Management Discussion and Analysis

Comments on Segmental Information

	Year ended 31 December			
	2014		2013	
	Revenue HK$'000	**Segment result HK$'000**	Revenue HK$'000	Segment result HK$'000
Television broadcasting	**1,997,976**	**883,658**	2,374,864	1,173,549
New media	**1,989,680**	**453,100**	1,751,100	392,946
Outdoor media	**553,604**	**42,410**	612,823	98,689
Real estate	**3,713**	**164,561**	1,157	89,977
Other businesses	**73,392**	**(52,031)**	66,514	(34,023)
Group's total revenue and segment results	**4,618,365**	**1,491,698**	4,806,458	1,721,138
Unallocated income		**27,219**		31,753
Unallocated expenses		**(335,909)**		(302,790)
Profit before share of results of joint ventures and associates, income tax and non-controlling interests		**1,183,008**		1,450,101

Revenue from television broadcasting, comprising of advertising, subscription and other revenue sources, which accounted for 43.3% of the total revenue of the Group for the year ended 31 December 2014, decreased by 15.9% to approximately HK$1,997,976,000 (year ended 31 December 2013: HK$2,374,864,000). The decline in the demand for luxury goods in China has led to a decrease in the advertising income of the television broadcasting business. The segmental result for the television broadcasting business recorded a profit of approximately HK$883,658,000 for the year ended 31 December 2014 (year ended 31 December 2013: HK$1,173,549,000).

Phoenix Chinese Channel and Phoenix InfoNews Channel, which accounted for 39.4% of the total revenue of the Group for the year ended 31 December 2014, decreased by 17.5% to approximately HK$1,821,051,000 (year ended 31 December 2013: HK$2,207,217,000).

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 5.5% as compared to the previous year to approximately HK$176,925,000 (year ended 31 December 2013: HK$167,647,000).

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The new media operations, which make Phoenix programming available on the internet and on a number of mobile telecommunication networks, contributed to enhancing the profile of the Group as a television broadcaster. The revenue of the new media business for the year ended 31 December 2014 increased by 13.6% to approximately HK$1,989,680,000 (year ended 31 December 2013: HK$1,751,100,000). The segmental profit for the year ended 31 December 2014 increased by 15.3% to approximately HK$453,100,000 (year ended 31 December 2013: HK$392,946,000). Phoenix New Media has been continuously investing in the enrichment of contents, human resources and marketing activities to further strengthen the vertical channels of ifeng.com, with a general aim to foster further traffic growth, in particular to achieve a higher level of user loyalty, to increase the number of daily visitors and to enhance the brand's image.

The revenue of outdoor media business for the year ended 31 December 2014 decreased by 9.7% to approximately HK$553,604,000 (year ended 31 December 2013: HK$612,823,000). The segmental profit of outdoor media business for the year ended 31 December 2014 decreased by 57.0% to approximately HK$42,410,000 (year ended 31 December 2013: HK$98,689,000).

The segmental profit for real estate for the year ended 31 December 2014 was approximately HK$164,561,000 (year ended 31 December 2013: HK$89,977,000), which included the net fair value gain of approximately HK$175,777,000 (year ended 31 December 2013: HK$104,294,000) 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 of the Company (the "Directors" or the "Board") recommend the payment of a final dividend of 4 Hong Kong cents per ordinary share of the Company ("Share(s)") (final dividend for 2013 of 5.1 Hong Kong cents per Share), totaling approximately HK$199,908,000, equivalent to approximately 30.1% of profit attributable to owners of the Company, to be payable to shareholders whose names appear on the register of members of the Company on 15 June 2015, Monday. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, the final dividend will be payable on or around 30 June 2015, Tuesday.

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 5 June 2015, Friday at 3:00 p.m.

Closure of Register of Members

The register of members of the Company will be closed from 3 June 2015, Wednesday to 5 June 2015, Friday (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 2 June 2015, Tuesday.

The register of members of the Company will be also closed from 11 June 2015, Thursday to 15 June 2015, Monday (both dates inclusive), during which period no share transfer 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 10 June 2015, Wednesday.

Acquisitions and Disposals of Subsidiaries and Affiliated Companies

In March 2014, IDG-Accel China Growth Fund III L.P. and IDG-Accel China III Investors L.P. ("IDG-Accel Funds") acquired US$3,000,000 convertible preferred shares of Phoenix FM Limited, previously a subsidiary of the Company, to accelerate development of the new media's ifeng FM application business. Despite the holding of 100% of Phoenix FM Limited's ordinary shares, the Company accounts for its investment in Phoenix FM Limited as an investment in a joint venture since the Company lost unilateral control of Phoenix FM Limited due to substantive participating rights that have been provided to IDG-Accel Funds. A gain on disposal of a subsidiary of approximately HK$22,676,000 (US$2,929,000) was recognised for the year ended 31 December 2014.

In November 2014, Phoenix New Media Limited ("PNM") entered into an agreement with the founders and non-founders of Particle Inc. to purchase a number of ordinary shares of Particle Inc. for a consideration of US$8.5 million (consists of US$5 million in cash and a number of restricted Class A ordinary shares of PNM valued at US$3.5 million). This transaction was completed on 23 December 2014. The fair value of the restricted Class A ordinary shares of PNM issued as of 23 December 2014 was determined to be US$2.8 million. Subsequent to this investment in Particle Inc., considering PNM has significant influence over certain operating and financial decisions of Particle Inc., the investment is treated as an associate of the Group.

The investment in ordinary shares of US$7.8 million (approximately HK$60.9 million) (being the cash paid and fair value of shares issued) has been included in "investments in an associates" in the consolidated balance sheet.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries and affiliated companies during the year ended 31 December 2014.

Liquidity and Financial Resources

The liquidity and financial resources of the Group as at 31 December 2014 remained solid as recurring cash flows from the businesses of the Group continued to remain steady and strong. As at 31 December 2014, the Group had cash and cash equivalents and current bank deposits totaling approximately HK$3,701,792,000 (as at 31 December 2013: HK$3,662,582,000). The aggregate outstanding borrowings of the Group were approximately HK$1,131,366,000 (as at 31 December 2013: HK$745,227,000), representing non-interest bearing loans from non-controlling shareholders of a subsidiary, secured and interest bearing bank borrowings to fund the construction work on the Phoenix International Media Centre in Beijing and other secured and interest bearing bank borrowings.

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The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 49.0% as at 31 December 2014 (as at 31 December 2013: 37.8%). The net cash and bank deposits balance after deduction of the total liabilities was HK$1,131,718,000 as at 31 December 2014 (as at 31 December 2013: HK$1,793,025,000).

Save as disclosed above, the financial position of the Group remained liquid. Most of the Group's monetary assets, liabilities and transactions are denominated in Hong Kong dollars, US dollars ("USD") and Renminbi ("RMB"), with minimal balances in Pound Sterling and New Taiwan dollars. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD and RMB. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. The Group will consider using forward currency contracts as a tool to manage and reduce such risks. However, taking into account the Group's current operational and capital requirements, the Directors do not consider the Group is significantly exposed to any foreign currency exchange risk.

Charge on Assets

As at 31 December 2014, the land in Chaoyang Park, Beijing, together with the development site, with carrying value of approximately HK$121,000,000, HK$547,000,000 and HK$1,504,000,000 (as at 31 December 2013: HK$125,000,000, HK$415,000,000 and HK$1,163,000,000) recorded in lease premium for land, property, plant and equipment (as at 31 December 2013: construction in progress) and investment properties respectively were pledged with a bank to secure bank borrowings to fund the construction work on the Phoenix International Media Centre in Beijing. A long-term bank deposit of approximately HK$283,006,000 (as at 31 December 2013: Nil) was pledged with a bank to secure a bank borrowing to optimise return through interest differential. The property in the United States with carrying value of approximately HK$2,851,000 (as at 31 December 2013: HK$2,890,000) was pledged with a bank to secure a bank borrowing. Deposits of approximately HK$1,603,000 were pledged with banks to secure banking guarantees given to third parties (as at 31 December 2013: HK$1,003,000).

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2014 and 31 December 2013.

Capital Structure

During the year ended 31 December 2014, other than the exercise of share options granted, there was no change in the share capital of the Company. As at 31 December 2014, the operations of the Group were mainly financed by owners' equity, bank borrowings, loan from non-controlling shareholders of a subsidiary and banking facilities.

Staff

As at 31 December 2014, the Group employed 3,352 full-time staff (as at 31 December 2013: 3,033) at market remuneration supplemented 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 2014 increased to approximately HK$1,263,057,000 (year ended 31 December 2013: HK$1,136,789,000).

Significant Investments Held

As at 31 December 2014, the Group invested in listed security investments and unlisted preferred shares recognised as "available-for-sale financial assets" and "derivative financial instruments" with estimated fair market value of approximately HK$22,590,000 (as at 31 December 2013: HK$25,689,000) and HK$88,875,000 (as at 31 December 2013: Nil) respectively. Save as disclosed above, the Group had not held any other significant investment for the year ended 31 December 2014.

Future Plans for Material Investments and Expected Source of Funding

The Company has been approved by The Stock Exchange of Hong Kong Limited ("Stock Exchange") to proceed with the proposed spin-off of Phoenix Metropolis Media Technology Company Limited ("PMM Beijing"), a subsidiary engaged in the outdoor media business in China, for listing on the main board of the Shanghai Stock Exchange ("Proposed Listing").

PMM Beijing's application for the Proposed Listing has been formally accepted by the China Securities Regulatory Commission on 19 April 2013 with the issuance of an Acceptance Notice of Administrative Approval Application. For details, please refer to the announcement of the Company published on 19 April 2013.

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 2014, 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 2014.

Purchase, Sale or Redemption of Securities

The Company had not redeemed any Shares during the year ended 31 December 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of the Shares during the year ended 31 December 2014.