# Management Discussion and Analysis

## Comments on Segmental Information

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **Revenue HK$'000** | **Segment result HK$'000** | Revenue HK$'000 | Segment result HK$'000 |
| Television broadcasting | **2,373,509** | **1,239,016** | 2,072,307 | 1,026,351 |
| New media | **1,382,433** | **143,911** | 1,113,711 | (818,111)* |
| Outdoor media | **512,362** | **110,854** | 386,559 | 85,177 |
| Real estate | **929** | **28,583** | – | 118,662 |
| Other businesses | **67,127** | **(27,862)** | 66,868 | 7,186 |
| Group's total revenue and segment results | **4,336,360** | **1,494,502** | 3,639,445 | 419,265 |
| Unallocated income | | **17,770** | | 35,565 |
| Unallocated expenses | | **(320,590)** | | (295,042) |
| Profit before share of results of jointly controlled entities and an associate, income tax and non-controlling interests | | **1,191,682** | | 159,788 |

* The segmental loss of new media for the year ended 31 December 2011 was a consequence of the deduction of interest accretion and changes in fair value of the preference share liability of approximately HK$964,713,000.

Revenue from television broadcasting, comprising advertising, subscription and other revenue sources, which accounted for 54.7% of the total revenue of the Group for the year ended 31 December 2012, increased by 14.5% to approximately HK$2,373,509,000 (year ended 31 December 2011: HK$2,072,307,000). The segmental result for television broadcasting recorded a profit of approximately HK$1,239,016,000 for the year ended 31 December 2012 (year ended 31 December 2011: HK$1,026,351,000).

Phoenix Chinese Channel and Phoenix InfoNews Channel accounted for 50.2% of the total revenue of the Group for the year ended 31 December 2012 and showed an increase of 14.9% to approximately HK$2,177,873,000 (year ended 31 December 2011: HK$1,896,099,000).

The total revenue of Phoenix Hong Kong Channel, Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others, increased by 11.0% as compared to the previous year to approximately HK$195,636,000 (year ended 31 December 2011: HK$176,208,000).

The new media operations, which make Phoenix programming available on the internet and on a number of mobile telecommunication networks, contributed to raising the profile of the Group as a television broadcaster. The revenue of the new media business for the year ended 31 December 2012 increased by 24.1% to HK$1,382,433,000 (year ended 31 December 2011: HK$1,113,711,000). The segmental profit was HK$143,911,000 (year ended 31 December 2011 after deduction of interest accretion and changes in fair value of the preference share liability: loss of HK$818,111,000). The operating profit, which represents profit before tax, other income and expenses decreased to HK$101,136,000 was primarily due to the increase in operating cost which include staff-related costs, sales and marketing promotions expenses and office rental fees (year ended 31 December 2011: HK$105,290,000). Phoenix new media has been continuously investing in content, staff and marketing to further strengthen the vertical channels of ifeng.com, in order to further drive traffic growth, particularly increasing user loyalty, growing the number of daily unique visitors and diversifying the brand's image.

The revenue of the outdoor media business increased by 32.5% to approximately HK$512,362,000 (year ended 31 December 2011: HK$386,559,000). The segmental profit of outdoor media business was approximately HK$110,854,000 (year ended 31 December 2011: HK$85,177,000 after deduction of share-based compensation expenses of approximately HK$25,714,000).

The segmental result for real estate included the fair value gains of approximately HK$43,807,000 (year ended 31 December 2011: HK$127,488,000) which were recognised for the investment properties.

Please refer to Note 5 to the consolidated financial statements for a detailed analysis of segmental information and the Business Overview and Prospects in the Chairman's Statement for commentary on the core business of the Group.

## Dividends

After considering the sustainable profitability of the Group's core television broadcasting business, the board of directors (the "Directors" or the "Board") recommend the payment of a final dividend of 5.1 Hong Kong cents per ordinary share of the Company ("Share"), representing an increase of 21.4% as compared to the final dividend for 2011 of 4.2 Hong Kong cents, totaling approximately HK$254,698,000 to be payable to shareholders whose names appear on the register of members of the Company on 14 June 2013. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, the final dividend will be payable on or around 28 June 2013.

There was an aggregate distribution of 8 Hong Kong cents per Share for the year of 2011, including special dividend and final dividend of 3.8 Hong Kong cents and 4.2 Hong Kong cents per Share respectively.

## ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held at No. 2–6 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 6 June 2013 (Thursday) at 3:00 p.m.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 3 June 2013 to Thursday, 6 June 2013 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for attending and voting at the AGM, all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 31 May 2013.

The register of members of the Company will be also closed from Thursday, 13 June 2013 to Friday, 14 June 2013 (both dates inclusive), during which period no share transfers will be effected. In order to qualify for the proposed final dividend (subject to shareholders' approval at the AGM), all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 11 June 2013.

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisition and disposal of subsidiaries and affiliated companies during the year ended 31 December 2012.

## LIQUIDITY AND FINANCIAL RESOURCES

The liquidity and financial resources of the Group as at 31 December 2012 remained solid as recurring cash flows from the businesses of the Group continued to remain steady and strong. As at 31 December 2012, the Group had cash and cash deposits totaling about HK$3,113,751,000 (as at 31 December 2011: HK$2,624,482,000). The aggregate outstanding borrowings of the Group were approximately HK$631,352,000 (as at 31 December 2011: HK$480,117,000), representing amounts due to related companies which were unsecured and non-interest bearing, unsecured and non-interest bearing loans from non-controlling shareholders of a subsidiary and secured and interest bearing bank borrowings to fund the construction work on the Phoenix International Media Centre in Beijing.

The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 37.2% as at 31 December 2012 (as at 31 December 2011: 36.6%). The net cash and cash equivalents balance after deduction of the total liabilities was HK$1,133,996,000 as at 31 December 2012 (as at 31 December 2011: HK$239,540,000).

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

## CHARGE ON ASSETS

As at 31 December 2012, the land in Chaoyang Park, Beijing, together with the development site, with carrying value of approximately HK$116,000,000, HK$315,000,000 and HK$889,000,000 (as at 31 December 2011: HK$117,000,000, HK$203,000,000 and HK$676,000,000) recorded in lease premium for land, construction in progress and investment properties respectively were pledged with a bank to secure a bank borrowing to fund the construction work on the Phoenix International Media Centre in Beijing. As at 31 December 2011, deposits of approximately HK$3,124,000 were pledged with banks to secure banking guarantees given to the landlord of a subsidiary.

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2012 and 31 December 2011.

## CAPITAL STRUCTURE

During the year ended 31 December 2012, other than the exercise of share options granted, there was no change in the share capital of the Company. As at 31 December 2012, the operations of the Group were mainly financed by owners' equity, bank borrowings, loans from non-controlling shareholders of a subsidiary and banking facilities.

## STAFF

As at 31 December 2012, the Group employed 2,799 full-time staff (as at 31 December 2011: 2,529) at market remuneration with employee benefits such as comprehensive medical coverage, insurance plan, defined contribution pension schemes and employee share option schemes. Staff costs for the year ended 31 December 2012 increased to approximately HK$961,970,000 (year ended 31 December 2011: HK$865,439,000).

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

## SIGNIFICANT INVESTMENTS HELD

As at 31 December 2012, the Group invested in listed security investments with an estimated fair market value of approximately HK$24,819,000 (as at 31 December 2011: HK$18,011,000). Save as disclosed above, the Group had not held any other significant investment for the year ended 31 December 2012.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

The Group is currently considering a possible spin-off and separate listing of Phoenix Metropolis Media Technology Company Limited (formerly known as Phoenix Metropolis Media (Beijing) Company Limited), a subsidiary engaged in the outdoor media business in China. For details, please refer to the announcement of the Company published on 1 November 2011.

The Group will continue to consolidate its existing businesses while exploring new business opportunities that will complement and enhance its existing businesses. As at 31 December 2012, the Group was considering various investment projects and options but had not made any solid plan for pursuing the same.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2012.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company had not redeemed any Shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries had purchased or sold any of the Shares during the year ended 31 December 2012.