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鳳凰衛視

## **PHOENIX SATELLITE TELEVISION HOLDINGS LIMITED**

### **鳳凰衛視控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 02008)

## **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

On 2 July 2009, Phoenix HK has entered into the New Star Services Agreement with STARL for the provision of the Technical and Support Services, Subscription Promotion Service, Purchase of Decoders and Viewing Cards Service and other Specifically Requested Services to the Group for a term of three years commencing from 1 July 2009 and ending on 30 June 2012. A similar agreement dated 30 June 2006 between Phoenix HK and STARL, which (together with the annual caps thereof) had been approved by resolutions of independent shareholders of the Company passed on 18 August 2006, expired on 30 June 2009.

The Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the New Star Services Agreement are, on an annual basis, more than 0.1% but less than 2.5%, the Transactions are subject to the reporting and announcement requirements only and are exempt from the independent shareholders' approval requirement under the Listing Rules.

### **INTRODUCTION**

Reference is made to the announcement of the Company dated 30 June 2006 and the circular of the Company dated 21 July 2006 in respect of, amongst other things, the Old Star Services Agreement. The Old Star Services Agreement, which (together with the annual caps thereof) had been approved by resolutions of independent shareholders of the Company passed on 18 August 2006, expired on 30 June 2009.

The Board wish to announce that on 2 July 2009, Phoenix HK has entered into the New Star Services Agreement with STARL for a term of three years commencing from 1 July 2009 and ending on 30 June 2012.

Details of the Transactions are set out as follows:

## **NEW STAR SERVICES AGREEMENT**

**Date:** 2 July 2009

**Parties:** (1) Phoenix HK  
(2) STARL

**Term:** 3 years from 1 July 2009 (“**Commencement Date**”)

### **Services covered by the New Star Services Agreement**

#### *1. Technical and Support Services*

##### a. Details of Services

STARL shall provide the following services to Phoenix HK:

- (1) digital transponder capacity – provision of transponder capacity on satellite sufficient for the transmission of the channels designated by Phoenix HK on a digitally compressed basis;
- (2) uplink services – 24-hour video and audio uplink of the channels designated by Phoenix HK from facilities selected by STARL in Hong Kong;
- (3) subscriber management services – comprising (a) establishing and maintaining subscriber database; (b) activation/de-activation of subscribers’ SMART Card; (c) generating and providing monthly subscription report and (d) payment of various fees for the services;
- (4) digital video broadcasting services – digital signal processing required for uplink of programme signals for satellite distribution;
- (5) monitoring and redundant switching services – processing of Phoenix’s channel signals for uplink and provision of routine checks on incoming and broadcast signals; and
- (6) production support services – provision of equipment required for program production of Phoenix HK.  
(collectively “**Technical and Support Services**”).

Pursuant to the Old Star Services Agreement, Phoenix HK requested the monitoring and redundant switching services from STARL since 16 March 2009 until 30 June 2009. The charge for the services will be at the same rate as provided in the New Star Services Agreement and is estimated to be approximately US\$52,500 (HK\$409,500). The estimated sum above, in aggregate with Technical and Administration Services, is within the annual cap of the Old Star Services Agreement for the period from 1 January 2009 to 30 June 2009.

STARL may upgrade the subscriber management services during the term subject to not less than three months' notice in advance and a maximum rate of not more than 25% increase of the then prevailing service fees. Phoenix HK may terminate the services by two months' notice if the increase exceeds the maximum rate.

STARL may, upon lapse of its relevant contract with third party, adjust the fees for uplink services subject to not less than two months' notice in advance and a maximum rate of not more than 30% of the then prevailing service fees Phoenix HK may terminate the services by at least six months' notice if the increase exceeds the maximum rate.

Either parties may terminate any or all services under the New Star Services Agreement by giving various lengths of notice periods ranging from twelve months to six months. However, if Phoenix HK intends to appoint a third party to provide the same or substantially similar service being terminated, Phoenix HK shall give reasonable prior notice to STARL so that STARL may match up the terms of such third party and if STARL fails to provide the relevant services upon terms at least as favourable as those provided by the third party within two months, Phoenix HK may then conclude an agreement with such third party. If any agreement between STARL and others, which is required by STARL in the provision of the services pursuant to the New Star Services Agreement, shall be terminated and thereby affect STARL's ability to provide the relevant services, STARL may terminate the services by at least one month prior written notice.

In addition, Phoenix HK may from time to time request STARL to provide additional services in relation to television broadcast, channel operation and support of Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix InfoNews Channel, Phoenix North America Chinese Channel and Phoenix Chinese News and Entertainment Channel (for services other than those specifically referred to above) and/or other satellite television channels to be operated by the Group from time to time. STARL shall consider such request based and provided the parties can agree on the commercial and other terms of the additional services requested by Phoenix HK ("**Specifically Requested Services**")

b. Consideration

Monthly fee based on fixed rates are payable for the use of each of the Technical and Support Services except for the subscriber management services that in the event the number of subscribers shall exceed a certain number in any given month an additional variable fee is payable based on a fixed rate multiplied by the number of excess. The total amount of fixed fees for the first year of the agreement is US\$2,708,000 (approximately HK\$21,122,400). Most of the fees are payable in US dollars. The fees and/or rates of the uplink services, subscriber management services, digital video

broadcasting services and monitoring and redundant switching services of the Technical and Support Services (except the fee of the transponder capacity which shall be increased by 3% per year and the fee of production support services which shall be aggregate of US\$106,000 for a term of 12 months) shall be modified for each twelve month period starting from 1 July 2009 by the multiplication thereof the aggregate of 100% and the lesser of (i) 70% of any increase between the CPI for the immediately preceding calendar year and the CPI for the calendar year prior to the immediately preceding calendar year and (ii) 6%. The fees were negotiated at arm's length and determined mainly on cost basis by reference to, among other things, third party cost, staff cost, management support cost, equipment and operational cost, (if any) of each of the Technical and Support Services.

c. The Annual Caps

For the six months ended 31 December 2006, the financial years ended 31 December 2007 and 2008 and for the five months ended 31 May 2009, the amounts of fees paid or payable by the Group for the use of the aforesaid services were approximately US\$1,099,000 (approximately HK\$8,549,000), US\$2,227,000 (approximately HK\$17,373,000), US\$2,268,000 (approximately HK\$17,661,000) and US\$929,000 (approximately HK\$7,204,000) respectively.

The annual caps of the service fees payable by the Group for the Technical and Support Services and the Specifically Requested Services are set out as follows:

	<i>US\$</i>	approximately <i>HK\$</i>
For the period from 1 July 2009 to 31 December 2009	1,667,000	13,000,000
For the financial year ended 31 December 2010	2,949,000	23,000,000
For the financial year ended 31 December 2011	2,949,000	23,000,000
For the period from 1 January 2012 to 30 June 2012	1,667,000	13,000,000

The cap amounts are determined by reference to, among other things, the fixed fees payable for the Technical and Support Services together the agreed increment based on a fixed rate and the possible increment based on CPI, the historical figures of fees paid for the Specifically Requested Services and the Group's projected requirement of additional capacity or kind of services for future expansion.

## 2. *Subscription Promotion Service*

### a. Details of the Service

STARL is appointed as Phoenix HK's non-exclusive agent to promote the subscription of the Phoenix Chinese Channel and Phoenix InfoNews Channel (and such additional channels operated by the Group to be mutually agreed between STARL and Phoenix HK from time to time) and to enlist subscribers to such channels and such additional channels (if any) on terms to be mutually agreed by the parties on a case by case-by-case basis ("**Subscription Promotion Service**").

### b. Consideration

STARL shall be entitled to a commission of 15% of the gross subscription fees received by Phoenix HK attributable to the subscribers referred to Phoenix HK by STARL. The commission rate was determined based on a combination of commercial negotiation with reference to the rates charged by STARL to other channels for the provision of the same or similar services, and the commission rate for media advertising adopted by the top ranking 4A (Association of Accredited Advertising Agency) international advertising agencies.

### c. The Annual Caps

For the six months ended 31 December 2006, the financial years ended 31 December 2007 and 2008, and for the five months ended 31 May 2009, the amounts of commission paid or payable by the Group to STARL for the promotion of channel subscription were approximately US\$213,000 (approximately HK\$1,658,000), US\$442,000 (approximately HK\$3,447,000), US\$500,000 (approximately HK\$3,891,000) and US\$187,000 (approximately HK\$1,448,000) respectively.

The annual caps of the commission payable by the Group for the Subscription Promotion Services are set out as follows:

	<i>US\$</i>	approximately <i>HK\$</i>
For the period from 1 July 2009 to 31 December 2009	288,000	2,250,000
For the financial year ended 31 December 2010	577,000	4,500,000
For the financial year ended 31 December 2011	577,000	4,500,000
For the period from 1 January 2012 to 30 June 2012	288,000	2,250,000

The cap amounts are determined by reference to, among other things, historical figures of the commission paid and the projected development in channel subscription of the Group.

3. *Purchase of Decoders and Viewing Cards Service*

a. Details of the Service

Phoenix HK may from time to time acquire decoders and viewing cards for Phoenix Movies Channel (and such additional channels operated by the Group to be mutually agreed by the parties from time to time) from STARL (“**Purchase of Decoders and Viewing Cards Service**”).

b. Consideration

The prices of the decoders and viewing cards are based on the cost to STARL plus (if any) transportation costs of such decoders and viewing cards.

c. The Annual Caps

For the six months ended 31 December 2006, the financial years ended 31 December 2007 and 2008, and for the five months ended 31 May 2009, the amounts of fees paid or payable by the Group for the purchase of decoders were US\$0 (HK\$0), approximately US\$4,200 (approximately HK\$33,000), US\$0 (HK\$0) and US\$0 (HK\$0) respectively.

The annual caps of the fees payable by the Group for the Purchase of Decoders and Viewing Cards Service are set out as follows:

	<i>US\$</i>	Approximately <i>HK\$</i>
For the period from 1 July 2009 to 31 December 2009	64,000	500,000
For the financial year ended 31 December 2010	128,000	1,000,000
For the financial year ended 31 December 2011	128,000	1,000,000
For the period from 1 January 2012 to 30 June 2012	64,000	500,000

The cap amounts are determined by reference to, among other things, the projected demand from our existing subscribers for replacement of old and obsolete decoders and/or viewing cards, possible increase in number of subscribers of Phoenix Movies Channel and fluctuation in the costs of the decoders and viewing cards. The demand for replacement of decoders and viewing cards in the past few years had been very low but it is anticipated

that demand for new decoders and viewing cards in the coming years will increase as a lot of them will become old and obsolete. The subscription base for the Phoenix Movies Channel has been relatively small over the years and it is anticipated that the potential for grow is moderate. Since STARL generally enjoys bulk purchase discounts and is providing this service at costs to the Group, it is in the interest of the Group to set the annual caps substantially higher than the historical value for these transactions.

4. *Other terms*

STARL shall transfer the used equipment for the production support services to Phoenix HK upon payment of the monthly fee for such services for the 12-months term. Phoenix HK shall pay a one-off equipment transfer fee of US\$40,000 (approximately HK\$312,000) to STARL for the transfer of title, rights and interests in the two used equipments from STARL to Phoenix HK.

5. *Aggregate Annual Caps for the New Star Services Agreement*

The aggregate annual caps of the amount payable by the Group for all services and others under the New Star Services Agreement are set out as follows:-

	US\$	Approximately HK\$
For the period from 1 July 2009 to 31 December 2009	2,019,000	15,750,000
For the financial year ended 31 December 2010	3,654,000	28,500,000
For the financial year ended 31 December 2011	3,654,000	28,500,000
For the period from 1 January 2012 to 30 June 2012	2,019,000	15,750,000

## **REASONS FOR RENEWAL OF THE NEW STAR SERVICES AGREEMENT**

STARL has been providing services, including similar services under the New Star Services Agreement, to Phoenix HK since March 1996 for the operational needs of the Group. The Old Star Services Agreement expired on 30 June 2009, the entry of the New Star Services Agreement is to secure continuity of certain services of the Old Star Services Agreement. The terms of the New Star Services Agreement have been negotiated on an arm's length basis and are determined by reference to the market conditions for the provision of such a wide range of services, the costs and efficiency for setting up Phoenix HK's own team in providing the services in-house, the economies of scale achieved by STARL which is operating over 60 satellite channels in Hong Kong, the convenience and efficiency in the provision of services due to long term relationship and the bulk purchase discount rates enjoyed by STARL.

The Directors (including independent non-executive Directors) are of the view that the Transactions are in the ordinary and usual course of business of the Company and the New Star Services Agreement reflects normal commercial terms and are in the interests of the Company and its shareholders as a whole. The Directors (including independent non-executive Directors) are also of the view that the terms as well as the annual caps for the Transactions are fair and reasonable.

## **IMPLICATIONS UNDER THE LISTING RULES**

Phoenix HK is an indirect wholly-owned subsidiary of the Company. STARL is a subsidiary of Xing Kong Chuan Mei Group Co., Ltd., which owns approximately 17.58% interest in the Company, is the substantial shareholder of the Company (as defined in the Listing Rules).

The transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the New Star Services Agreement are, on an annual basis, more than 0.1% but less than 2.5%, the Transactions are subject to the reporting and announcement requirements only and are exempt from the independent shareholders' approval requirement under the Listing Rules.

## **GENERAL**

The Group is a satellite television operator and, through its subsidiaries, is a leading satellite television operator broadcasting into the PRC.

STARL engages in the development, production and broadcasting of television programming throughout Asia. STARL's programming is distributed primarily via satellite to local cable and direct-to-home (DTH) operators for distribution to their subscribers. STARL is also engaged in the provision of management, marketing, broadcasting services to related companies.



For the purpose of this announcement, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at the approximate exchange rate of US\$1.00 to HK\$7.8. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	Phoenix Satellite Television Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“CPI”	Composite Consumer Price Index of Hong Kong
“Directors”	the directors of the Company, including independent non-executive directors
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Star Services Agreement”	The agreement dated 2 July 2009 between STARL and Phoenix HK for the provision of various services including technical and support services, subscription promotion service and purchase of decoders and viewing cards service by STARL to the Group
“Old Star Services Agreement”	The agreement dated 30 June 2006 between STARL and Phoenix HK for the provision of various services including technical and administrative services, subscription promotion service and purchase of decoders and viewing cards service by STARL to the Group

“Phoenix Chinese Channel”	a general info-tainment television channel operated by the Group and targeting audiences across Asia, South East Asia, Australia and the Middle East
“Phoenix Chinese News and Entertainment Channel”	a general entertainment television channel operated by the Group and targeting Chinese audience in Europe
“Phoenix HK”	Phoenix Satellite Television Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Phoenix InfoNews Channel”	a 24-hour news television channel operated by the Group and targeting audiences across Asia, South East Asia, Australia, the Middle East, North America and part of Africa
“Phoenix Movies Channel”	a movies channel operated by the Group and targeting audience primarily in the PRC
“Phoenix North America Chinese Channel”	a general entertainment channel operated by the Group and targeting Chinese audience in North America and Central American countries
“PRC”	the People’s Republic of China
“STARL”	Satellite Television Asia Region Limited, a subsidiary of Xing Kong Chuan Mei Group Co., Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technical and Administrative Services”	the technical and administrative services as defined in the circular of the Company dated 21 July 2006 in respect of, amongst other things, the Old Star Services Agreement
“Transactions”	the transactions contemplated under the New Star Services Agreement

“US\$” USA dollars, the lawful currency of the United States of America

“%” per cent.

By Order of the Board  
**LIU Changle**  
*Chairman*

Hong Kong, 3 July 2009

*As at the date of this announcement, the Board comprises Mr. LIU Changle (Chairman), Mr. CHUI Keung and Mr. WANG Ji Yan as the Executive Directors; Mr. LU Xiangdong, Mr. GAO Nianshu, Mr. Paul Francis AIELLO, Mr. LAU Yu Leung John and Mr. GONG Jianzhong as the Non-executive Directors; Dr. LO Ka Shui, Mr. LEUNG Hok Lim and Mr. Thaddeus Thomas BECZAK as the Independent Non-executive Directors. Mr. GAO Jack Qunyao is the Alternate Director to Mr. Paul Francis AIELLO and Mr. LAU Yu Leung John.*