Chairman's Statement

While the profit made by the Group's television business continued to suffer from the slowdown in the Chinese economy, the Group is expanding into other areas and the fair value gain made by the Group's new media investments represented an increase in profit attributable to owners of the Company of 108.9% over the previous year.

Financial Summary

Revenue for the year ended 31 December 2016 was approximately HK$3,798,273,000, which represented a decrease of 9.6% over the previous year.

Profit attributable to owners of the Company was approximately HK$230,515,000, which represented an increase of 108.9% over the previous year.

The board of directors (the "Board" or "Directors") of the Company recommended a final dividend of 1 Hong Kong cent per ordinary share of the Company ("Share(s)").

Results

The revenue of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (the "Group" or "Phoenix") for the year ended 31 December 2016 was approximately HK$3,798,273,000 (year ended 31 December 2015: HK$4,200,895,000), which represented a 9.6% decrease over the previous year. The slowdown of the Chinese economy and depreciation of the Renminbi ("RMB") have had a negative effect on Phoenix's overall revenue. The operating costs have decreased by 6.9% to approximately HK$3,617,143,000 (year ended 31 December 2015: HK$3,886,425,000).

The operating profit of the Group for the year ended 31 December 2016 was approximately HK$181,130,000 (year ended 31 December 2015: HK$314,470,000), which represented a decrease of 42.4% compared to the previous year.

Fair value gain on derivative financial instruments related to subsequent measurement of new media's investment in Particle Inc. for the year ended 31 December 2016 was approximately HK$182,050,000 (year ended 31 December 2015: loss of HK$44,696,000).

Fair value gain of approximately HK$21,127,000 (year ended 31 December 2015: HK$98,939,000) was recognized for the investment properties in Beijing and London.

The net exchange loss of the Group for the year ended 31 December 2016 was approximately HK$55,812,000 (year ended 31 December 2015: HK$57,213,000) mainly resulting from the depreciation of the RMB.

The profit attributable to owners of the Company was approximately HK$230,515,000 (year ended 31 December 2015: HK$110,349,000), which represented an increase of 108.9% compared to the previous year. New media's investment in Particle Inc. had resulted in a substantial revaluation gain in the current year which boosted our profit at group level.

The chart below summarises the performance of the Group for the year ended 31 December 2016 and the year ended 31 December 2015 respectively.

	Year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Television broadcasting	**1,430,947**	1,598,095
New media	**1,629,661**	1,920,708
Outdoor media	**610,295**	571,521
Real estate	**27,606**	14,650
Other businesses	**99,764**	95,921
Group's total revenue	**3,798,273**	4,200,895
Operating costs	**(3,617,143)**	(3,886,425)
Operating profit	**181,130**	314,470
Fair value gain on investment properties	**21,127**	98,939
Net gain on new media investment		
Fair value gain/(loss) on derivative financial instruments	**182,050**	(44,696)
Interest income	**101,611**	51,249
Gain on disposal of an associate	**–**	4,795
Exchange loss, net	**(55,812)**	(57,213)
Reversal of provision/(provision) for impairment of amounts due from joint ventures	**1,224**	(39,285)
Gain on deemed disposal of a subsidiary	**49,344**	–
Other income, net	**17,001**	991
Profit before share of results of joint ventures and associates, income tax and non-controlling interests	**497,675**	329,250
Share of results of joint ventures and associates	**(17,852)**	(37,543)
Income tax expense	**(81,809)**	(139,876)
Profit for the year	**398,014**	151,831
Non-controlling interests	**(167,499)**	(41,482)
Profit attributable to owners of the Company	**230,515**	110,349
Basic earnings per share, Hong Kong cents	**4.61**	2.21

Business Overview and Prospects

The slowing of the Chinese economy over the last year has caused serious challenges for the media business at large, including Phoenix. This downward economic trend has had a negative impact on the advertising income Phoenix has been able to generate in 2016, and made the commercial management of the Company more challenging than previously. The operating profit of the television broadcasting segment decreased due to the relatively fixed cost structure, but it is expected that the Group can operate efficiently until the economy recovers.

A further factor behind this drop in television advertising income has been the rapid growth of the new media in China. This development has posed serious challenges to the traditional television business, with many former television viewers now preferring to watch new media presentations on their mobile phones and computers. The Group anticipated this trend, however, and has been pursuing a strategy designed to expand the iFeng platform of Phoenix New Media and thereby generate income from this rapidly expanding new media world. The results over the past year show that this strategy is well based and is having a positive effect.

There is much evidence to suggest that in the long-term the Group will emerge successfully from the current situation. The Group's competitive edge and core abilities remain strong, signified by its continuing brand influence, premium content, credibility and cross-media convergence strategy. The Group has responded to changes in audience viewing behavior and has implemented a comprehensive mobile strategy, and has developed and acquired mobile apps delivering serious journalism and personal interest-based information to high-end users and the mass market.

While actively developing the new media component, with a refined distribution channels strategy, the Group continues to expand its television broadcasting presence, not only maintaining its traditional distribution through satellite and cable systems, but also reaching global audience by means of OTT (Over-The Top content) and IPTV.

At the same time the Group, as part of its risk management strategy, has also diversified its core media business into new businesses including entertainment, culture, exhibition and event management.

2016 was the 20th anniversary of Phoenix, and the story of the Group's first twenty years underscores that it is a media entity with great potential. When it commenced operations in 1996, Phoenix was a single television channel employing less than 120 employees. With the continuous efforts of all our Group's members to build up the viewership in the PRC, Phoenix has grown exponentially, and now has four channels based in Hong Kong, a North American Channel and a European Channel, as well as a very sophisticated internet media platform, ifeng.com, and has premises in Hong Kong, London and Beijing. It also has a world-wide network of reporters, which enables Phoenix to provide accurate first-hand news about global developments. Phoenix is also listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and ifeng.com is listed on the New York Stock Exchange. In a mere twenty years Phoenix has developed into a major media entity which provides the Chinese community around the world with news, commentaries, entertainment programs, and films.

While Phoenix has faced serious economic challenges, the Group has continued to enjoy a very high status on the global stage. The Secretary-General of the United Nations, Mr Ban Ki Moon, sent a congratulatory message to Phoenix on its 20th anniversary, as did more than 30 international leaders. In early May Phoenix held an International Day of Friendship at the Phoenix International Media Centre in Beijing and over 100 ambassadors and representatives of international organizations attended the event.

Phoenix has pursued an extremely successful strategy for twenty years, and there is no doubt that this strategy will continue to provide an effective guide for the Group's further development and success. In view of the current negative economic environment Phoenix has made a range of changes to its operational arrangements that enhance its capacity to deal with these challenges, but has continued to maintain its fundamental strategy of providing Chinese-language news and information to the Chinese audience around the world.

In 2016, Phoenix TV reported on many major international news stories, including the Taiwan presidential elections and the appointment of the DPP candidate Tsai Ing-wen as the new leader of Taiwan, President Xi Jinping's visit to Washington where he met with President Obama and discussed countering the terrorist threat and the maintenance of world peace and security, and his visit to Slovakia, Poland, and Uzbekistan. Phoenix TV also covered the Myanmar elections which led to the appointment of Aung San Suu Kyi to a senior government post, the Presidential election in the Philippines and the election of Rodrigo Duterte, who before a visit to China was interviewed by a Phoenix TV reporter, and the war in Syria. A Washington-based reporter also held an exclusive interview with the United States Secretary of State, John Kerry. Phoenix TV covered the American Presidential elections, and produced the most comprehensive and thorough reporting of the election by a Chinese-language media organization. Phoenix TV reporters also went to Iraq and produced a series of reports on developments there, called "Deeply Into Iraq", which included an exclusive interview with the President of Iraq, Fuad Masum.

Phoenix Chinese Channel has responded to the changing business environment by reviewing programs and seeking to meet the changing interests of the mass audience by introducing new material. This approach is conducted with a long-term view, and only leads to the production of new programs after careful consideration of audience preferences. Phoenix has also increased the coordination between program production and advertising marketing in order to ensure that the programs that Phoenix produces and broadcasts all have an appeal to potential advertisers. There has also been some reorganization of the advertising department in order to make it better equipped to meet the changing character of the advertising market. There have also been reports from global consultancy firms that indicate that the mainland luxury goods market is beginning to recover, which suggests that in due course Phoenix will be able to benefit from growing consumer demand for luxury goods produced by companies that will need to advertise their products to attract Chinese buyers. Thus, while Phoenix faces a difficult economic environment at present, the long-term prospects for the Group look promising.