Independent Auditor's Report

pwc 羅兵咸永道

To the Shareholders of Phoenix Satellite Television Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 113 to 231, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of the investments in Particle Inc. ("Particle")
- Accuracy and recoverability of the receivable from Shenzhou Television Company Limited ("Shenzhou")
- Recoverability of the accounts receivable of the Group

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Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of the investments in Particle *Refer to Notes 2(n), 2(p), 3(c), 4(a)(i), 27, 38 and 43 to the consolidated financial statements* Phoenix New Media Limited ("PNM"), a non-wholly owned subsidiary of the Group, owns a number of convertible redeemable preferred shares ("Preferred Shares") issued by Particle, which operates Yidianzixun, a personalised news and life-style information mobile application in The People's Republic of China ("PRC"). The Group's investments in the Preferred Shares were separated into debt component classified as available-for-sale financial assets ("AFS") and derivative component classified as derivative financial instruments ("DFI"), and carried at fair values of HK$605.8 million and HK$440.3 million respectively at 31 December 2016 based on the valuation report prepared by an independent professional valuer (the "Valuer"). Changes in the fair values of DFI during the year were recognised in the consolidated income statement of HK$183.2 million whereas changes in the fair values of AFS during the year were recognised in other comprehensive income of HK$11.7 million except for the interest on the AFS calculated using the effective interest method of HK$81.0 million, which was recognised in the consolidated income statement. The Valuer adopted the discounted cash flow ("DCF") method to first estimate the equity value of Particle, which was then allocated to Particle's common shares and Preferred Shares using the option-pricing and binomial models. The fair value of the Preferred Shares was further allocated to the AFS and DFI using the DCF method. We focused on this area because the valuation of the investments in Particle involved significant judgements and estimation uncertainties with key assumptions for revenue growth rate, terminal growth rate, discount rate, lack of marketability discount and volatility, and the carrying values of the investments in Particle were significant, which accounted for approximately 11.3% of the total assets of the Group at 31 December 2016.	Our audit procedures in relation to the valuation of the investments in Particle included: • Understanding, evaluating and testing, on a sample basis, management's control procedures over reviewing the fair value of investments in Particle; • Evaluating the Valuer's independence, competence, capabilities and objectivity, and reading their valuation reports prepared for financial reporting purposes; • Involving our in-house valuation experts in assessing the appropriateness and consistency of the methodologies used in the valuations; • Checking the mathematical accuracy of the underlying calculations in the valuation models; • Testing, on a sample basis, the accuracy and relevance of input data used by the Valuer; • Assessing the reasonableness of revenue growth rate by comparing to the approved budgets, actual results of the prior periods and industry forecast; • Assessing the reasonableness of terminal growth rate, discount rate, lack of marketability discount and volatility by comparing those to the market data, including long-term economic growth, risk-free rates and discount rate of comparable companies in the same industry provided by our in-house valuation experts; • Considering the results of sensitivity analysis on reasonably possible downside changes in the key assumptions adopted; • Checking the calculation of interest on the debt component of the Preferred Shares recognised in the consolidated income statement using the effective interest method; and • Assessing the appropriateness of the relevant disclosures made in the Group's consolidated financial statements. Based on our work summarised above, we found the valuation methodologies were appropriate and consistently applied, and the key assumptions adopted were supportable in light of available evidence and the current market environment.

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Key Audit Matter	**How our audit addressed the Key Audit Matter**
Accuracy and recoverability of the receivable from Shenzhou *Refer to Notes 3(a)(ii), 4(a)(ii) and 23 to the consolidated financial statements* At 31 December 2016, the Group had a receivable balance from Shenzhou, the Group's advertising agent in the PRC, of HK$248.4 million which was included in prepayments, deposits and other receivables. This amount represented the net balance from advertising revenue collected by Shenzhou, net of agency commission and service fee earned by Shenzhou and various expenses incurred and payments made by Shenzhou on behalf of the Group. The receivable balance is unsecured and repayable on demand. Pursuant to the service agreement signed between Shenzhou and the Group dated 5 June 2015, Shenzhou agreed to deposit the advertising revenue collected on behalf of the Group in designated bank accounts in the PRC, which together with any interest generated from these accounts would be held in trust on behalf of the Group and handled according to the Group's instructions. No additional interest would be charged by the Group on the receivable balance from Shenzhou. Management is of the opinion that the balance is fully recoverable and no provision is required based on their collectability assessment. Due to the arrangements with Shenzhou described above, there is a risk that the receivable balance at 31 December 2016 may not be accurate, and the outstanding amount accounted for approximately 2.7% of the total assets of the Group. The nature and size of this balance together with the significant judgements exercised by management in their collectability assessment warrant specific audit attention.	Our audit procedures in relation to the accuracy and recoverability of the receivable from Shenzhou included: • Understanding and evaluating how management assessed and monitored the credit quality of Shenzhou and the recoverability of the outstanding receivable with reference to Shenzhou's financial position, payment trends and subsequent settlements; • Agreeing opening balance of the receivable from Shenzhou to the prior year audited accounts and performing analytical procedures on the movements in the balance with Shenzhou during the year to identify if there were any unusual items; • Agreeing the amounts of cash collected for advertising revenue by Shenzhou recorded in the Group's accounting system to the collection reports submitted by Shenzhou and sales contracts on a sample basis; • Checking the mathematical accuracy of the calculation of commission and service fee paid to Shenzhou; • Agreeing, on a sample basis, the expenses and payments made by Shenzhou on behalf of the Group to the instructions given by the Group or other relevant supporting information; • Checking to the bank advices for cash remitted to the Group by Shenzhou during the year and subsequent to the year-end; and • Comparing the receivable balance recorded in the Group's accounting system to the external confirmation obtained by us from Shenzhou. We found management's assessment on the recoverability and accuracy of the receivable from Shenzhou was supportable by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the accounts receivable of the Group *Refer to Notes 3(a)(ii), 4(a)(ii) and 22 to the consolidated financial statements* As at 31 December 2016, the Group's accounts receivable balance amounted to HK$721.6 million comprising gross accounts receivable of HK$857.5 million net of provision for impairment of HK$135.9 million. Management has performed an assessment on the recoverability of the accounts receivable balance with reference to the aging analysis as at 31 December 2016. In performing the assessment, management also considered a number of factors including but not limited to the debtors' financial positions, collection history, past experience and subsequent settlements. Management is of the opinion that the provision for impairment of accounts receivable was adequate but not excessive at 31 December 2016. This is considered as a key matter to our audit because of the judgements involved in management's assessment and the financial significance of the receivable balance to the Group's consolidated financial statements.	Our audit procedures in relation to management's assessment on the recoverability of the accounts receivable included: • Understanding, evaluating and testing, on a sample basis, management's credit control procedures and their basis of estimation of the amount of impairment provision required for the accounts receivable balance; • Testing post-year end settlements of accounts receivable on a sample basis; • Obtaining confirmations for a sample of the balances as at 31 December 2016 directly from the debtors and testing the reconciling items. Where a response to the request was not received, we agreed the relevant receivable balances to the underlying sale contracts or supporting information or post year end cash receipts; • Testing the accuracy of aging profile of the accounts receivable at the year end, on a sample basis, against sales invoices and related sales contracts or billing records; and • Discussing with management to assess the recoverability of significant and aged accounts receivable balances by corroborating management's explanations with relevant supporting documentation and market information, including external payment schedules from the customers, and financial information of the customers. We found the judgement and assumptions used by the management in determining the provision for accounts receivable to be supportable based on available evidence.

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Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee is responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsang Nga Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 April 2017