Management Discussion and Analysis

Comments on Segmental Information

	Year ended 31 December			
	2016		2015	
	Revenue HK$'000	**Segment result HK$'000**	Revenue HK$'000	Segment result HK$'000
Television broadcasting	**1,430,947**	**417,619**	1,598,095	521,704
New media	**1,629,661**	**389,113**	1,920,708	153,634
Outdoor media	**610,295**	**67,283**	571,521	63,806
Real estate	**27,606**	**(47,251)**	14,650	1,106
Other businesses	**99,764**	**(7,442)**	95,921	(92,057)
Group's total revenue and segment results	**3,798,273**	**819,322**	4,200,895	648,193
Unallocated income		**28,080**		51,047
Unallocated expenses		**(349,727)**		(369,990)
Profit before share of results of joint ventures and associates, income tax and non-controlling interests		**497,675**		329,250

Revenue from television broadcasting, comprising of advertising, subscription and other revenue sources, which accounted for 37.7% of the total revenue of the Group for the year ended 31 December 2016, decreased by 10.5% to approximately HK$1,430,947,000 (year ended 31 December 2015: HK$1,598,095,000). The decline in the demand for luxury goods in China has led to a decrease in the advertising income of the television broadcasting business. Due to the relatively fixed cost structure, the segmental profit for the television broadcasting business decreased to approximately HK$417,619,000 for the year ended 31 December 2016 (year ended 31 December 2015 HK$521,704,000).

Revenue from Phoenix Chinese Channel and Phoenix InfoNews Channel, which accounted for 34.5% of the total revenue of the Group for the year ended 31 December 2016, decreased by 9.7% to approximately HK$1,310,632,000 (year ended 31 December 2015: HK$1,451,302,000).

The total revenue of Phoenix Hong Kong Channel, Phoenix Movies Channel, Phoenix North America Chinese Channel, Phoenix Chinese News and Entertainment Channel and others decreased by 18% as compared to the previous year to approximately HK$120,315,000 (year ended 31 December 2015: HK$146,793,000).

The revenue of the new media business for the year ended 31 December 2016 decreased by 15.2% to approximately HK$1,629,661,000 (year ended 31 December 2015: HK$1,920,708,000) due to the decrease in mobile value-added services resulting from the decrease in user demands. The segmental profit of new media business for the year ended 31 December 2016 increased by 153.3% to approximately HK$389,113,000 (year ended 31 December 2015: HK$153,634,000). Increase in segmental profit was primarily due to increase in net gain related to subsequent measurement of the investment in Particle Inc. to HK$283,661,000 for the year ended 31 December 2016 from HK$11,348,000 for the year ended 31 December 2015.

The revenue of outdoor media business for the year ended 31 December 2016 increased by 6.8% to approximately HK$610,295,000 (year ended 31 December 2015: HK$571,521,000). The segmental profit of outdoor media business for the year ended 31 December 2016 increased by 5.5% to approximately HK$67,283,000 (year ended 31 December 2015: HK$63,806,000).

The segmental loss for real estate for the year ended 31 December 2016 was approximately HK$47,251,000 (year ended 31 December 2015: segmental profit of HK$1,106,000), which mainly comprises of depreciation and interest expenses. The segmental result for real estate had turned a profit into loss primarily due to a decrease of fair value gain for the investment properties to approximately HK$21,127,000 (year ended 31 December 2015: HK$98,939,000), recognized during the year.

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

Dividends

The Board recommended the payment of a final dividend of 1 Hong Kong cent per Share (final dividend for 2015: 1 Hong Kong cent), totaling approximately HK$50,010,000, equivalent to approximately 21.7% 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 2017, Thursday. Subject to the passing of the relevant resolution at the forthcoming annual general meeting of the Company ("AGM"), the final dividend will be payable on or around 30 June 2017, Friday.

Annual General Meeting

The AGM will be held at No. 2-6 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 6 June 2017, Tuesday at 3:00 p.m.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Capital Injection to 北京鳳凰理理它信息技術有限公司 (Beijing Phoenix Li Li Ta Information Technology Co, Ltd.) ("LLT")

On 20 May 2016, Beijing Huibo Advertisement Media Limited Company (北京滙播廣告傳媒有限公司) ("Huibo"), an indirect wholly-owned subsidiary of the Company, Mr. He Xin, Mr. Zhang Zhen and LLT entered into an investment agreement, pursuant to which Huibo has conditionally agreed to make a capital contribution of RMB38,136,000 (equivalent to approximately HK$45,606,842) to subscribe for an additional of approximately 1.25% equity interest in LLT as enlarged by the capital increase (i.e. the aforesaid capital injection together with the capital injection by China United SME Guarantee Corporation (中合中小企業融資擔保股份有限公司), Shanghai Chenggao Investment Partnership Enterprises (上海呈高投資合夥企業), Yinchuan Fenghuang Zhifu Equity Investment Fund Partnership Enterprise (銀川鳳凰志賦股權投資基金合夥企業), Jiujiang Huarong Dingtai Investment Centre (九江華融鼎泰投資中心) and Jiaxing Ruifu Investment Partnership Enterprise (嘉興瑞福投資合夥企業) (collectively referred to as "Other Investors") in an aggregate amount of RMB203,136,000 (including approximately RMB652,456 as contribution to the registered capital and approximately RMB202,483,544 as payment for the premium).

The Other Investors had also entered into various investment agreements with Mr. He Xin, Mr. Zhang Zhen and LLT, respectively, to subscribe for an aggregate of approximately 4.88% equity interest in LLT as enlarged by the aforesaid capital increase for the capital contribution in the aggregate amount of RMB165,000,000 (equivalent to approximately HK$197,323,500).

Upon completion of the aforesaid capital increase, the Company indirectly held an aggregate of approximately 10.63% equity interest in LLT (through Huibo as to approximately 5.94% as enlarged by the aforesaid capital increase, and through Beijing Tianying as to approximately 4.69% as diluted by the aforesaid capital increase).

In addition to the aforesaid capital injection, Huibo was granted (i) a call option, pursuant to which in the event that LLT cannot achieve any of the required transaction amount or revenue for the year ending 31 December 2016 or 2017, it shall be entitled to request Mr. He Xin and Mr. Zhang Zhen to transfer to Huibo part of their equity interest in LLT at the consideration of RMB1.00 for each actual amount of registered capital to be contributed without any premium; and (ii) a put option, pursuant to which in the event that LLT fails to list, or decides not to list, on a recognized stock exchange in or outside the PRC before 31 December 2020, Huibo shall be entitled to request LLT to repurchase those equity interest held by Huibo (save and except the initial equity interest of approximately 4.69%) at certain specified consideration on or before31 January 2021.

As Mr. He Xin, the controlling shareholder of LLT, is the son-in-law of Mr. Liu Changle, who is the Chairman of the Board and Chief Executive Officer of the Company, both Mr. He Xin and LLT are connected persons of the Company under the Listing Rules and accordingly the aforesaid transactions constituted connected transactions for the Company under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 20 May 2016.

Subsequent to the completion of the aforesaid capital increase, considering the Group has the ability to exercise significant influence in LLT, the investment has been accounted for as an associate of the Group according to applicable accounting standards. The total investment costs in LLT have been separated into "investments in associates" and "derivative financial assets" for the call and put options.

Deemed Disposal of 上海鳳凰衛視領客文化發展有限公司 (Shanghai Phoenix Link Culture Development Co. Ltd.) ("Phoenix Link")

In June 2016, the Group's equity interest in Phoenix Link was reduced from 61.6% to 45% as a result of a capital contribution to Phoenix Link by new shareholders.

Conversion of Loans by PNM into Particle Inc's Series D1 Preferred Shares

Phoenix New Media Limited ("PNM") has been granted with the right to convert the loans in the principal amounts of US$20,000,000 into Particle Inc.'s series D1 preferred shares. On 30 December 2016, following the exercise of the said conversion rights by PNM, PNM held approximately 43.8% of total outstanding shares of Particle Inc. comprising Series B, Series C and Series D1 preferred shares in Particle Inc. assuming all preferred shares are converted into ordinary shares and all shares reserved under the Particle Inc.'s employee share option plan are issued. For details, please refer to the Company's announcement dated 20 January 2017 and note 15 to the consolidated financial statements.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2016.

Liquidity and Financial Resources

The liquidity and financial resources of the Group as at 31 December 2016 remained solid despite recurring cash flows from the businesses of the Group were weakened as a result of decrease in revenue. As at 31 December 2016, the Group had cash and current bank deposits totaling about HK$2,678,656,000 (as at 31 December 2015: HK$3,004,839,000). The aggregate outstanding borrowings of the Group were approximately HK$1,272,144,000 (as at 31 December 2015: HK$1,513,826,000), representing non-interest bearing loans, non-interest bearing loans from non-controlling shareholders of a subsidiary, secured and interest bearing bank borrowings to fund the investment in Phoenix International Media Centre in Beijing and other secured and interest bearing bank borrowings.

The gearing ratio of the Group, based on total liabilities to equity attributable to owners of the Company, was 52.5% as at 31 December 2016 (as at 31 December 2015: 60.2%).

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 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 reviews 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 2016, the land in Chaoyang Park, Beijing, together with the building, with carrying value of approximately HK$102,000,000, HK$425,000,000 and HK$1,452,000,000 (as at 31 December 2015: HK$112,000,000, HK$487,000,000 and HK$1,534,000,000) recorded in lease premium for land, property, plant and equipment and investment properties respectively were pledged with a bank to secure a bank borrowing to fund the investment in Phoenix International Media Centre in Beijing. Bank deposit of approximately HK$807,162,000 (as at 31 December 2015: HK$655,192,000) was pledged with banks to secure bank borrowings to optimize return through interest difference and arrangement of external security within the loan. The property in the United States with carrying value of approximately HK$2,774,000 (as at 31 December 2015: HK$2,810,000) was pledged with a bank to secure a bank borrowing. Deposits of approximately HK$322,000 were pledged with banks to secure banking guarantees given to the landlord of a subsidiary (as at 31 December 2015: HK$1,505,000).

Save as disclosed above, the Group did not have any other charges on its assets as at 31 December 2016 and 31 December 2015.

Capital Structure and Share Options

As at 31 December 2016, the authorized share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each, of which 5,000,999,500 Shares (as at 31 December 2015: 5,000,993,500 Shares) had been issued and fully paid.

6,000 new Shares were issued during the year as a result of the exercise of 6,000 share options of the Company under the Company's post-IPO share option scheme adopted on 7 June 2000.

As at 31 December 2016, the operations of the Group were mainly financed by owners' equity, bank borrowings, loans from non-controlling shareholders of subsidiaries and banking facilities.

Staff

As at 31 December 2016, the Group employed 2,872 full-time staff (as at 31 December 2015: 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 2016 increased to approximately HK$1,185,144,000 (year ended 31 December 2015: HK$1,254,732,000).

Significant Investments Held

As at 31 December 2016, the Group invested in listed security investments with estimated fair market value of approximately HK$19,003,000 (as at 31 December 2015: HK$18,896,000) recognized as "financial assets at fair value through profit and loss" and unlisted preferred shares of Particle Inc. recognized as "available-for-sale financial assets" and "derivative financial instruments" with estimated fair market value of approximately HK$605,849,000 (as at 31 December 2015: HK$390,200,000) and HK$440,261,000 (as at 31 December 2015: HK$216,742,000) respectively. Save as disclosed above, the Group had not held any other significant investment for the year ended 31 December 2016.

Future Plans for Material Investments and Expected Source of Funding

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

Contingent Liabilities

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provision have been made in the consolidated financial statements.

Purchase, Sale or Redemption of Securities

During the year, the Company has bought back 4,052,000 Shares on the Stock Exchange for a total consideration of HK$5,042,280. The buy-backs were made for the benefit of the Company and its Shareholders as a whole by enhancing the earnings per Share.

Details of the share buy-backs are disclosed as follows:

Date	No. of Shares	Total Consideration	Price per Share Highest	Price per Share Lowest
		HK$	HK$	HK$
December 2016				
19	1,500,000	1,876,260	1.27	1.23
20	1,000,000	1,239,960	1.24	1.23
21	1,000,000	1,236,260	1.24	1.23
22	352,000	431,100	1.23	1.21
30	200,000	258,700	1.30	1.28
	4,052,000	5,042,280		

The above 4,052,000 Shares repurchased had not been cancelled during the year.

Subsequent to the year under review, the Company had further bought back 3,478,000 Shares. All of the 7,530,000 Shares repurchased during the year and up to the date of this report were cancelled on 2 March 2017.

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the year.

Other Important Events and Subsequent Events

Application for a Domestic Free Television Programme Service Licence in Hong Kong

On 6 May 2016, Phoenix Hong Kong Television Limited ("Phoenix HK"), which is currently an indirect wholly-owned subsidiary of the Company, has submitted an application (the "Application") for a domestic free television programme service licence in Hong Kong with digital terrestrial transmission to the Communications Authority. If the Application is approved, Phoenix HK will carry out a corporate restructuring in compliance with relevant laws and regulations. The Application is now being processed by the Communications Authority.

Discloseable Transaction Regarding the Provision of New Loan to Particle Inc.

On 20 January 2017, PNM entered into a loan agreement with Particle Inc., pursuant to which PNM agreed to grant to Particle Inc. a loan in the principal amount of RMB74,000,000, bearing interest at a rate of 9% per annum for a period of one year (the "New Loan").

On 28 January 2016, 5 April 2016, 10 August 2016 and 2 November 2016, PNM granted the loans in the principal amounts of US$10,000,000, US$10,000,000, US$14,800,000 and RMB46,000,000, respectively, to Particle Inc. (the "Loans"). The New Loan, when aggregated with the Loans which were granted within a 12-month period before the New Loan, resulted in certain applicable percentage ratios exceeding 5% but all applicable percentage ratios being less than 25%, therefore constituted a discloseable transaction of the Company.

For details, please refer to the Company's announcement dated 20 January 2017.

Continuing Connected Transactions with China Mobile Group Guizhou Co., Ltd. and its subsidiaries ("the CMGG Group")

On 25 January 2017, 鳳凰都市傳媒科技股份有限公司 (Phoenix Metropolis Media Technology Company Limited, "Phoenix Metropolis"), a subsidiary of the Company, entered into an advertising contract with 中國移動通信集團貴州有限公司 (China Mobile Group Guizhou Co., Ltd.) for a period commencing from 25 January 2017 and ending on 31 March 2017 for promoting the businesses of the CMGG Group at a maximum contract sum not exceeding RMB2,120,000 (equivalent to approximately HK$2,374,824) (the "CMGG Transaction"). The CMGG Transaction, when aggregated with previous advertising transactions between Phoenix Metropolis and the group companies of 中國移動通信集團公司 (China Mobile Communications Corporation) within a 12-month period before the CMGG Transaction, constituted continuing connected transactions subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 25 January 2017.

Proposed Spin-off and Separate Listing of Phoenix Metropolis

As announced by the Company on 17 March 2017, the Board is considering the feasibility of a proposed spin-off and separate listing of Phoenix Metropolis, a subsidiary of the Company engaged in the outdoor media business in the PRC, on the Shenzhen Stock Exchange (the "Proposed Spin-off"). The Proposed Spin-Off is still at a preliminary stage. No application has been submitted to any PRC regulatory authorities nor to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules in relation to the Proposed Spin-off. No final decision has been made by the Board as to whether and when the Proposed Spin-off will proceed.

Continuing Connected Transactions with MIGU Cultural and Technology Co., Ltd. and its subsidiaries (the "MIGU Group")

On 21 March 2017, Phoenix Metropolis entered into an advertising contract with 咪咕文化科技有限公司 (MIGU Cultural and Technology Co., Ltd.) for the period of one year commencing from 21 March 2017 for promoting the businesses of the MIGU Group at a maximum contract sum not exceeding RMB3,800,000 (equivalent to approximately HK$4,306,540) (the "MIGU Transaction"). The MIGU Transaction, when aggregated with previous advertising transactions between Phoenix Metropolis and the group companies of 中國移動通信集團公司 (China Mobile Communications Corporation) within a 12-month period before the MIGU Transaction, constitute continuing connected transactions subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 21 March 2017.