets at fair value through profit or loss consisted of the investment in shares of HSBC and an investment in a 100% principal protected commodity index participation note. During the year ended 31 December 2010, the 100% principal protected commodity index participation note was redeemed at maturity.

28. Bank Deposits

	2011 \$'000	2010 \$'000
Short-term deposits (Note a)	1,078,996	113,280

(a) Short-term bank deposits represents bank deposits with a maturity date exceeding 90 days but not exceeding 1 year from the date of making the deposit. The carrying amounts of bank deposits are denominated in the following currencies:

	2011 \$'000	2010 \$'000
RMB	969,548	6,068
US\$	109,448	107,212
	1,078,996	113,280

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

29. Restricted Cash

As at 31 December 2010, restricted cash included cash and cash equivalents amounting to HK\$20,644,000 held by PHOENIXi Investment Limited and Guofeng On-line (Beijing) Information Technology Company Limited, indirectly owned subsidiaries of the Company. PHOENIXi Investment Limited and Guofeng On-line (Beijing) Information Technology Company Limited were undergoing liquidation and deregistration respectively and were held under trust by liquidators as at 31 December 2010. The liquidation and the deregistration have been completed during 2011. As at 31 December 2011, restricted cash of HK\$3,124,000 (2010: HK\$3,146,000) represents a deposit pledged to a bank to secure a banking guarantee (Note 31).

	Group 2011 \$'000	2010 \$'000
– US\$	–	18,067
– RMB	–	2,577
– Other currencies	3,124	3,146
	3,124	23,790

30. Cash and Cash Equivalents

	Group 2011 \$'000	2010 \$'000	Company 2011 \$'000	2010 \$'000
Cash at bank and on hand	1,178,151	760,580	1,956	4,883
Short-term bank deposits	367,335	551,922	–	–
	1,545,486	1,312,502	1,956	4,883
Maximum exposure to credit risk	1,543,170	1,310,939	1,956	–
Denominated in:				
– HK\$	34,258	29,043	1,832	4,760
– RMB	700,462	458,514	–	–
– US\$	799,224	814,621	–	123
– Other currencies	11,542	10,324	124	–
	1,545,486	1,312,502	1,956	4,883

Cash and cash equivalents include cash at bank and on hand and short-term bank deposits with an original maturity of three months or less for the purpose of the consolidated statement of cash flows.

31. Banking Facilities

On 27 July 2009, Phoenix Oriental obtained loan facilities amounting to approximately HK\$612,650,000 from Bank of Beijing to fund the construction work on the Phoenix International Media Centre. As at 31 December 2011, loan facilities of approximately HK\$134,170,000 (2010: HK\$338,459,000) was unutilised.

Save as disclosed above, as at 31 December 2011, the Group had remaining banking facilities amounting to approximately HK\$18,124,000 (2010: HK\$18,146,000) of which approximately HK\$13,584,000 (2010: HK\$13,658,000) was unutilised. The facilities are covered by counter indemnities from the Group.

As at 31 December 2011, deposits of approximately HK\$3,124,000 (2010: HK\$3,146,000) were pledged with a bank to secure a banking guarantee given to the landlord of a subsidiary (Note 29).

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

32. Share Capital

	2011		2010	
	Number of shares	Amount \$'000	Number of shares	Amount \$'000
Authorised:				
Ordinary share of \$0.1 each	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid:				
At 1 January	4,987,031,500	498,703	4,970,142,000	497,014
Exercise of share options	5,954,000	595	16,889,500	1,689
At 31 December	4,992,985,500	499,298	4,987,031,500	498,703

33. Share-based compensation

(a) Share options of the Company

The Company has several share option schemes under which it may grant options to employees of the Group (including executive Directors of the Company) to subscribe for shares of the Company. Options are granted and exercisable in accordance with the terms set out in the relevant schemes. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price in HK\$ per share	Options '000	Average exercise price in HK\$ per share	Options '000
At 1 January	1.30	18,989	1.21	36,568
Granted	2.92	107,610	–	–
Exercised	1.27	(5,954)	1.11	(16,889)
Lapsed	2.18	(4,037)	1.08	(690)
At 31 December	2.77	116,608	1.30	18,989

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

33. Share-based compensation (Continued)

(a) Share options of the Company (Continued)

Management appointed an independent valuer, Grant Sherman Appraisal Limited, to estimate the fair values of options at the grant dates. The fair values of options were determined using the Black-Scholes model. The fair value of the new options granted in March 2011 and June 2011 were HK\$114,639,000, and HK\$3,208,000 respectively. The key assumptions used in the valuation are set out in the below table.

	March 2011 grant	June 2011 grant
Closing share price at grant date (HK\$)	2.92	3.06
Exercise price per share (HK\$)	2.92	3.06
Annual risk-free interest rate (%)	2.018–2.365	1.32–1.7
Expected life of options (years)	5.5–7	5.5–7
Expected volatility (%)	38.82–41.26	39.52–43.22

As at 31 December 2011, out of the 116,608,000 outstanding options (2010: 18,989,000 options), 9,094,000 (2010: 12,944,000) were exercisable. Options exercised in 2011 resulted in 5,954,000 shares (2010: 16,889,000 shares) being issued at HK\$1.27 each (2010: HK\$1.11). The related weighted average share price at the time of exercise was HK\$3.43 (2010: HK\$1.99) per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK\$ per share	Share options 2011 '000	2010 '000
14 February 2011	1.99	–	500
9 August 2011	1.13	–	3,800
19 December 2012	0.79	600	600
25 March 2017	1.45	6,470	9,045
21 July 2019	1.17	4,048	5,044
8 March 2021	2.92	102,700	–
27 June 2021	3.06	2,790	–
		116,608	18,989

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

33. Share-based compensation (Continued)

(b) Share options of PNM

PNM, an indirect non-wholly owned subsidiary of the Company, granted 4,557,900 share options of PNM on 8 January 2010 and granted 11,035,325 share options of PNM in 1 July 2010, to the employees of PNM or its subsidiaries under the PNM share option scheme approved on 20 June 2008 ("PNM Share Option Scheme").

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price in US\$ per share	Options '000	Average exercise price in US\$ per share	Options '000
At 1 January	0.03215	83,373	0.03215	72,332
Granted	0.03215	–	0.03215	15,768
Lapsed/cancelled	0.03215	(19,434)	0.03215	(4,727)
Exercised	0.03215	(44,597)		–
At 31 December		19,342		83,373

As at 31 December 2011, out of the 19,342,000 outstanding options (2010: 83,373,000), 16,806,000 (2010: 59,125,000) were exercisable. Options exercised in 2011 resulted in 44,597,000 shares (2010: Nil) being issued at US\$0.03215 each (2010: Nil). The related weighted average share price at the time of exercise subsequent to the offering (see Note 40(a)) was US\$0.71 (2010: Nil) per share.

Share options outstanding as at 31 December 2011 will expire on 25 May 2018 and have an exercise price of US\$0.03215.

The average fair value of options granted during 2010 determined using the Black-Scholes valuation model was US\$0.0158 to US\$0.3941 each. The significant assumptions used in the model were cash flow projections prepared by management, discount rate ranging from 20.6% to 23.02%, the exercise price shown above, volatility ranging from 54.37% to 54.91%, expected option life of 4.64 to 5.3 years and annual risk-free interest rates ranging from 2.65% to 3.57%. The volatility was determined with reference to entities with similar business operations. No share option was granted during 2011.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

33. Share-based compensation (Continued)

(c) Restricted share units and restricted shares of PNM

On 15 March 2011, PNM adopted the restricted share unit and restricted share scheme. Management appointed an independent valuer, Grant Sherman Appraisal Limited, to estimate the fair values of restricted share units ("RSU") and restricted shares ("RS") at the grant date. The fair values of RSU and RS were determined using the income approach/ discounted cash flow method with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant. The fair value of RSU and RS at the grant date, 17 March 2011, was US\$1.07.

The key assumptions used in the valuation are set out in the below table.

Discount rate (%)	20.3
Discount for lack of marketability (%)	8
Discount for lack of control (%)	20

Movement in RSU during the year is as follows:

	2011 RSU '000
At 1 January	–
Granted (Note (i))	10,051
Vested	(4,757)
Lapsed	(1,037)
At 31 December	4,257

Movement in RS during the year is as follows:

	2011 RS '000
At 1 January	–
Granted (Note (ii))	19,008
Vested	(9,296)
At 31 December	9,712

- (i) On 17 March 2011, PNM granted 10,051,000 RSU to the employees. Those restricted share units vest based on 4 years of continuous services.
- (ii) On 15 March 2011, PNM cancelled 18,778,000 unvested share options granted historically, and granted 19,008,000 RS to 22 employees on 17 March 2011. Those RS vest based on 4 years of continuous services.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

33. Share-based compensation (Continued)

(d) Restricted shares of PMM Beijing

On 29 May 2011, PMM Beijing granted 12,241,000 restricted shares to its directors and senior management and 2,759,000 restricted shares to other mid-level staff under the restricted share scheme at the offer price of RMB2.53 per RMB1.00 of registered capital. The directors, senior management and other mid-level staff under the restricted share scheme are restricted from transferring their interests until August 2012.

Management appointed an independent valuer, Grant Sherman Appraisal Limited, to estimate the fair value of the restricted shares at the grant date. The fair value of restricted share was determined using the income approach/ discounted cash flow method.

The key assumptions used in the valuation are set out in the below table.

Discount rate (%)	13.82
Lock-up discount (%)	3.7–8.3
Discount for lack of marketability (%)	20
Discount for lack of control (%)	10

The fair value of restricted shares granted to directors and senior management ranged from RMB3.88 to RMB4.07 per share. The fair value of restricted shares granted to other mid-level staff ranged from RMB3.98 to RMB4.07 per share. The weighted average fair value of restricted shares granted is RMB3.97 per share.

34. Reserves

Movement in the reserves of the Company during the year was as follows:

	Share premium \$'000	Employee share-based payment reserve \$'000	Retained earnings/ (accumulated deficit) \$'000	Total \$'000
At 31 December 2009	502,175	3,649	(49,618)	456,206
Exercise of share options	17,596	(553)	–	17,043
Loss for the year	–	–	(2,632)	(2,632)
Dividends related to 2009	(99,705)	–	–	(99,705)
Employee share-based payment expenses	–	434	–	434
At 31 December 2010	420,066	3,530	(52,250)	371,346
Exercise of share options	8,314	(1,339)	–	6,975
Profit for the year	–	–	996,680	996,680
Dividends related to 2010	(164,717)	–	–	(164,717)
Special dividend	(189,732)	–	–	(189,732)
Assured entitlement	(44,127)	–	–	(44,127)
Employee share-based payment expenses	–	47,617	–	47,617
At 31 December 2011	29,804	49,808	944,430	1,024,042

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

35. Accounts Payable, Other Payables and Accruals (a) Group

	2011 \$'000	2010 \$'000
Accounts payable	180,724	144,272
Other payables and accruals	326,914	266,298
	507,638	410,570
Less: non-financial liabilities	(7,404)	(9,177)
	500,234	401,393

At 31 December 2011, the ageing analysis of the accounts payable was as follows:

	2011 \$'000	2010 \$'000
0–30 days	44,239	52,252
31–60 days	43,268	13,964
61–90 days	13,385	8,011
91–120 days	19,613	5,558
Over 120 days	60,219	64,487
	180,724	144,272

The carrying amounts of accounts payable, other payables and accruals approximate their fair values.

The carrying amounts of accounts payable, other payables and accruals are denominated in the following currencies:

	2011 \$'000	2010 \$'000
HK\$	105,169	108,378
RMB	380,523	284,625
US\$	10,929	5,207
UK pound	2,880	2,781
Others	733	402
	500,234	401,393

(b) Company

The amount represents accrual for administrative expenses of HK\$1,044,000 (2010: HK\$285,000). The carrying amount approximates its fair value and is denominated in HK\$.

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(Amounts expressed in Hong Kong dollars)

36. Investment Deposits

During the year ended 31 December 2010, the Group entered into framework agreements with three investors in respect of their investment into PMM Beijing, a 75% indirectly owned subsidiary of the Group engaged in the outdoor media business. Under the agreements, the three investors would contribute RMB194,000,000 into PMM Beijing in return for an approximately 28.6% interest in PMM Beijing. As at 31 December 2010, PMM Beijing had received HK\$53,000,000 from the investors as investment deposits. During the year ended 31 December 2011, the investment deposits were converted into the capital of PMM Beijing (Note 40(b)).

37. Borrowings

	Group 2011 \$'000	2010 \$'000
Secured bank borrowings (Note a)	478,480	245,091
Preference share liability (Note b)	–	408,015
	478,480	653,106

(a) Secured bank borrowings

Secured bank borrowings, which are denominated in RMB mature on 26 July 2012 and bear interest at average rate of 6.79% annually (2010: 5.4%).

Bank borrowings are secured by the land in Chaoyang Park with carrying values of approximately HK\$117,000,000 (2010: HK\$115,000,000), HK\$203,000,000 (2010: HK\$92,000,000) and HK\$676,000,000 (2010: HK\$371,000,000) recorded in lease premium for land, construction in progress and investment properties under construction respectively.

(b) Preference share liability

In 2009, PNM entered into the Preferred Shares Agreement (“Agreement”) with three institutional investors, agreeing to issue 130,000,000 convertible Series A Preferred Shares (“Preferred Shares”), with par value of US\$0.01 each, of PNM to the investors at a total consideration of US\$25,000,000 (approximately HK\$195,000,000).

In accordance with HKAS 39 “Financial Instrument: Recognition and Measurement”, the Preferred Shares represent a compound financial instrument with multiple components, which comprise:

- A host debt component;
- An equity component; and
- A compound embedded derivative component (representing the investor’s option to require the Company to redeem the shares for cash at the predetermined amount and the investor’s option to convert the preference shares into a variable number of PNM’s ordinary shares and the mandatory conversion upon an initial public offering).

The fair value of the Preferred Shares at issuance (equal to their face value at issuance) is assigned to its respective debt, compound derivative and equity components based on the fair value of the debt and compound derivative components. The equity component is the remaining amount left after the fair value of the Preferred Shares has been allocated to the debt and compound derivative components and was nil. The host debt component is subsequently carried at amortised cost using the effective interest rate method. The derivative component is subsequently fair valued at each balance sheet date with changes in fair value being reflected in the consolidated income statement.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

37. Borrowings (Continued)

(b) Preference share liability (Continued)

The Preferred Shares were mandatorily converted into PNM Class A Shares upon the offering. The carrying values of both the host debt and derivative components were derecognised with a corresponding increase in equity to recognise the issue of PNM Class A Shares upon conversion (Note 40(a)).

The movements of the carrying values of the host debt and derivative components of the Preferred Shares are as follows:

	2011 \$'000	2010 \$'000
Preferred Shares – initial measurement of host debt	215,041	173,404
Currency translation differences	493	60
Add: interest accretion during the year	17,613	41,577
Less: conversion into PNM class A Shares	(233,147)	–
	–	215,041
Derivative component – initial measurement	192,974	23,934
Currency translation differences	461	(47)
Add: change in fair value during the year	947,100	169,087
Less: conversion into PNM class A Shares	(1,140,535)	–
	–	192,974
Preference share liability	–	408,015

The fair value of the Preferred Shares was determined using the discounted cash flow method. The significant assumptions used were discount rate of 21.09% (2010: 20.43%); volatility of 54.89% (2010: 55.26%) and annual risk-free interest rate of 3.16% (2010: 3.15%). The volatility was determined based on average of industry annualised historical stock price volatility. In addition to the above assumptions, management projection of future performance were also factored into the determination of the fair value of the Preferred Shares.

The carrying amounts and fair values of the borrowings are as follows:

	Group			
	Carrying amount		Fair value	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Secured bank borrowings	478,480	245,091	478,480	245,091
Financial liability at amortised cost	–	215,041	–	215,041
Financial liability at fair value through profit and loss	–	192,974	–	192,974
	478,480	653,106	478,480	653,106

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38. Deferred Income Tax

Deferred income tax for the year ended 31 December 2011 is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2010: 16.5%).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$411,186,000 as at 31 December 2011 (2010: HK\$408,352,000) to carry forward against future taxable income. Approximately HK\$403,693,000 (2010: HK\$397,283,000) of the unrecognised tax losses have no expiry date and the remaining balance will expire at various dates up to and including 2027.

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain PRC subsidiaries. Since the Directors consider the timing for the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future, no withholding tax has been provided.

The movement in deferred tax income assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

	Accelerated tax depreciation		Revaluation of investment properties under construction		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
At 1 January	32,910	37,580	14,789	9,294	47,699	46,874
(Credited)/charged to the consolidated income statement	(15,514)	(5,174)	42,227	5,495	26,713	321
Currency translation differences	-	504	2,041	-	2,041	504
At 31 December	17,396	32,910	59,057	14,789	76,453	47,699

Deferred income tax assets

	Tax losses		Decelerated tax depreciation		Provisions		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
At 1 January	(13,112)	(13,341)	(113)	(91)	-	-	(13,225)	(13,432)
(Credited)/charged to the consolidated income statement	(4,779)	229	(471)	(22)	(14,751)	-	(20,001)	207
Currency translation differences	-	-	-	-	(47)	-	(47)	-
At 31 December	(17,891)	(13,112)	(584)	(113)	(14,798)	-	(33,273)	(13,225)

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

39. Cash (Used in)/Generated from Operations

Reconciliation of profit before income tax to cash (used in)/generated from operation

	2011 \$'000	2010 \$'000
Profit before income tax	155,997	552,914
Amortisation of lease premium for land	5,638	5,292
Depreciation of property, plant and equipment	141,020	109,444
Amortisation of purchased programme and film rights and other charges	25,421	23,150
Amortisation of intangible asset	1,734	1,912
Employee share-based payments	129,024	15,437
Provision for impairment of receivables	16,740	1,677
Loss on disposal of property, plant and equipment	355	658
Share of loss of jointly controlled entities	4,819	1,794
Share of (profit)/loss of an associate	(1,028)	2
Fair value gain on investment properties under construction	(127,488)	(21,979)
Interest income	(21,896)	(7,407)
Investment income	(902)	(3,355)
Fair value loss on financial assets at fair value through profit or loss	6,319	6,187
Fair value loss on preference share liability – derivative component	947,100	169,087
Interest expenses – preference share liability	17,613	41,577
Increase in accounts receivable	(252,435)	(126,596)
Increase in prepayments, deposits and other receivables	(282,646)	(19,195)
Increase in inventories	(1,145)	(2,664)
Increase in amounts due from related companies	(63,761)	(2,210)
Increase in amount due from a jointly controlled entity	(20,000)	–
Increase in self-produced programmes	(420)	(5,999)
(Increase)/decrease in bank deposits	(965,716)	4,336
Increase in accounts payable, other payables and accruals	77,715	167,058
Increase in other long-term liabilities	6,743	–
Increase in deferred income	49,892	28,363
Decrease in amounts due to related companies	(9,735)	(29)
Cash (used in)/generated from operations	(161,042)	939,454

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

40. Transactions with non-controlling interests

(a) Disposal of partial interest in PNM

On 12 May 2011, PNM completed the Offering and it was separately listed on the NYSE. Prior to the completion of the Offering, all of the ordinary shares of PNM held by the Company were re-designated as PNM Class B Shares (entitled to 1.3 votes for each share) and all other ordinary shares were re-designated as PNM Class A Shares (entitled to 1 vote for each share). The Offering was comprised of 11,500,000 American depositary shares ("ADSs") (representing 92,000,000 new PNM Class A Shares) sold by PNM and 1,267,500 ADSs (representing 10,140,000 existing PNM Class A Shares) sold 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 PNM Class A Shares) were issued and sold by PNM, and 1,267,500 ADSs (representing 10,140,000 existing Class A Shares) was sold by the Selling Shareholders. The final offer price of the ADSs was US\$11 (approximately HK\$85.8) per ADS. As a result of the grant of restricted shares, exercise of share options by the option holders, the Offering and the conversion of Preferred Shares (Note 37(b)), the Group's equity interest in PNM was reduced from 99.27% to 51.71%. As the Group retains control over PNM, the Group recognised a gain on deemed disposal of partial interest in PNM of HK\$1,563,711,000 in the equity attributable to owners of the Company and an increase in non-controlling interests of HK\$867,836,000 for the year.

(b) Disposal of partial interest in PMM Beijing

On 29 May 2011, PMM Beijing entered into a capital increase agreement (the "Capital Increase Agreement") with the two controlling shareholders of Regal Fame Investments Limited, three PRC domestic independent investors ("PRC investors"), certain 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"). 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 (approximately HK\$164,841,000). As a result of the subscription of the share capital (together with consideration in excess of the registered capital by these investors and employees), the Group's equity interest in PMM Beijing (through PMM Communication) was reduced from 75% to 45.54%. Notwithstanding 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. As a result of the capital increase, the Group recognised a gain on deemed disposal of partial interest in PMM Beijing of approximately HK\$79,482,000 in the equity attributable to the owners of the Company and an increase in the non-controlling interests of HK\$197,904,000 for the year.

(c) Acquisitions of additional interests in PMM Guangzhou and PMM Shenzhen

In November 2011, the Group further acquired the remaining 25% and 20% equity interests of Phoenix Metropolis Media (Guangzhou) Co., Ltd. ("PMM Guangzhou") and Shenzhen Phoenix Metropolis Media Co., Ltd. ("PMM Shenzhen"), respectively, at a total consideration of RMB36,500,000 (approximately HK\$44,593,000). The difference between total fair value of consideration paid and the total relevant share acquired of the carrying value of net assets of PMM Guangzhou and PMM Shenzhen of HK\$11,922,000 was recognised in the equity attributable to the owners of the Company and a decrease of HK\$32,671,000 was recognised in the non-controlling interests for the year.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

41. Commitments

(a) Service charges

As at 31 December 2011, the Group had committed service charges payable to STARL in respect of a service agreement expiring on 30 June 2012 and service charges payable to Fox in respect of service agreement expiring on 31 December 2014. Total committed service charges payable to STARL and to Fox are analysed as follows:

	2011 \$'000	2010 \$'000
Not later than one year	10,362	19,884
Later than one year and not later than five years	1,309	9,747
	11,671	29,631

(b) Operating lease

As at 31 December 2011, the Group had rental commitments under various operating leases. Total future minimum lease payments payable under non-cancellable operating leases are as follows:

	2011 \$'000	2010 \$'000
Not later than one year	116,341	88,596
Later than one year and not later than five years	450,978	262,032
Later than five years	75,388	121,437
	642,707	472,065

(c) Capital commitments

As at 31 December 2011, the Group had capital commitments as follows:

	2011 \$'000	2010 \$'000
Authorised but not contracted for	300,350	173,194
Contracted but not provided for	307,584	487,220
	607,934	660,414

(d) Other commitments

As at 31 December 2011, the Group had other operating commitments under various agreements as follows:

	2011 \$'000	2010 \$'000
Not later than one year	61,889	33,049
Later than one year and not later than five years	97,324	34,122
Later than five years	–	2,294
	159,213	69,465

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(Amounts expressed in Hong Kong dollars)

42. Related Party Transactions

- (i) The Group had the following significant transactions with the related parties as defined in HKAS 24 – Related Party Disclosures:

	Note(s)	2011 \$'000	2010 \$'000
Service charges paid/payable STARL	a, b	19,084	19,872
Commission for international subscription sales and marketing services paid/payable to STARL	a, c	4,470	4,478
Film license fees paid/payable to Fortune Star and Fortune Star Media	f, n	3,326	1,517
Licence fee paid/payable to NGC	f, n	1,056	–
Service charges received/receivable from Asia Television Limited (“ATV”)	d, e	–	978
Service charges paid/payable to Fox	f, g	411	532
Service charges paid/payable to British Sky Broadcasting Limited (“BSkyB”)	h, i	1,036	996
Service charges received/receivable from CMCC Group	j, k	170,463	133,438
Service charges paid/payable to the CMCC Group	j, l	82,319	34,024
Advertising sales to the CMCC Group	j, m	49,684	42,387
Key management compensation	iii	31,492	27,906

Notes:

- (a) STARL, is a wholly-owned subsidiaries of STAR Group Limited, which owns 100% of Star Entertainment Holdings Limited (formerly known as Xing Kong Chuan Mei Group Co., Ltd.), a substantial shareholder of the Company.
- (b) Service charges paid/payable to STARL cover a wide range of technical services provided to the Group are charged based on the terms of the service agreement dated 2 July 2009. The summary of the terms of the service agreement is set out in the announcement of the Company dated 3 July 2009. Either fixed fees or variable fees are charged depending on the type of services utilised.
- (c) The commission for international subscription sales and marketing services paid/payable to STARL is based on 15% (2010: 15%) of the subscription fees generated and received by it on behalf of the Group.
- (d) Mr. LIU Changle and Mr. CHAN Wing Kee beneficially own 93.3% and 6.7% respectively of Today's Asia Limited, which indirectly ceased to own approximately 26.85% of ATV since 15 October 2010.
- (e) Service charges received/receivable from ATV cover the following services provided to ATV which are charged based on terms specified in a service agreement:
- the use of floor area for the location of receivers;
 - the use of master control room equipment and transmission equipment (including maintenance for daily wear and tear);
 - fibre optic transmission; and
 - video tapes administration and playout services.

Notes to the Consolidated Financial Statements

(Amounts expressed in Hong Kong dollars)

42. Related Party Transactions (Continued)

(i) (Continued)

Notes: (Continued)

- (f) Fox, Fortune Star, Fortune Star Media and NGC are associates of Star Entertainment Holdings Limited (formerly known as Xing Kong Chuan Mei Group Co., Ltd.), a substantial shareholder of the Company.
 - (g) Service charges paid/payable to Fox cover the granting of non-exclusive and non-transferable license to subscribe for Fox's news service provided to the Group which is charged based on the terms specified in a service agreement.
 - (h) BSKyB is 39.14% owned by News Corporation, which indirectly owns 100% of Star Entertainment Holdings Limited (formerly known as Xing Kong Chuan Mei Group Co., Ltd.), a substantial shareholder of the Company.
 - (i) Service charges paid/payable to BSKyB for encoding and electronic programme guide services provided to the Group which are charged based on terms specified in the service agreements.
 - (j) The CMCC Group, through a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited, owns 19.69% of the issued share capital of the Company.
 - (k) Service charges received/receivable from CMCC Group related to advertising income and wireless income which are charged on terms specified in the agreements.
 - (l) Service charges paid/payable to CMCC Group related to wireless cost and video cost which are charged on terms specified in the agreements.
 - (m) Advertising sales to the CMCC Group are related to airtime advertising, programme sponsoring on channels and airtime advertising on giant-sized light-emitting diode panels operated by the Group.
 - (n) The license fees are charged in accordance with the agreements with Fortune Star, Fortune Star Media and NGC regarding rights for films and contents respectively.
- (ii) Year end balances arising from related party transactions as disclosed in Note 42(i) above were also disclosed in Note 26.

(iii) Key management compensation

	2011 \$'000	2010 \$'000
Salaries	14,040	13,280
Discretionary bonuses	10,398	8,450
Housing allowance	5,760	4,950
Pension costs	1,294	1,226
	31,492	27,906

43. 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 the royalties may not be probable.

44. Subsequent Events

On 20 February 2012, the Group entered into a loan agreement with a bank with principal amount of RMB58,000,000. The loan, which was fully drawn down on 29 February 2012, matures on 19 February 2013 and bears interest at 7.872% annually. The loan is secured by the land in Chaoyang Park together with the development site.

45. Comparative Figures

The 2010 comparative figures of operating expenses and revenue have been reclassified to conform to the current year's presentation.